2018

WEL Networks and subsidiaries

Annual Report

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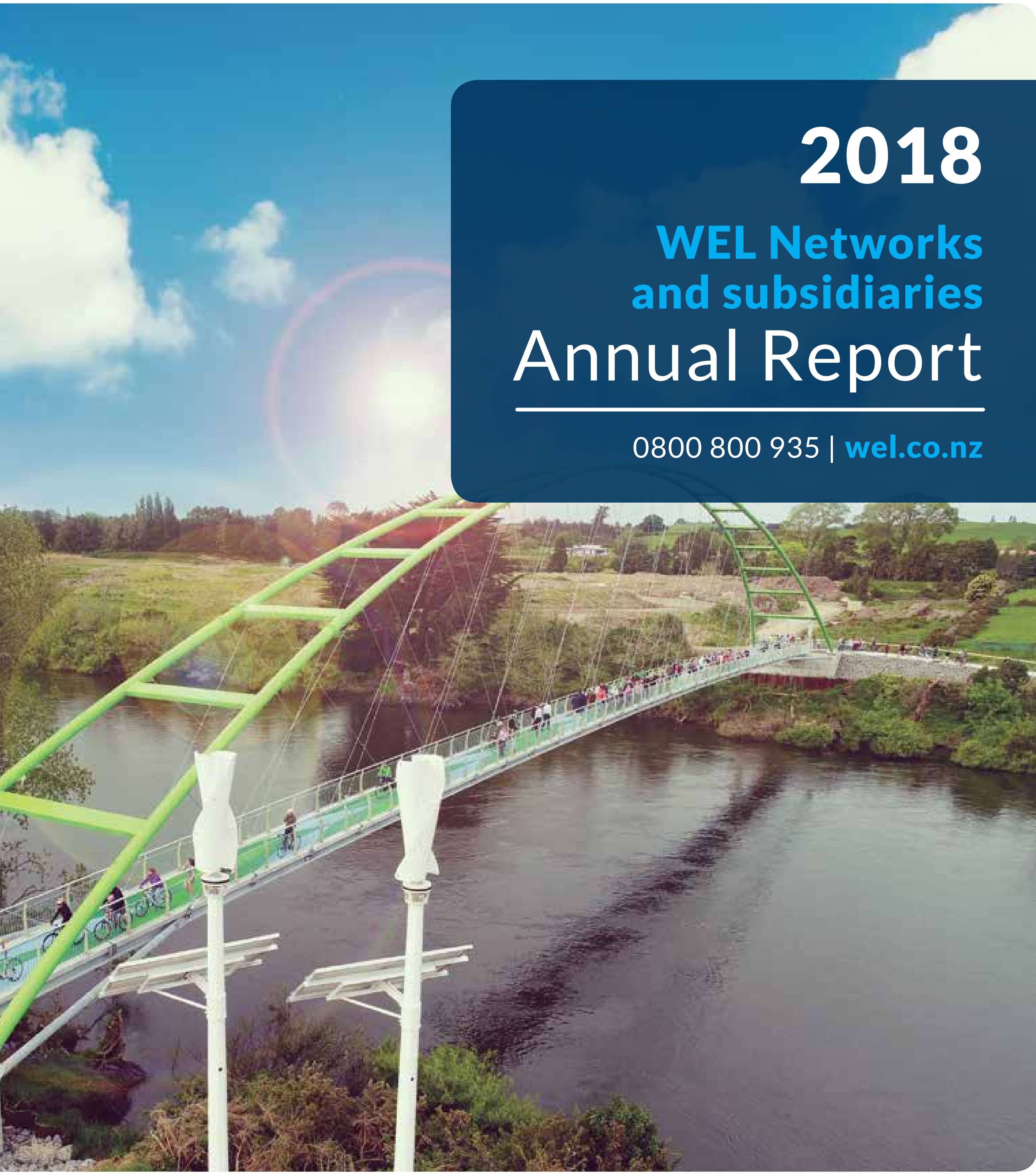

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THIS IS THE ANNUAL REPORT OF WEL NETWORKS LIMITED

Dated this 6th day of June 2018

Signed for and on behalf of the Board of Directors

ROB CAMPBELL
Chairman

TONY STEELE
Director

CONTENTS

OUR PURPOSE

Enabling our communities to thrive

OUR VISION

Creating an innovative energy future

PROFILE

The WEL Group is focused on delivering innovative utility services to enable our communities to thrive.

Our electricity network has been serving the Waikato for 100 years distributing power from the national grid, supplying over 160,000 people with electricity services through 90,000 connections. We play a vital part in the economic and social development of the region by recognising and investing in new technologies that will revolutionise our network and future proof our region.

The safety of our staff and communities is our highest priority and we are committed to ensuring everyone makes it home safely every day.

We are excited to be broadening our horizons as we evolve from a traditional lines company to a multi utility business. Company strategy sees us developing new technologies, enabling consumers to benefit directly from emerging technology and exploring strategic partnerships for collaborative innovation.

WEL Networks has 85% shareholding in Ultrafast Fibre Limited, which has built and maintains a fibre network that is available to deliver ultra-fast broadband services to more than 200,000 households, schools, businesses and healthcare facilities within the Waikato, Taranaki and Bay of Plenty regions. Further network expansion is occurring through the UFB2 and UFB2+ initiatives which are expected to take Ultrafast Fibre's footprint to 250,000 premises passed by 2025. The business currently has approximately 97,000 subscribing connections, representative of approximately 48% customer uptake.

The WEL Group is proud to be wholly community owned with WEL Energy Trust as our sole shareholder.

EXECUTIVE REPORTS

CHAIRMAN'S REPORT

ROB CAMPBELL

The 2017-18 year has been positive for the WEL Group as we continue to provide reliable multi-utility services to our communities and extend the reach of our fibre network into additional North Island communities.

HEALTH, SAFETY AND WELLBEING

In recent times there has been significant progress and increasing energy in many businesses in relation to health, safety and wellbeing; this is certainly evident within the WEL Group where we are building on an existing positive culture and willingness for ongoing improvement.

This year we committed to an updated version of the Health, Safety and Wellbeing Governance Charter. We are confident this aligns strongly with the Government's recently released Draft Health and Safety Strategy 2018-2028.

A highlight of our 'Every Day Home Safe' programme was the "Good to Go" workshop attended by all WEL Networks staff. This event was a provocative presentation on mental wellness, with great staff engagement; certainly a strong safety culture being actualised into a strong wellness culture.

FINANCIAL PERFORMANCE

The WEL Group has delivered its first full financial year of consolidated year end results incorporating Ultrafast Fibre Limited ('UFF'). The Net Profit after Tax of $13.4M was $1.8M higher than budget due to commercial lines consumption and continued strong urban development in the Waikato region.

STRATEGIC PARTNERSHIPS

Having completed the first full financial year following our purchase of the Crown's shares in UFF we are now realising greater synergies across the Group.

This year UFF was awarded a further 12 towns under the Government's UFB2 programme followed by an additional 15 smaller communities across the central North Island under UFB2+. Ngaruawahia, Huntly and Raglan as well as towns in the Bay of Plenty and South Taranaki are part of UFF's network expansion, which has already successfully completed deployment of the fibre optic network to eight central North Island cities and towns including Hamilton, Tauranga and New Plymouth. The success of our fibre network initiative is underlined by almost 97,000 customers connected and now consuming broadband services.

INNOVATION

Technology, and the opportunities it presents, is moving us swiftly through the development and trial phases of new initiatives to their implementation within mainstream business, with major implications for the Group. This impacts both of our businesses. Our openness to change demonstrates readiness to innovate in a disciplined manner, while keeping our communities top of mind.

For the third year running Ultrafast Fibre has been listed in the Deloitte Fast50, and once again earned the title of the fastest growing technology company in the central North Island in addition to winning the Westpac Waikato Business Award for Fastest Growing Business. Meanwhile WEL Networks was a finalist in the energy industry's annual technology awards.

In line with our strategic innovation programme and to meet the changing demands of consumers we have continued to advance a number of initiatives including expanding our rollout of electric vehicle smart chargers and the development of our retail platform Ourpower which has gone live.

CUSTOMERS

We are setting a solid platform for further growth as we engage with our customers in new and innovative ways.

The introduction of our electricity retailer OurPower coincided with the business decision to end the WEL annual discount payments, and a move to reduce residential lines charges by $7 million (incl. GST) is part of a strategy to lower costs for customers. Using smart meter technology we've also launched our real-time power outage map, providing greater transparency for customers during both planned and unplanned power outages.

UFF is experiencing strong customer growth across its network, with a 50% uptake in the main centres of Tauranga and Hamilton as at the end of this financial year.

Projects which enhance our Best in Service principle will continue to be a strong focus for the WEL Group.

REGULATION

As we grow our brand in the technology space and move away from our traditional operating models, our business can expect a new level of analysis.

We anticipated that a new Government would undertake a review of electricity prices and we support their objective to review whether the current electricity market is delivering a fair and equitable price to end-consumers. The review will also consider whether the current electricity market and its governance structures will continue to be appropriate with rapidly changing technology and new innovations in the sector which will change the dynamics of electricity supply. We understand this review will be of great interest to the industry and the public; our role is to demonstrate industry leading capability and commitment to leading the change required.

Our fibre business gained greater regulatory certainty during the year with confirmation that the key regulatory mechanism would be the Information Disclosure regime. Coupled with the decision that the unbundling of the network would not be mandated this provides a more stable regulatory outlook and will allow greater certainty with regard to price and revenue streams.

SUSTAINABILITY

The Board is committed to ensuring our governance framework includes a focus on ensuring the companies within the Group respond appropriately to the opportunities that will be gained by a strategic and comprehensive approach to sustainability and corporate social responsibility. This is particularly important given the intergenerational nature of our infrastructure businesses and the wide reaching impact we have within our communities. In the coming year we will assess and select a framework to align to and will report against progress in the 2018-19 annual report.

GOVERNANCE AND MANAGEMENT

In what has been a fast-paced year for our business I'd like to acknowledge the contribution of my colleagues on the Boards of WEL and UFF, the leadership provided by Garth Dibley and William Hamilton of our respective organisations, and to all staff across the Group, thank you for your commitment in delivering innovative and reliable technology solutions as we work towards futureproofing our communities.

I would also like thank Rodger Fisher who announced his retirement having chaired Ultrafast Fibre's Board since its inception in 2011. I am confident the next financial year will deliver further growth and development across all areas of the Group.

WEL NETWORKS CHIEF EXECUTIVE REPORT

GARTH DIBLEY

Technology is changing the energy sector landscape; opening up new business models and offering new ways to manage energy and related information. For WEL, the 2017-18 year has been an exciting journey as we embed our strategy and work on further developing our innovation projects in conjunction with strategic partners.

EVERY DAY - HOME SAFE

The health, safety and wellbeing of our staff and communities remain our highest priority. Having successfully introduced our Every Day Home Safe programme we are now focused on bringing mental health and wellbeing to the forefront of our daily activity. Leading by example, we hosted an all-staff stop for safety event taking time to ask each other, are you good to go?

Safety around power assets and tree maintenance on private property continues to be an industry concern. WEL proactively supports ENA discussions with Central Government on a review of the current rules and regulations while continuing to deliver education programmes to increase public awareness of the issues.

We continue to have an effective Public Safety Management System (PSMS) to protect the public from risk associated with WEL assets and WEL retains ACC Workplace Safety Management Programme tertiary accreditation. Additionally, WEL has recently completed the new WorkSafe SafePlus voluntary assessment. We received a very positive result for this review which focuses on workplace culture.

SECURITY OF SUPPLY/RESILIENCE

Despite the increase and severity of weather events which took a toll on our regulated SAIDI results WEL continues to perform strongly when compared with other lines companies for reliability. Our comprehensive maintenance programmes have meant that even though we have experienced a number of storms and high wind events the impact on customers has been minimised. WEL's regulated SAIDI result for 2017-18 was 98.20 minutes against a target of 84.85, which was also impacted by an increase in de-energised work in accordance with the Electricity Engineers' Association live line risk assessment tool and ongoing car vs pole accidents in our region. The 2017 benchmarking results show WEL was ranked in the lowest quartile for outages.

I'd like to take this opportunity to thank our staff for their efforts in restoring power to not only their own communities but stepping in and helping our neighbours during the challenging weather situations.

As the Waikato continues to experience significant growth in the housing and commercial sectors, we expect the proposal for three new Special Housing Areas in our region to place additional pressure on resources. This year $16.9M customer work was delivered, up 41% on the previous two years.

ASSET MANAGEMENT PLAN

This year we completed a full review of WEL's 10 year Asset Management Plan (AMP) with a focus on safety, customer experience, cost efficiency and asset performance. Covering the planning period from 1 April 2018 to 31 March 2028, it provides information relating to key initiatives, performance, forecast network and non-network investment, and long-term strategies for asset management.

The investment in a robust asset maintenance programme proved invaluable as unprecedented storm events hit our network, while a comprehensive vegetation management programme ensured the number of tree related outages was much lower than anticipated. The introduction of drones to our maintenance programme is also proving extremely valuable in remote monitoring and fault finding and is resulting in significant cost savings for the business.

PRICING AND DISCOUNT

Following consultation with retailers and consumers WEL made the decision to transition residential and small business connections onto Time of Use price plans from 1 April 2018. The Time of Use pricing structure charges different rates based on the time of day electricity is consumed ensuring that prices more closely reflect the cost to serve and enable efficient investment in new technologies.

The annual discount payment has been discontinued as the Trust and WEL replace it with reduced lines prices for residential electricity customers. As at 1 April 2018 residential lines prices reduced on average by approximately 8%.

STRATEGIC PARTNERSHIPS

Our strategic vision of creating an Innovative Energy Future made significant progress this year as we capitalised on our investment in smart metering technology through the introduction of new initiatives.

In November 2017 we connected our first customer to OurPower, an online energy retail solution which utilises smart solutions, to provide lower cost electricity to consumers. A small number of Waikato households are now connected to OurPower and partnerships with community organisations such as St Vincent de Paul, will help us to deliver a retail energy offering into our community. Discussions are also underway with Tainui Group Holdings to incorporate a microgrid platform at the Ruakura Inland Port. We're confident this progressive thinking will allow us to demonstrate our commitment to innovative energy solutions for our customers while providing additional network resilience.

Our investment in the electric vehicle fast charger network continues to grow with support from Hamilton City Council and commercial enterprises such as Hampton Downs Raceway. WEL has also secured EECA funding to assist in further rollout at Hamilton Airport and at Countdown supermarkets.

A partnership with award winning LZ New Zealand delivered New Zealand's first off-grid solution. Situated at Horotiu on the national Te Awa Cycleway, two 100 watt wind turbines, two 250 watt solar panels mounted atop seven metre high masts sited at the base of the bridge and a 9kW battery ensure enough energy is available 24/7 to power lights on the brand new bridge.

Key to the industry's future is ensuring we have the necessary resources and skills on hand which is why WEL has developed a workforce strategy which includes an already established apprentice programme and working with others to offer students practical training in the industry for example through the Connexis Gateway Programme.

CELEBRATING SUCCESS

I am extremely proud to be leading the WEL team. This year the passion and commitment of our team has been acknowledged formally in a number of areas. WEL Networks was a finalist in the Energy Technology category of the Deloitte Energy Excellence Awards. Congratulations to Narelle Phillips who won Distribution Trainee of the Year and Overall Trainee of the Year in the annual Connexis Excellence Awards and to our Chairperson, Rob Campbell named Chairperson of the Year at the Deloitte Top 200 Awards.

IN SUMMARY

This year has been exciting as we have worked on our vision of "Creating an Innovative Energy Future that will Enable Our Communities to Thrive" through the development of new technology solutions and strategically beneficial partnerships with key stakeholders in our community.

ULTRAFAST FIBRE CHIEF EXECUTIVE REPORT

WILLIAM HAMILTON

It has been another strong growth year for Ultrafast Fibre (UFF). Our journey to build and operate what are becoming essential Ultra-Fast Broadband (UFB) services is now well advanced.

In the past year we have added approximately 23,000 new customers to urban communities across the central North Island.

As well as growing our customer base, we have continued to achieve operational improvements in both network operations and management systems. Early in the 2018 year we will reach the milestone of 100,000 connections.

During 2017, the UFF network build was boosted by being awarded contracts for a further 12 towns under the Government's UFB2 programme followed by an additional 15 smaller communities under UFB2+. Together these new areas will add around 30,000 new customers able to connect by the end of 2019. A highlight for UFF was to again see the business recognised regionally through the Deloitte Fast 50 and the Westpac Waikato Business Excellence Awards.

HEALTH, SAFETY AND WELLBEING

UFF has a dual focus on Health & Safety and Wellbeing. This focus, in the first instance, applies to our own predominantly office-based staff but also includes our contractors who build our network and connect our customers. We ensure our contractors have systems and practices in place to protect staff and also the public coming into contact with their work.

UFF and its contractors had achieved 1,156 days without a Lost Time Injury by 31 March 2018.

REGULATORY

In 2017 we continued to engage positively with Industry, Regulators and Government around the important draft regulatory framework. We achieved an Information Disclosure regime, the removal of an efficiency review as part of Input Methodologies for our Regulated Asset Base (RAB) and ensuring that regulated unbundling of our network was not mandated. This outcome underlines our reputation in the industry differentiating us from Chorus and means that we will not be price or revenue capped. It also provides certainty for our investors and will allow our initial RAB and 2020+ prices to be based on the actual cost to build the network as per the Crown UFB contracts. We also successfully negotiated with the Crown to deliver a single price book for UFB1, 2 and 2+. A solid outcome for our investors and our customers.

THE MARKET

Demand for fibre is increasing, driven by users doing more online through wifi and on more connected devices. The demand increase is also due to Retail Service Providers (RSPs) moving their customers off the aging and more fault-prone copper networks. UFF's 'Winter is Coming…' awareness campaign in June-August 2017 deliberately highlighted the consistent reliability and performance benefits of fibre broadband.

Tauranga and Hamilton markets both reached a breakthrough 50% uptake mark by March 2018. We are now working hard both directly and with our channel customers to convince the late majority adopters to upgrade, while also re-starting that familiar uptake journey in UFB2 areas.

Competitive developments in 2017 were in the areas of 4G mobile data and fixed wireless broadband. There is also further competition from VDSL enhancements and other fibre networks. In spite of the very competitive landscape, UFF continues its growth path towards an ultimate 75% uptake level.

OUR COMMUNITIES

We were delighted to be awarded a further 27 new regional communities under the Government's UFB initiative. We know these communities are eager to access all of the benefits of fibre currently enjoyed by our larger centres. Ngaruawahia in Waikato, Omokoroa in Bay of Plenty and Stratford in Taranaki were the first three town builds to start under the new expansion in 2017.

UFF is working with wider regional stakeholders to look at ways to accelerate and maximise fibre access to close the 'digital divide', especially in some of our rural and more isolated communities, with community wifi likely to feature in 2018. Acknowledging the Rural Broadband Initiative (RBI), we are also exploring initiatives to possibly bring fibre-based solutions to farms and marae in our coverage areas, possibly through partnerships.

NETWORK RELIABILITY & ASSET MANAGEMENT

During 2017 UFF established its in-house Network Management Centre (NMC) creating local employment for eight skilled people. We have subsequently seen fault clearance times reduce and network reliability move higher.

As a relatively new asset owner, UFF has developed an initial asset management plan (AMP) to ensure we achieve the highest return possible on investment, while optimising the expected 50 years plus life of the new fibre optic network. The network mix of underground and overhead cables now reaches approximately 200,000 premises in eight geographic centres.

IN SUMMARY

The 2017-2018 year has been tremendously positive for Ultrafast Fibre. Our success has come from the wider team of people who continue to deliver the innovation that propels our growth.

That team includes our Board and shareholders who have provided the guidance which is reflected in our results. Ultrafast Fibre's inaugural chairman Rodger Fisher has recently stood down from his role after seven years. During his leadership, UFF has grown from a start-up business with no customers, to a regional infrastructure provider with close to 100,000 customers. A special thank you to Rodger for his contribution.

QUICK FACTS AND KEY PERFORMANCE INDICATORS

WEL QUICK FACTS

AS AT 31 MARCH 2018

243 STAFF MEMBERS

ANNUAL REVENUE $140.8 MILLION (BEFORE DISCOUNT)

NETWORK CONNECTIONS (INCLUDING EMBEDDED NETWORKS)

RESIDENTIAL 90459

COMMERCIAL/ INDUSTRIAL 789

MAXIMUM DEMAND 271 MEGAWATTS

VOLUME THROUGHPUT (WEL TRADITIONAL AREA AFTER TECHNICAL LOSS FACTORS) 1,223 GIGAWATT HOURS

ANNUAL INVESTMENT IN CAPITAL PROJECTS $37.1 MILLION

KILOMETRES OF LINES

CATEGORY	KM	%
Overhead lines	3,471	52%
Underground	3,251	48%
Total	**6,722**	**100%**

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

OUTAGES

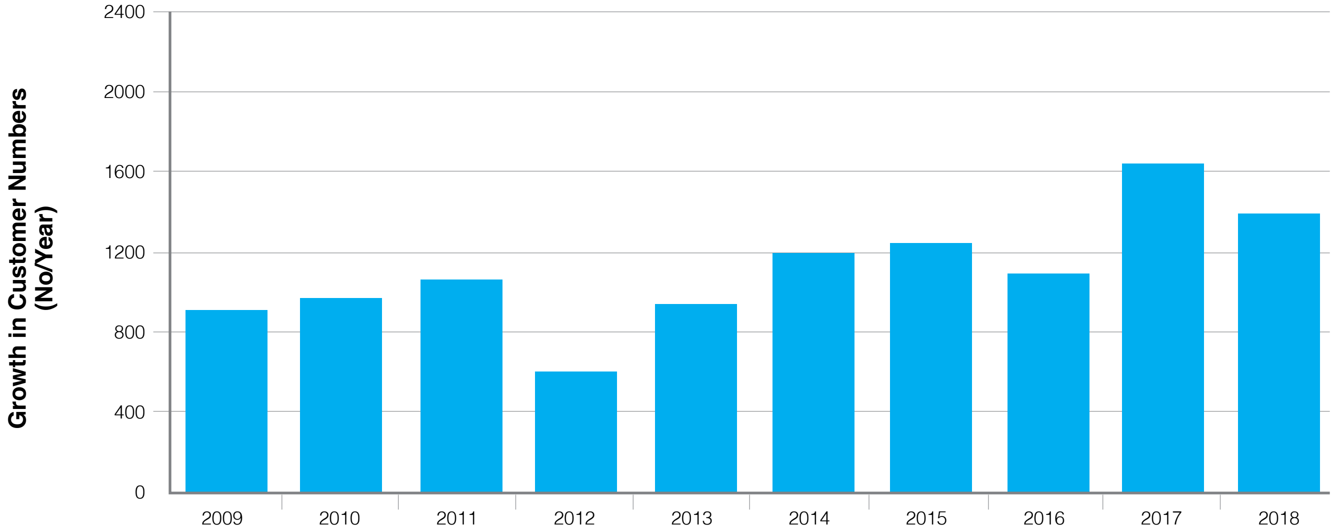
OUTAGE CAUSES	SAIDI* MINUTES	% OF SAIDI MINUTES
Equipment faults	27.13	20%
Adverse weather and other foreign interference	32.08	23%
Vehicle accidents	17.36	13%
Planned shutdowns	50.87	37%
Insulators and discs	4.24	3%
Tree contacts	5.41	4%
Total	**137.09**	**100%**
Total Regulatory SAIDI**	**98.20**	**-**

**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)*

Photo credit: Julie Steele

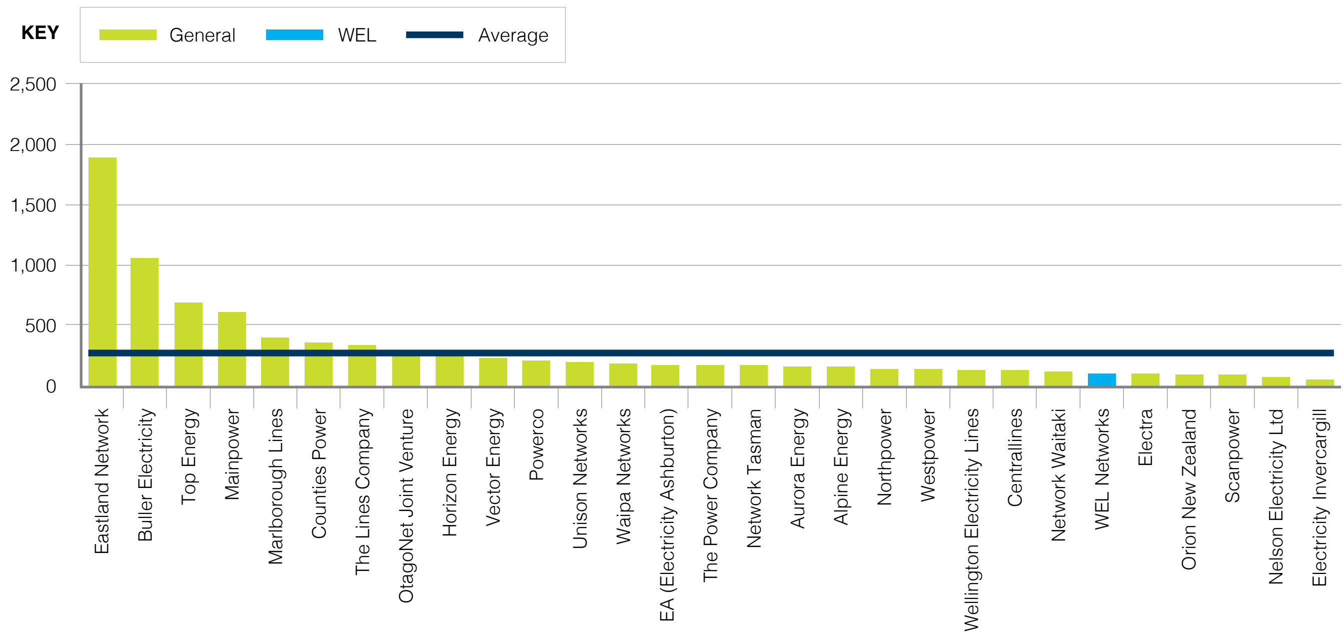
ANNUAL GROWTH IN CUSTOMER NUMBERS



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

RELIABILITY OF SUPPLY (TOTAL SAIDI) YEAR ENDED 31 MARCH 2017

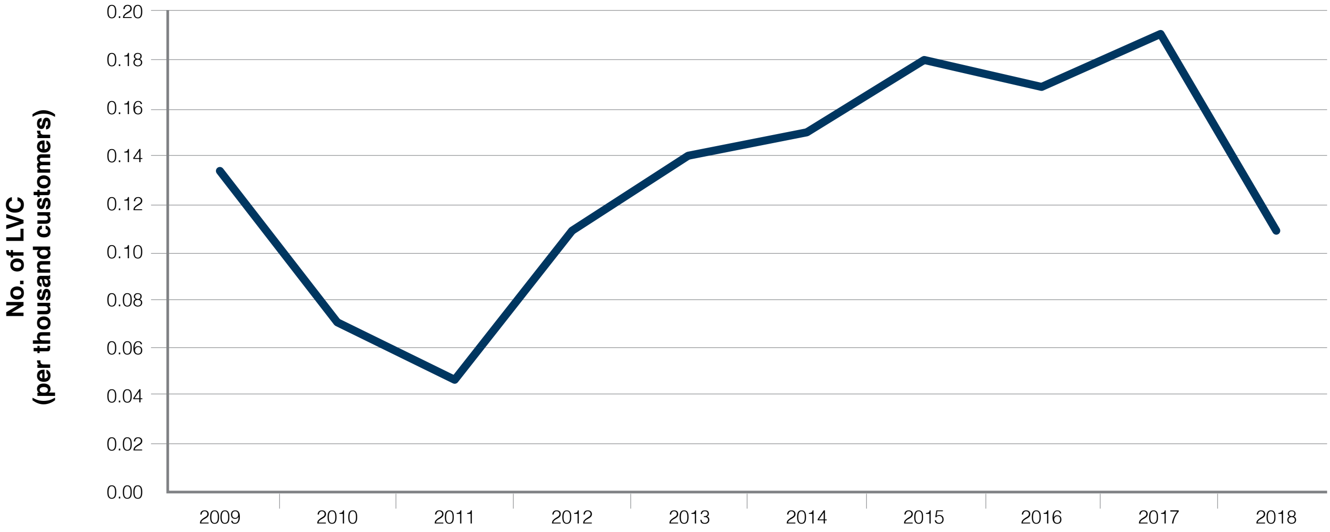
(Average number of minutes that customers were without electricity)



**Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium*

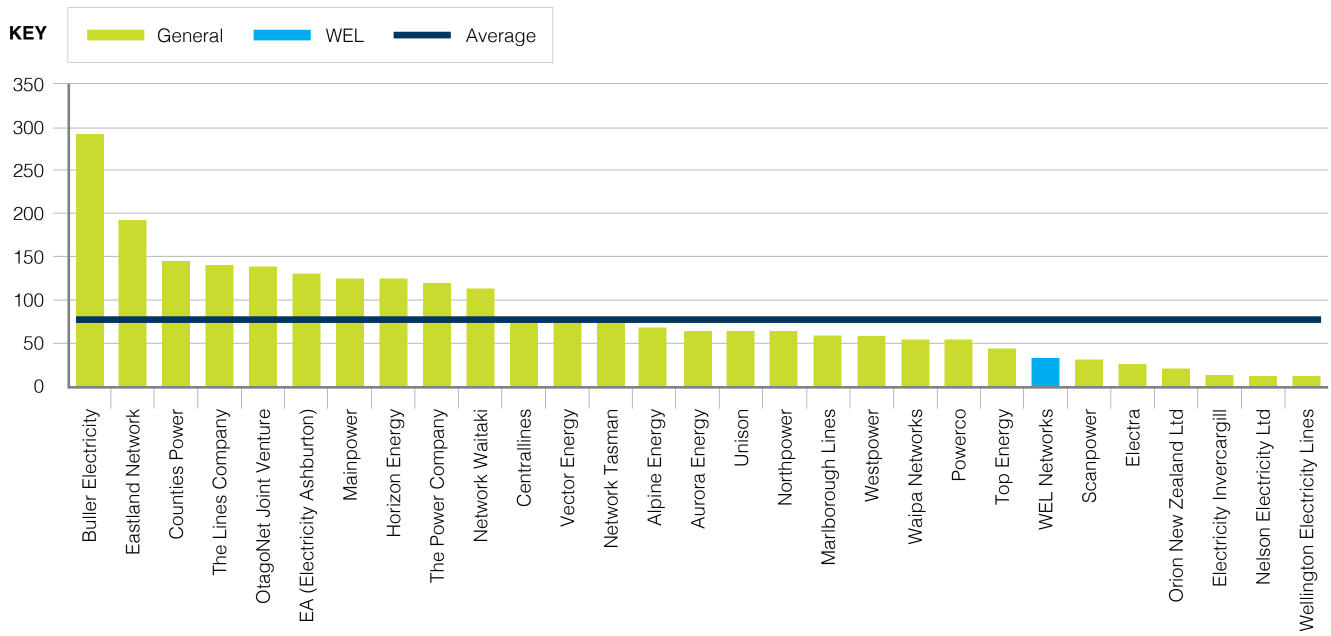
A continuing high number of vehicle accidents, major storm weather events and cable termination failures contributed to a worse than target result. However we continue to perform much better than industry average.

LOW VOLTAGE COMPLAINTS



Our investment in smart meters has allowed us to obtain voltage information about the network which we use to proactively address LVCs. This is evident from the decrease in 2018 and it is our expectation that the number of LVCs will remain relatively low over time.

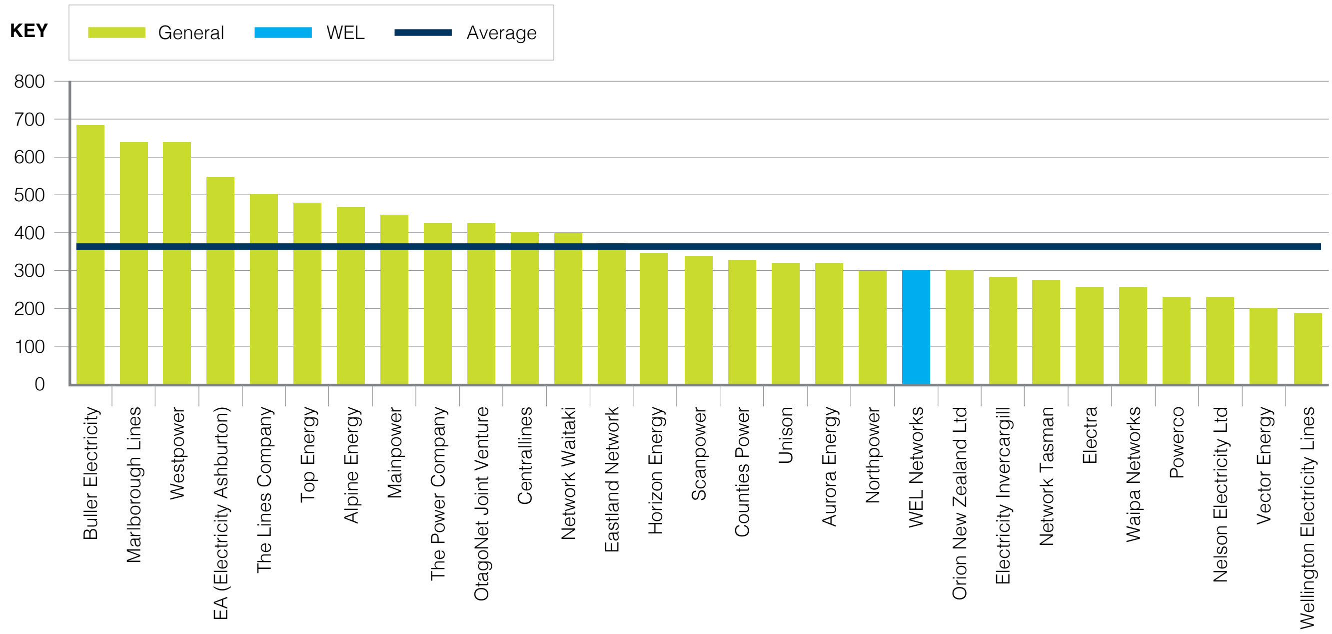
PLANNED OUTAGES YEAR ENDED 31 MARCH 2017



**Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium*

Planned outages were higher than budgeted due to an increase in the number of planned maintenance outages, driven by a reduction in live line work following the implementation of an industry live line risk assessment tool.

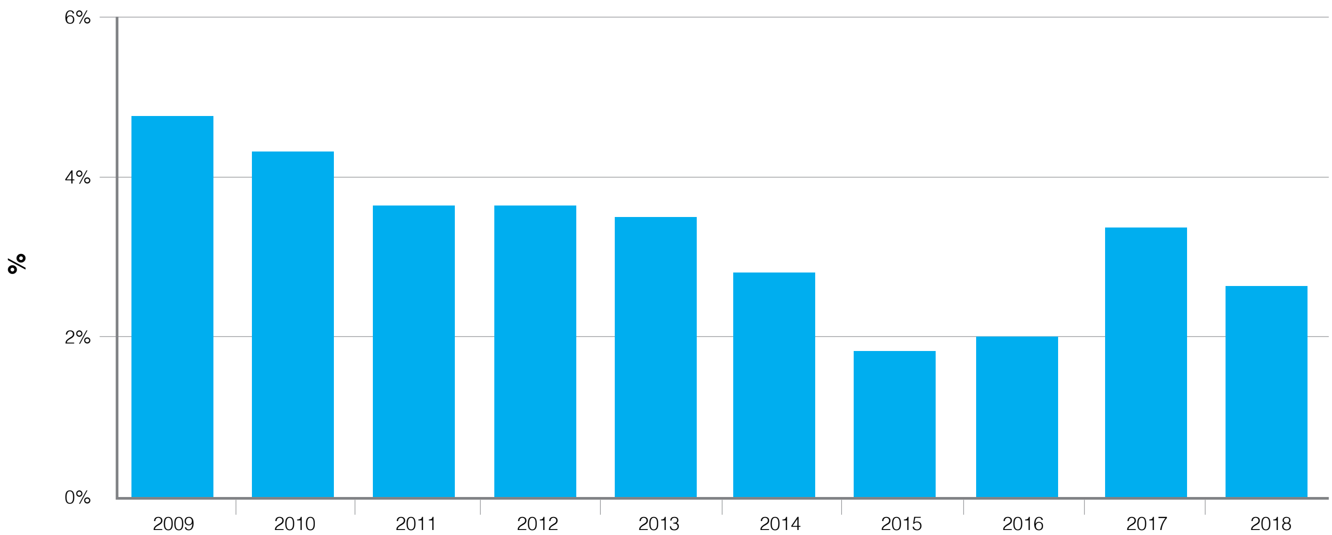
COST PER CUSTOMER ($/CUSTOMER) YEAR ENDED 31 MARCH 2017



**Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium*

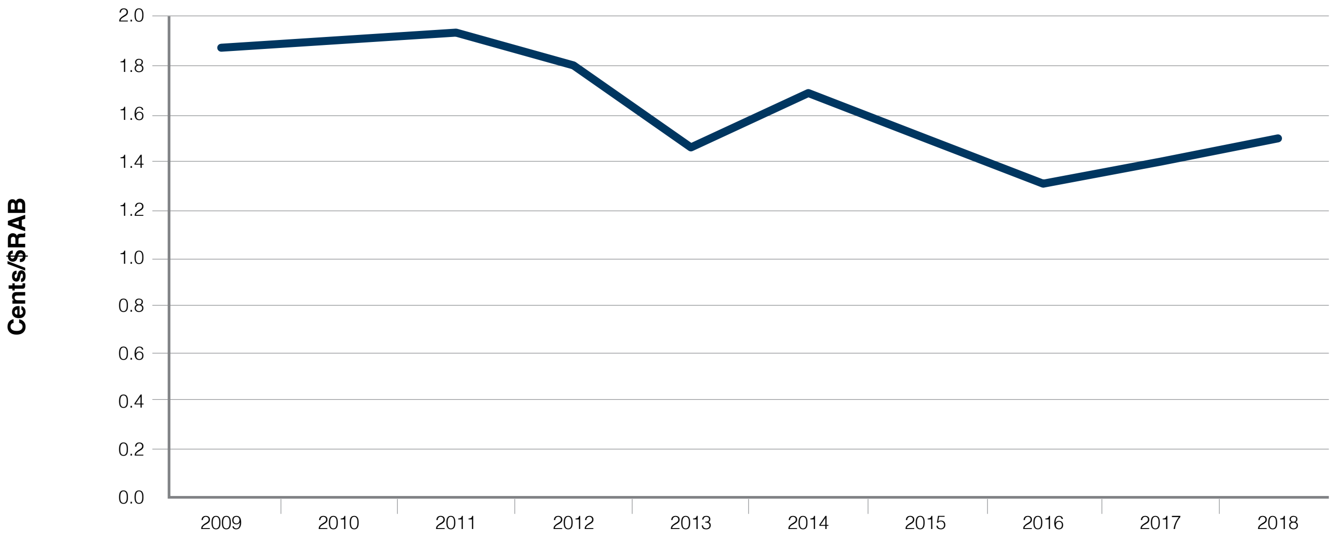
The timing of national benchmarking means that this graph relates to the year ended on 31 March 2017. WEL's cost per customer has increased due to various factors including maintenance expenditure to keep the network safe and reliable and an ongoing focus on capitalisation mix, with offsetting savings in related capital expenditure. WEL continues to perform well in terms of cost per customer compared with other lines companies.

RETURN ON ASSETS



Return on Assets of 2.4% was lower than FY17 partly due to slightly lower year-on-year NPAT and an increase in total assets by 5.4%, or $52M (noting total assets include WEL's investment in WNL).

MAINTENANCE EXPENDITURE PER $ OF REGULATORY ASSET BASE



The increased maintenance work was mainly due to additional service pillar inspections to reduce public safety risk and an increase in zone transformer tap changer maintenance requirements.

UFF QUICK FACTS

AS AT 31 MARCH 2018

137 STAFF MEMBERS

ANNUAL REVENUE $53.4M

AVERAGE MONTHLY END USER DOWNLOAD DEMAND 208GB

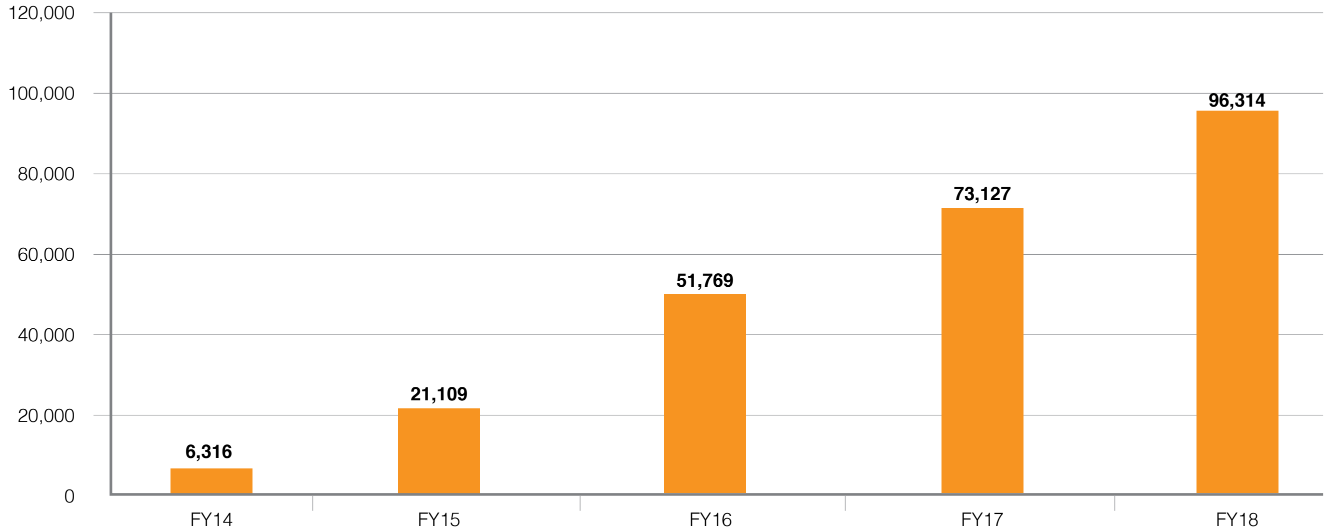
END USERS ABLE TO CONNECT: 201,363

NETWORK CONNECTIONS: 102,219 (50.8%)

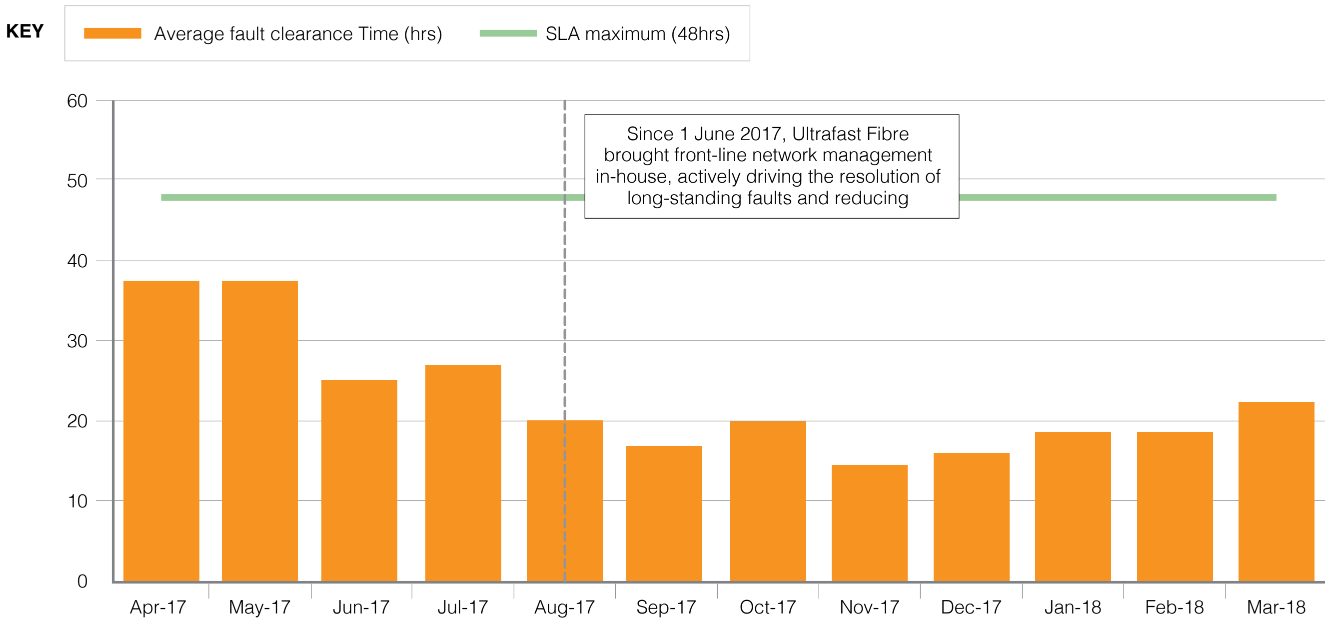
96,314 SUBSCRIBERS (INC. 8,709 BUSINESS, HEALTH AND EDUCATION PROVIDERS)

ANNUAL RETAIL SERVICE PROVIDER NET PROMOTER SCORE +56

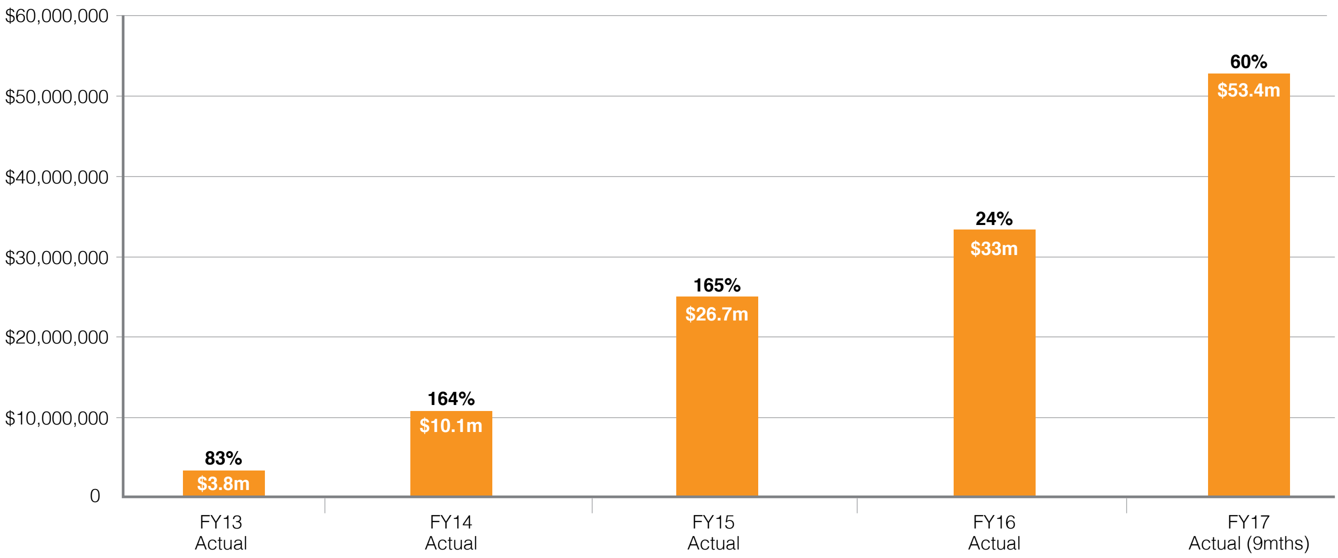
ANNUAL CONNECTIONS GROWTH



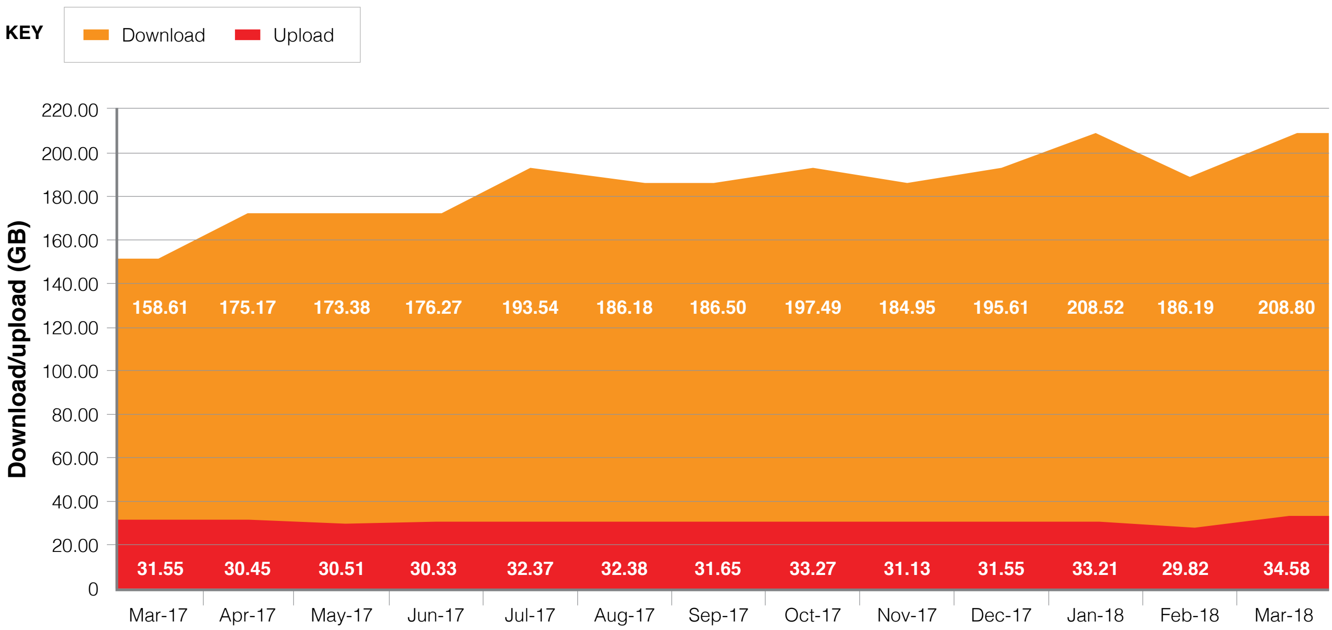
AVERAGE FAULT CLEARANCE TIME (HOURS)



ANNUAL REVENUE GROWTH



AVERAGE DATA USAGE PER CUSTOMER IN A MONTH



DIRECTOR PROFILES

DIRECTOR PROFILES

AS AT 31 MARCH 2018

ROB CAMPBELL

WEL Networks Chair

Rob has over 30 years' experience in investment management and corporate governance. Currently he is Chair of Tourism Holdings Limited, Summerset Group Holdings Limited (NZ), Sky City Entertainment Group Limited and a Director of Precinct Properties. Additionally Rob is a director of or advisor to a number of hedge and private equity funds in a number of countries. Rob trained as an economist and has worked in a variety of capital market advisory and governance roles over a long period.

PAUL MCGILVARY

Director of WEL Networks Limited and Waikato Networks Limited and Chair of the WEL Audit and Risk Committee

Paul was the Chief Executive of Tatua Co-operative Dairy Company, from 2008 until the end of 2016 and was also Chairman of the Japan, USA and Shanghai subsidiaries. Prior to that, he was the Chief Executive of HortResearch, the largest plant and fruit research organisation in the world. His 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 an Independent Chairman of Maui Milk Limited and Southern Cross Genetics, and is a Director of Waikato Milking Systems Limited and AsureQuality Limited.

BARRY HARRIS

Director of WEL Networks Limited and Waikato Networks Limited and Member of the WEL Audit and Risk Committee

Barry has extensive governance and executive experience including Chief Executive roles with Environment Waikato, Greater Wellington Regional Council and Hamilton City Council and as a Group Director of Fonterra Milk Supply and a member of the Fonterra leadership team. He is currently Chairman of New Zealand Food Innovation (Waikato) Limited, Wintec and McFall Fuel Limited. He is also a Director of Dairy NZ Limited, Dexcel Limited, TB Free New Zealand Limited, National Animal Identification and Tracing (NAIT) Limited, OSPRI New Zealand Limited (formerly Animal Health Board) and RMF Limited. He is a Trustee of the Te Awa River Trust and is a Member of the Waikato River Authority. Previous Boards include; CentrePort, RD1, International Nutritionals, Hamilton Riverside Hotels and Local Authority Shared Services.

CAROLYN STEELE

Director of WEL Networks Limited and Waikato Networks Limited and Member of the WEL Audit and Risk Committee

Carolyn is a professional director with substantial experience in capital markets, mergers and acquisitions and investment management. She is currently a Director of Metlifecare Limited, Green Cross Health Limited and the Halberg Disability Sport Foundation, is a Trustee of the New Zealand Football Foundation and previous Director of Datacom Group Limited. Until 2016 Carolyn was a Portfolio Manager at Guardians of New Zealand Superannuation, the Crown entity which manages the New Zealand Superannuation Fund. Prior to joining the Guardians in 2010, Carolyn spent ten years in investment banking at Forsyth Barr and Credit Suisse/First NZ Capital.

MARK FRANKLIN

Director of WEL Networks Limited, Waikato Networks Limited and Ultrafast Fibre Limited

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 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.

ANTHONY (TONY) STEELE

Director of WEL Networks Limited, Waikato Networks Limited and Ultrafast Fibre Limited, Chair of the Ultrafast Fibre Audit and Risk Committee and Member of the WEL Audit and Risk Committee

Tony is a Chartered Accountant and has had a career in professional practice joining 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.

RODGER FISHER

Ultrafast Fibre Limited Independent Chair (until 31 March 2018)

A highly experienced business leader, Rodger has chaired the Ultrafast Fibre Board since its inception. Rodger is also Chairman of The Property Group, Chairman of Eurotech Group, a Director and Deputy Chair of Ports of Auckland and a Director of Tenon (formerly Fletcher Forests). He is a former Chairman of the Civil Aviation Authority, Aviation Security Services and WEL Networks Limited. Currently practicing as a business consultant, Rodger was previously Managing Director of Owens Group between 1987 and 1999. He is a Fellow of the Chartered Institute of Secretaries, the Chartered Institute of Transport, the Institute of Directors in New Zealand and the New Zealand Institute of Management. Rodger resigned as Independent Chairman from 31 March 2018.

GEOFF LAWRIE

Director of Ultrafast Fibre Limited

Geoff has 36 years of professional business experience in the technology industry in New Zealand and Asia/Pacific, 25 of those in General Manager or Managing Director positions. He has worked at a senior strategic level for some of the most respected international companies in this industry, including six years as the Managing Director of Microsoft NZ and nine years as the NZ Country Manager for Cisco Systems. Geoff was the inaugural Chairman of the NZ Tech industry association and maintains strong linkages with the technology-based innovation sector in New Zealand. Geoff is a Director at Howard and Company, Chairman of Auror, a Beachheads Advisor for NZTE and is a Trustee of the Valens Group charitable organisation. He is a member of the Institute of Directors and the Ice Angel network in Auckland.

KEITH GOODALL

Director of Ultrafast Fibre Limited, Waikato Networks Limited and Member of the Ultrafast Fibre Audit and Risk Committee

Keith is a Chartered Accountant in practice in Auckland and is primarily a professional director sitting on the Boards of companies involved in the energy, health, distribution, trades and hospitality sectors. He has had significant experience in the technology sector having chaired one of New Zealand's first ISPs, iHug Limited and was subsequently appointed Deputy Chair of ASX listed iiNet Pty Limited. Following his resignation from iiNet he joined the Board of Callplus/Slingshot until it was sold in 2015. Keith also acts as an expert witness in the High Court and Family Court on commercial and family matters and has held High Court appointments. Keith is currently the Chairman of St Marks Group Limited, Breastscreen Auckland Limited, Laser Group Holdings Limited, Auckland City BMW Limited, United Flower Growers Limited, John Bilkey Limited and Collins Asset Management Limited. He is a Director of Ecovis KGA Limited, ICMS Credit Systems Limited, Mariposa Restaurant Holdings Limited, Acumen Republic Limited and Waipa Networks Limited.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The WEL Networks 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 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.

The Ultrafast Fibre Board members are appointed by the shareholders (WEL Networks 85% and Waipa Networks 15%). All of the WEL Networks Directors are now members of the Ultrafast Fibre Board, with one Waipa Networks appointed Director. From 1 April 2018 the WEL Networks and Ultrafast Fibre Boards will operate a shared Group Audit and Risk Committee and Remuneration Committee. The Ultrafast Fibre Board has adopted a Corporate Governance Charter, which contains the governance processes and policies that apply to Directors and Senior Management. In addition to the Charter, there are a number of specific policies that apply to all Ultrafast Fibre employees.

RISK MANAGEMENT

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

COMPLIANCE

The Companies have processes in place to review compliance on an ongoing basis across all aspects of their businesses. To enhance the existing programme ComplyWith compliance assessments have 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 2017-18 internal audit programme was provided by Ernst and Young, our internal auditor, and KPMG. During the year specific external reviews were undertaken in the areas of; health and safety governance, risk management governance, Condition Based Risk Management (CBRM) processes and controls around the Network Management System (NMS). Ultrafast Fibre also runs quarterly ComplyWith surveys and shares the survey results with the Board and Audit and Risk Committee.

ENVIRONMENTAL AND HEALTH AND SAFETY ISSUES

The Boards recognise the importance of environmental and health and safety issues. They are committed to the highest levels of performance in all areas of the Group. Health and safety and environmental management programmes have been adopted by the Group. The Group 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 Companies are entitled to indemnify Directors and Officers and to effect insurance for them in respect of certain liabilities arising from their positions (excluding claims by the Company or a related party of the Company). The indemnities and insurances must be given and effected in accordance with the Constitution and the Companies Act.

INFORMATION USED BY DIRECTORS

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

INTERESTS REGISTER

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

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

SUSTAINABILITY

WEL Networks has committed to improving our external reporting and is taking steps to improve our non-financial reporting in line with recent *reporting and disclosure* changes contained within the updated corporate governance codes in New Zealand.

These steps represent the start of WEL's new reporting journey, with the Board and Executive Team currently developing a reporting strategy and implementation plan based upon leading frameworks and standards developed by the IIRC[1] and the GRI[2]. Our broader sustainability journey along with the accompanying reporting strategy will also incorporate important global initiatives such as the United Nation's Sustainable Development Goals (SDG).

[1] International Integrated Reporting Council

[2] Global Reporting Initiative

DIRECTOR DISCLOSURES OF INTEREST

AS AT 31 MARCH 2018

New interests disclosed between 1 April 2017 and 31 March 2018

DIRECTOR	ENTITY	POSITION
Rob Campbell (Chairman)	Summerset Group Limited	Chairman
(Commenced WEL Networks Limited and Waikato Networks Limited on 1 July 2017; commenced Ultrafast Fibre Limited on 1 April 2018)	Tourism Holdings Limited	Chairman
	King Tide Asset Management Limited	Chairman
	SkyCity Entertainment Group Limited	Chairman
	Trafalgar Copley Multi-Strategy Fund	Advisory Board Member
	Serica Partners Asia Limited	Board Member
	Silverfern Group Limited	Investment Committee Member
	Precinct Properties NZ	Director
	Nyima Tashi Charitable Trust	Trustee
	Tutanekai Investments Limited	Owner and Director
	RC Custodian Limited	Shareholder
	VGI Partners Advisory Board	Member
	Our Energy	Family Interest
Keith Goodall	ATL Group Limited	Chairman
	St Marks Group Ltd	Chairman
	Breastscreen Auckland Ltd	Chairman
	Collins Asset Management Ltd (and subsidiaries)	Chairman
	Auckland City BMW Ltd	Chairman
	United Flower Growers Ltd	Chairman
	Laser Group Holdings Ltd (and subsidiaries)	Chairman
	Waipa Networks Ltd	Director
	Acumen Republic Ltd	Director
	Mariposa Restaurant Holdings Ltd	Director
	Charta Income Fund Ltd	Director
	Ecovis KGA Ltd	Chairman
	Holwyn Consulting Group Ltd	Director
	ICMS CreditSystems	Director

DIRECTOR	ENTITY	POSITION
Barry Harris	Wintec	Chairman
(Commenced Ultrafast Fibre Limited on 1 April 2018)	Waikato River Authority	Member
Geoff Lawrie	Pivot Software Limited	Director
	Howard and Company	Director
	Auror Limited	Chairman
Paul McGilvary	Maui Milk Limited	Independent Chairman
(Commenced Ultrafast Fibre Limited on 1 April 2018)	Southern Cross Genetics	Independent Chairman
	AsureQuality Limited	Director
Carolyn Steele	Metlifecare Limited	Director
(Commenced WEL Networks Limited on 1 July 2017; commenced Ultrafast Fibre Limited on 1 April 2018)	Halberg Disability Sport Foundation	Director
	The New Zealand Football Foundation	Trustee
	Green Cross Health Limited Board	Director
	Forsyth Barr	Family Interest
	Steele Family Trust	Trustee

WEL ENERGY TRUST

AS AT 31 MARCH 2018

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: Rob Hamill (Trustee), Craig Stephen (Trustee), Kathryn Williams (Trustee), Mark Ingle (Chair), Charlotte Isaac (Deputy Chair), Mike Rolton (Trustee), Denise Harding (Trustee).

THE HEADLINES

THE HEADLINES

Putting customers first, UFF has brought its Network Operations Centre in house with a team of eight operators providing 24/7 support.

In August 2017, Prime Minister Bill English announced the UFB2+ expansion in Hamilton. Ultrafast Fibre welcomed the announcement, saying it would support development and economic growth in the regions.

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As part of the UFB2 build stage, the fibre network expansion commenced in Omokoroa on July 2017. Approximately 1,200 premises will have access to fibre broadband once the network build is complete.

For the third year running, Deloitte's annual Fast50 ranking revealed that UFF is a strong local company year-on-year. Ultrafast Fibre was awarded "Fastest Growing Technology Business in Central North Island" from 2015 to 2017.

A total of $20 million (including GST) has been distributed to customers in this year's annual discount payment. Over the past 15 years WEL Networks has distributed $293 million (including GST) to the Waikato community under the discount scheme.

Photo credit: Hamilton News

The staff of WEL Networks have been setting an example by providing a real boost to stocks at Hamilton Combined Christian Foodbank, as demand for food parcels continues to soar.

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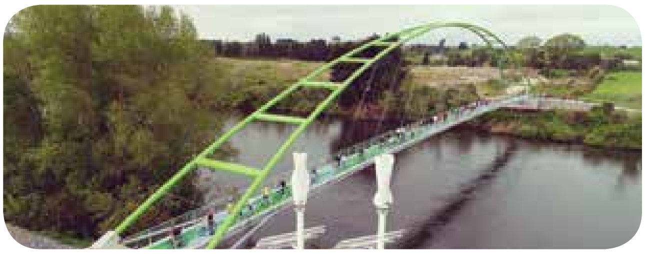
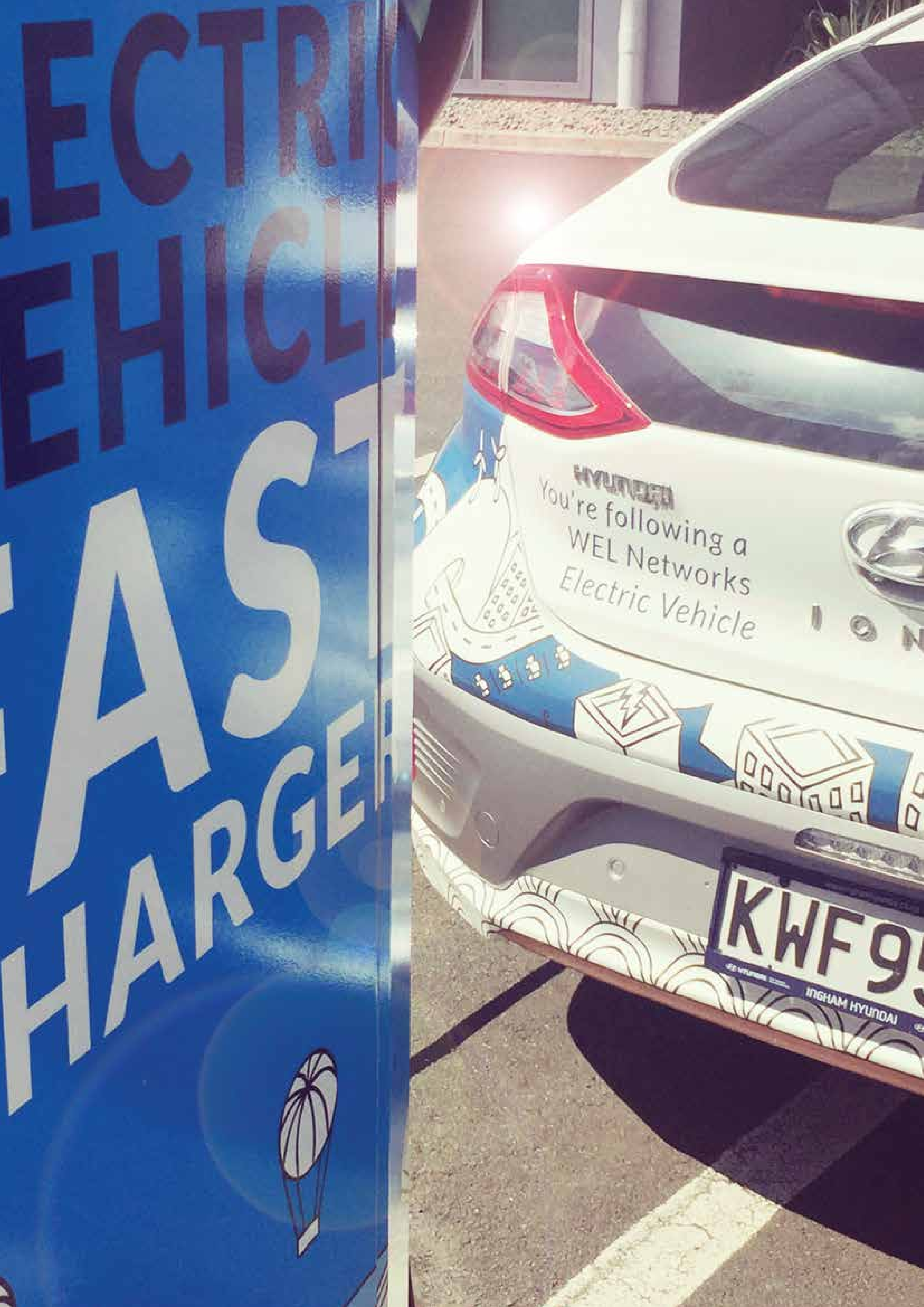


WEL Networks lit up the Perry Bridge on the national Te Awa Cycleway using a complete off-grid solution. The power supply consists of two 100 watt wind turbines and two 250 watt solar panels mounted atop 7-metre high masts sited at the base of the bridge. A 9kWh battery will ensure enough energy is available 24/7 to light up the 130m long and 3m wide bridge.

The Waikato region was hit hard by storms this summer. In February, for the second time in six weeks, WEL Networks had crews on standby as Cyclone Gita hit the region and threatened to damage the power network.


HYUNDAI
You're following a
WEL Networks
Electric Vehicle
INGHAM HYUNDAI

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

WEL NETWORKS LIMITED

Statement of comprehensive income

For the year ended 31 March 2018

	Notes	2018 $'000	2017 $'000
Revenue	4	**175,553**	176,872
Expenses, excluding finance costs	5	**(93,895)**	(108,355)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associate		**81,658**	68,517
Depreciation and amortisation expense	5	**(42,819)**	(34,511)
Earnings before interest and tax (EBIT) and interest in associate		**38,839**	34,006
Finance expenses	6	**(18,778)**	(8,985)
Finance income	6	**74**	119
Share of net profits/(losses)/revaluations of existing interest in associates	22,24	**(629)**	87,234
Profit before income tax		**19,506**	112,374
Income tax expense	7	**(6,075)**	(6,509)
Profit for the year		**13,431**	105,865
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Disposal of property, plant and equipment (net of tax)	19	**-**	566
Gain on the revaluation of land and buildings (net of tax)	19	**4,810**	-
Items that may be subsequently reclassified to profit or loss:			
Cash flow hedges (net of tax)	19	**(1,318)**	2,452
Other comprehensive income for the year, net of tax		**3,492**	3,018
Total comprehensive income for the year		**16,923**	108,883
Profit is attributable to:			
Owners of WEL Networks Limited		**14,860**	93,745
Non-controlling interest		**(1,429)**	12,120
		13,431	105,865
Total comprehensive income for the year is attributable to:			
Owners of WEL Networks Limited		**18,352**	96,763
Non-controlling interest		**(1,429)**	12,120
		16,923	108,883
Earnings per share attributable to the ordinary equity holders of the company during the year:		**Cents**	Cents
Attributable to continuing operations:			
Basic earnings per share	28	**182.3**	1,149.8
Diluted earnings per share	28	**182.3**	1,149.8

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

WEL NETWORKS LIMITED

Balance sheet

As at 31 March 2018

	Notes	2018 $'000	2017 $'000
Assets			
Current assets			
Cash and cash equivalents		**901**	5,612
Trade and other receivables	8	**19,723**	19,864
Current tax receivables	7	**-**	2,513
Total current assets		**20,624**	27,989
Non current assets			
Property, plant and equipment	10	**1,036,628**	974,755
Intangible assets	11	**91,139**	88,448
Derivative financial instruments	25	**285**	892
Investment in associates	24	**1,595**	-
Total non current assets		**1,129,647**	1,064,095
Total assets		**1,150,271**	1,092,084
Liabilities			
Current liabilities			
Trade and other payables	12	**17,775**	13,132
Loan from non-controlling interest	21	**-**	63,336
Current tax liabilities	7	**2,103**	-
Provisions	13	**3,611**	3,811
Borrowings	14	**89,068**	-
Derivative financial instruments	25	**52**	-
Deferred income		**11,445**	8,952
Customer discount payable		**17,590**	17,391
Total current liabilities		**141,644**	106,622
Non current liabilities			
Borrowings	16	**318,537**	381,707
Provisions	15	**423**	481
Deferred income		**945**	974
Derivative financial instruments	25	**6,627**	5,457
Deferred tax liabilities	17	**80,141**	79,546
Loan from non-controlling interest	21	**70,731**	-
Total non current liabilities		**477,404**	468,165
Total liabilities		**619,048**	574,787
Net assets		**531,223**	517,297

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

WEL NETWORKS LIMITED

Balance sheet

As at 31 March 2018

	Notes	2018 $'000	2017 $'000
Equity			
Contributed equity	18	**150,142**	150,142
Other	19	**155,268**	153,250
Retained earnings	19	**218,458**	205,121
		523,868	508,513
Non controlling interest		**7,355**	8,784
Total equity		**531,223**	517,297

For and on behalf of the Board:

Rob Campbell
Chairman
6 June 2018

Tony Steele
Director
6 June 2018

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

WEL NETWORKS LIMITED

Statement of changes in equity

For the year ended 31 March 2018

	Notes	Share capital $'000	Convertible note $'000	Other 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 for the year		-	-	-	93,745	93,745	12,120	105,865
Movement in revaluation from disposal of distribution network assets (net of tax)	19	-	-	(1,458)	2,024	566	-	566
Cash flow hedges (net of tax)	19	-	-	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	19	-	-	-	(2,449)	(2,449)	-	(2,449)
Dividends	19	-	-	-	(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
Balance as at 1 April 2017		111,142	39,000	153,250	205,121	508,513	8,784	517,297
Comprehensive income								
Profit for the year		-	-	-	14,860	14,860	(1,429)	13,431
Movement in revaluation from disposal of distribution network assets (net of tax)	19	-	-	(1,474)	1,474	-	-	-
Gain on the revaluation of land and buildings (net of tax)	19	-	-	4,810	-	4,810	-	4,810
Cash flow hedges (net of tax)	19	-	-	(1,318)	-	(1,318)	-	(1,318)
Total comprehensive income		-	-	2,018	16,334	18,352	(1,429)	16,923
Transactions with owners								
Interest on convertible note	19	-	-	-	(2,449)	(2,449)	-	(2,449)
Dividends	19	-	-	-	(548)	(548)	-	(548)
Total contributions by and distributions to owners		-	-	-	(2,997)	(2,997)	-	(2,997)
Balance as at 31 March 2018		111,142	39,000	155,268	218,458	523,868	7,355	531,223

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 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		178,357	165,239
Payments to employees and suppliers		(82,265)	(116,123)
Income taxes paid		(2,282)	(3,927)
Net cash inflow / (outflow) from operating activities	29	93,810	45,189
Cash flows from investing activities			
Purchases of property, plant and equipment		(102,368)	(78,099)
Proceeds from sale of property, plant and equipment		24	-
Purchases of intangible assets		(6,440)	(3,745)
Purchase of investments (net of cash)		(2,224)	(164,621)
Net cash inflow / (outflow) from investing activities		(111,008)	(246,465)
Cash flows from financing activities			
Proceeds from borrowings		34,188	215,281
Interest paid		(18,704)	(8,866)
Interest on convertible notes		(2,449)	(2,449)
Dividends paid		(548)	(1,127)
Net cash inflow / (outflow) from financing activities		12,487	202,839
Net increase (decrease) in cash and cash equivalents		(4,711)	1,563
Cash and cash equivalents at the beginning of the financial year		5,612	4,049
Cash and cash equivalents at end of year		901	5,612

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018

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 and delivery of 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 6 June 2018.

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. Comparative balances of WEL Networks Limited only include seven months of Ultrafast Fibre Limited from 31 August 2016 when Waikato Networks Limited obtained full control of Ultrafast Fibre Limited, as disclosed in Note 22.

(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 for-profit 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 WEL Networks Limited is 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.

<u>New standards and interpretations not yet adopted</u>

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018, 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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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 has yet to assess 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 2018 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. 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. While the Group has yet to assess the impact of this standard, the current cost of off balance sheet lease obligations is material for the Group as disclosed in Note 20.
- 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.

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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(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.

(iii) Associates

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

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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

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

(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 below.

(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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(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.

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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 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'.

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Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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 by Waikato Networks Limited.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(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.

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

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

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

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Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(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 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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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 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 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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's general borrowings for the year, in this case 4.28% (2017: 4.39%)

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

(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 25. Movements on the hedging reserve in other comprehensive income are shown in note 19. 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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(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) 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.

(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.

(u) 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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(v) 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. The interest rate is 6.28% for the period 1 April 2016 to 31 March 2020.

(w) 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.

(x) 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.

(y) 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.

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, fibre network assets and land and buildings.

The Group estimates the fair value of the distribution network, land and buildings and fibre network by using independent valuers. The valuations include a number of judgements and estimates. Refer to note 10.

(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 1(h) and 10.

(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 recoverable amount for impairment testing purposes requires the use of judgement and estimation in relation to future forecast performance of the underlying cash generating unit. Refer to note 11.

(iv) Deferred tax asset

Included in the net deferred tax liability at 31 March 2018 is a $15.5 million asset arising principally from the recognition

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

of tax losses in Ultrafast Fibre Limited. NZ IAS 12 Income Taxes requires the recovery of the losses to be probable in order to be recognised in the balance sheet. For the losses to be recoverable the Group is required to have, within prescribed limits, continuity of ownership through to the period in which the losses are utilised and foreseeable profits to use against.

The shareholders agreement provided for joint and equal control between Crown Infrastructure Partners Limited(Formerly 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 Infrastructure Partners Limited (CIP) and a nonbinding indicative view was received. The purchase of CIP'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 17.

(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.

The Group initially adopted the provisions of NZ IFRS 3 Business Combinations which permitted presenting the acquisition of Ultrafast Fibre Limited on a provisional basis. This has been finalised during the year ended 31 March 2018. Refer to Note 22.

3 SEGMENT INFORMATION

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

The Board reviews the business from a network perspective and management considers the performance from an electricity network and a fibre network perspective and anything not included in these is classified as 'Other" including technology investments, retail business and Opunake Hydro Holdings Limited.

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(a) Revenue

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the statement of comprehensive income.

	31 March 2018			31 March 2017		
	Total segment revenue $'000	Inter segment revenue $'000	Revenue from external customers $'000	Total segment revenue $'000	Inter segment revenue $'000	Revenue from external customers $'000
Electricity Network	**158,343**	**(37,750)**	**120,593**	148,796	(29,125)	119,671
Fibre Network	**74,506**	**(21,427)**	**53,079**	87,045	(31,200)	55,845
Other	**1,881**	**-**	**1,881**	1,356	-	1,356
Total	**234,730**	**(59,177)**	**175,553**	237,197	(60,325)	176,872

b) Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)

	2018 EBITDA $'000	2017 EBITDA $'000
Electricity Network	**57,260**	59,097
Fibre Network	**27,989**	14,027
Unallocated	**(3,591)**	(4,607)
Total adjusted EBITDA	**81,658**	68,517
Depreciation and amortisation	**(42,819)**	(34,511)
Share of loss/revaluation of existing interests in associates	**(629)**	87,234
Finance expenses	**(18,778)**	(8,985)
Finance income	**74**	119
Profit before tax	**19,506**	112,374

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(c) Assets

	31 March 2018			31 March 2017		
	Total assets $'000	Investments in associates $'000	Additions to non current assets $'000	Total assets $'000	Investments in associates $'000	Additions to non current assets $'000
Electricity Network	**594,636**	**-**	**-**	569,579	-	-
Fibre Network	**526,634**	**-**	**-**	488,148	-	-
Other	**26,220**	**1,595**	**-**	25,340	-	-
Total	**1,147,490**	**1,595**	**-**	1,083,067	-	-
Financial assets	**901**	**-**	**-**	5,612	-	-
Derivative financial instruments	**285**	**-**	**-**	892	-	-
Tax receivable	**-**	**-**	**-**	2,513	-	-
Total assets per the balance sheet	**1,148,676**	**1,595**	**-**	1,092,084	-	-

(d) Liabilities

	2018 $'000	2017 $'000
Liabilities		
Electricity Network	**35,034**	32,810
Fibre Network	**16,755**	11,936
Other	**-**	-
Total	**51,789**	44,746
Unallocated		
Deferred income tax	**80,141**	79,546
Borrowings (excluding finance leases)	**478,336**	445,038
Derivative financial instruments	**6,679**	5,457
Tax liabilities	**2,103**	-
Total liabilities per the balance sheet	**619,048**	574,787

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

4 REVENUE

	2018 $'000	2017 $'000
Sales revenue		
Gross line revenue	**124,663**	121,185
Discount	**(17,566)**	(17,344)
Fibre revenue	**50,333**	23,113
Contracting revenue	**179**	32,414
	157,609	159,368
Other revenue		
Third party contributions	**10,689**	10,178
Operating lease revenue	**2,881**	2,826
Other income	**4,374**	4,500
	17,944	17,504
	175,553	176,872

5 EXPENSES

Expenses, excluding finance costs, included in the income statement classified by nature		
Contracting cost of sales	**665**	29,310
Transmission costs	**31,176**	29,528
Employee benefits	**41,718**	32,951
Capitalised labour	**(22,986)**	(20,224)
Materials and services	**8,250**	7,589
Premise networking costs	**7,140**	4,273
Contract Services	**3,928**	3,771
Consultancy	**3,889**	5,768
Net loss on disposal of property, plant and equipment	**5,489**	3,030
Vehicle expenditure	**1,649**	1,486
Operating leases	**1,405**	842
Directors fees	**594**	407
Bad debts written off	**153**	225
Change in provision for impaired receivables	**84**	42
Other expenses	**10,741**	9,357
	93,895	108,355

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

	2018 $'000	2017 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Buildings	**149**	149
Plant and equipment	**3,268**	3,565
Fibre network	**16,355**	9,973
Motor vehicles	**1,027**	208
Distribution network	**18,002**	17,408
Computer hardware	**696**	738
Total depreciation	**39,497**	32,041
Amortisation		
Computer software	**1,795**	2,291
Internally generated software	**1,453**	86
Easements and consents	**74**	93
Total amortisation	**3,322**	2,470
Total depreciation and amortisation	**42,819**	34,511

Auditors' fees		
(a) Remuneration of auditors (PwC)		
Audit financial statements	**222**	180
Half year review	**30**	44
Assurance procedures on disclosure information	**74**	75
Total remuneration for assurance services	**326**	299
(b) Other services (PwC)		
Provision of license for financial reporting software	**-**	28
Regulatory advice	**25**	6
Total remuneration for advisory services	**25**	34
	351	333

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

6 FINANCE INCOME AND EXPENSES

	2018 $'000	2017 $'000
Finance costs		
Interest and finance charges paid/payable	**19,256**	15,485
Capitalised interest	**(478)**	(6,500)
Total finance costs	**18,778**	8,985
Finance income		
Short-term bank deposits	**(74)**	(119)
Total finance income	**(74)**	(119)
Net finance costs	**18,704**	8,866

7 INCOME TAX

(a) Income tax expense

	2018 $'000	2017 $'000
Current tax:		
Current tax on profits for the year	**6,843**	1,759
Deferred tax	**(768)**	4,750
Total current tax	**6,075**	6,509

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2018 $'000	2017 $'000
Profit from continuing operations before income tax expense	**19,506**	112,374
Income tax @ 28%	**5,462**	31,465
Tax effects of:		
Non assessable income	**-**	(24,628)
Non deductible expenses	**196**	15
Convertible note interest	**(685)**	(685)
Prior period deferred tax adjustment	**77**	140
Prior period tax expense adjustment	**1,025**	-
Share of loss in joint venture	**-**	202
Income tax expense	**6,075**	6,509

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

	2018 $'000	2017 $'000
(c) Imputation credits		
Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2017: 28%)	**33,579**	32,231
Deferred tax	**33,579**	32,231
(d) Tax receivable/(payable)		
Opening balance	**2,513**	540
Current tax on profits for the year	**(6,843)**	(1,759)
Taxation paid	**2,227**	3,732
Closing balance	**(2,103)**	2,513

8 TRADE AND OTHER RECEIVABLES

Trade receivables	**18,048**	18,797
Amounts due from customers for contract work	**126**	173
Provision for doubtful receivables	**(589)**	(505)
	17,585	18,465
Related party receivable	**232**	210
Prepayments	**1,906**	1,189
	19,723	19,864

(a) Impaired receivables

As of 31 March 2018, trade receivables for the Group of $1.9 million (2017: $1.7 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	**15,690**	16,831
Less than one to three months	**1,024**	174
Over three months	**871**	1,460
	17,585	18,465

(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 26 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 2018 *(continued)*

9 NET DEBT RECONCILIATION

	2018 $'000	2017 $'000
Net debt		
Cash and cash equivalents	**901**	5,612
Borrowings – repayable within one year (including overdraft)	**(89,068)**	(63,336)
Borrowings – repayable after one year	**(389,268)**	(381,707)
	(477,435)	(439,431)
Net debt		
Cash and cash equivalents	**901**	5,612
Gross debt – fixed interest rates	**(200,000)**	(200,000)
Gross debt – variable interest rates	**(278,336)**	(245,043)
	(477,435)	(439,431)

	Cash and cash equivalents $'000	Borrowings due within one year $'000	Borrowings due after one year $'000	Total $'000
Net debt as at 1 April 2017	5,612	(63,336)	(381,707)	(439,431)
Cash flows	(4,711)	-	(34,188)	(38,899)
Finance lease	-	-	-	-
Reclassification	-	(25,732)	25,732	-
Other non-cash movements	-	-	895	895
Net debt as at 31 March 2018	901	(89,068)	(389,268)	(477,435)

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

10 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 2017								
Opening net book amount	522,260	-	11,718	29,986	4,282	762	9,060	578,068
Additions	31,079	34,136	531	5,697	3,983	814	4,118	80,358
Disposals	(4,320)	-	(473)	(2,850)	(4,035)	(17)	(8,461)	(20,156)
Acquired through business combination	-	366,780	-	590	496	660	-	368,526
Depreciation charge (note 5)	(17,408)	(9,973)	(149)	(3,565)	(208)	(738)	-	(32,041)
Closing net book amount	531,611	390,943	11,627	29,858	4,518	1,481	4,717	974,755
At 31 March 2017								
Cost/valuation	686,419	409,953	12,293	44,500	7,740	3,328	4,717	1,168,950
Accumulated depreciation	(154,808)	(19,010)	(666)	(14,642)	(3,222)	(1,847)	-	(194,195)
Net book amount	531,611	390,943	11,627	29,858	4,518	1,481	4,717	974,755
Year ended 31 March 2018								
Opening net book amount	531,611	390,943	11,627	29,858	4,518	1,481	4,717	974,755
Additions	33,720	44,130	-	3,298	1,901	261	19,034	102,344
Disposals	(5,193)	-	-	(586)	(105)	(13)	(1,758)	(7,655)
Revaluation	-	-	6,681	-	-	-	-	6,681
Depreciation charge (note 5)	(18,002)	(16,355)	(149)	(3,268)	(1,027)	(696)	-	(39,497)
Closing net book amount	542,136	418,718	18,159	29,302	5,287	1,033	21,993	1,036,628
At 31 March 2018								
Cost/valuation	714,623	454,083	18,974	47,288	9,426	3,781	21,993	1,270,168
Accumulated depreciation	(172,487)	(35,365)	(815)	(17,986)	(4,139)	(2,748)	-	(233,540)
Net book amount	542,136	418,718	18,159	29,302	5,287	1,033	21,993	1,036,628

The amount of interest capitalised was $477,832 (2017: $6,500,394).

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(a) Revaluations and impairment review

A review of the fair value of distribution and fibre network assets has been undertaken as at 31 March 2018. While not a full revaluation exercise, this review has provided a range for the fair value of the network and fibre network assets. The carrying value of the network and fibre network assets is within this fair value range and, as such, the Directors have determined that the carrying value is appropriate and the 2016 valuation assumptions remain materially appropriate. Below are the assumptions used for the network and fibre network revaluation exercise and historical cost information.

Land and buildings were revalued to fair value for highest and best use on 31 March 2018 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach. This is a level 3 valuation.

The Group's electricity distribution network was revalued as at 31 March 2016 to fair value by Deloitte. The fair values were established in accordance with NZ IAS 16 – Property, Plant and Equipment and NZ 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	9,600	536,607	409,953
Accumulated depreciation	(666)	(177,955)	(19,010)
Net book amount at 31 March 2017	8,934	358,652	390,943
Cost	10,131	569,025	454,083
Accumulated depreciation	(815)	(194,567)	(35,365)
Net book amount at 31 March 2018	9,316	374,458	418,718

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

The valuation of the Distribution Network as at 31 March 2016 and the Fibre Network as at 31 August 2016 include the following assumptions:

	Valuation assumptions adopted	Low	High	Valuation impact* +/- $M
Distribution				
WACC - %	6.5	6.0	7.0	22
Consumer Price index - %	2.0	1.5	2.5	24
Real Growth – applied to revenues for the first 10 years of the forecast - %	2.5	1.8	2.75	4
Fibre				
WACC - %	7.8	7.3	8.3	30
Capital Expenditure - $M	8.7	8.3	9.1	10
Terminal Growth - %	1.0	0.75	1.25	1

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

The valuation of the Fibre Network as at 31 August 2016 include the following assumptions:

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

- 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
- Fibre uptake penetration of 70% reached by 2022.
- Weighted average connection costs of $1,492 in 2016/2017, increasing by inflation over the next 40 years.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

11 INTANGIBLE ASSETS

	Computer software – internally generated $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interest $'000	Assets under construction $'000	Total $'000
Year ended 31 March 2017							
Opening net book amount	153	3,768	2,961	5,049	107	545	12,583
Additions	96	3,376	-	184	-	43	3,699
Acquired through business combination (note 22)	-	3,336	71,612	-	-	-	74,948
Disposals	-	(223)	(89)	-	-	-	(312)
Amortisation charge (note 5)	(86)	(2,291)	-	(93)	-	-	(2,470)
Closing net book amount	163	7,966	74,484	5,140	107	588	88,448
At March 2017							
Cost	1,948	24,802	74,484	7,417	107	588	109,346
Accumulated amortisation and impairment	(1,785)	(16,836)	-	(2,277)	-	-	(20,898)
Net book amount	163	7,966	74,484	5,140	107	588	88,448
Year ended 31 March 2018							
Opening net book amount	163	7,966	74,484	5,140	107	588	88,448
Additions	4,718	1,008	-	101	-	613	6,440
Acquired through business combination	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(427)	(427)
Amortisation charge (note 5)	(1,453)	(1,795)	-	(74)	-	-	(3,322)
Closing net book amount	3,428	7,179	74,484	5,167	107	774	91,139
At March 2018							
Cost	6,665	25,811	74,484	7,519	107	774	115,360
Accumulated amortisation and impairment	(3,237)	(18,632)	-	(2,352)	-	-	(24,221)
Net book amount	3,428	7,179	74,484	5,167	107	774	91,139

The carrying value of goodwill relates to Ultrafast Fibre Limited as a single cash generating unit. The recoverable amount was determined using the value in use model. The key assumptions used in the model (aligned with Ultrafast Fibre Limited's latest 5 year plan) are WACC of 7.4% and terminal growth factor of 2%. Scenarios using varying WACC and Capex annual spend have been used in the model and as a result no impairment of goodwill was identified. The approach is consistent with the approach used to value the fibre network and is disclosed in note 10.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

12 TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Trade payables	**17,126**	12,004
Other payables and accruals	**649**	1,128
	17,775	13,132

13 CURRENT LIABILITIES – PROVISIONS

Employee benefits	**1,132**	1,243
Annual leave	**2,196**	2,127
Other provisions	**283**	441
	3,611	3,811

14 CURRENT LIABILITIES – BORROWINGS

Maturing within 1 year	**89,068**	-
	89,068	-

15 NON CURRENT LIABILITIES – PROVISIONS

Employee benefits	**423**	481
	423	481

16 NON CURRENT LIABILITIES – BORROWINGS

Term borrowings – bank loans		
Maturing between 1 and 2 years	**208,437**	14,962
Maturing between 2 and 3 years	**99,606**	208,648
Maturing between 3 and 4 years	**10,494**	99,857
Maturing between 4 and 5 years	**-**	58,240
	318,537	381,707

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

The loans are secured by negative undertaking of the Group. The Group was 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.

During the year the Group facility remained the same at $550 million (2017: $550 million) of which $142.3 million remains available to the Group to be drawn down at balance date. The facilities expire as follows:

Facility expiry date	**Facility available $'000**	Total facility $'000
31 March 2019	**11,000**	100,000
9 August 2019	**41,300**	100,000
31 March 2020	-	150,000
31 March 2021	-	100,000
9 August 2021	**90,000**	100,000
	142,300	550,000

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

17 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 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)
Charged/(credited) directly to equity – derivatives	-	-	-	954	-	954
Acquired through business combination	1,049	10,827	1,984	-	(14,732)	(872)
At 31 March 2017	20,429	71,460	4,347	(1,277)	(15,413)	79,546
At 1 April 2017	20,429	71,460	4,347	(1,277)	(15,413)	79,546
Charged/(credited) to the statement of comprehensive income	(894)	-	217	-	(88)	(765)
Charged/(credited) directly to equity – revaluations	-	1,871	-	-	-	1,871
Charged/(credited) directly to equity – derivatives	-	-	-	(511)	-	(511)
At 31 March 2018	19,535	73,331	4,564	(1,788)	(15,501)	80,141

18 CONTRIBUTED EQUITY

	2018 Shares 000	2017 Shares 000	**2018 $'000**	2017 $'000
(a) Contributed equity				
Ordinary shares				
Opening balance	**8,153**	8,153	**111,142**	111,142
Shares issued in the year	**-**	-	**-**	-
Convertible notes	**-**	-	**39,000**	39,000
	8,153	8,153	**150,142**	150,142

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

19 RESERVES AND RETAINED EARNINGS

	2018 $'000	2017 $'000
(a) Reserves		
Property, plant and equipment revaluation reserve	**159,873**	156,537
Hedging reserve – cash flow hedges	**(4,605)**	(3,287)
	155,268	153,250

Movements:		
Property, plant and equipment revaluation reserve		
Opening balance	**156,537**	157,995
Revaluation – net	**4,810**	-
Disposal of distribution network assets	**(1,474)**	(2,024)
Deferred tax	**-**	566
Net fair value gains/(losses) recognised in revaluation reserve	**3,336**	(1,458)
Closing balance	**159,873**	156,537
Hedging reserve – cash flow hedges:		
Opening balance	**(3,287)**	(5,739)
Fair value gains/(losses) in year	**(1,829)**	3,406
Deferred tax	**511**	(954)
Net fair value gains/(losses) recognised in cash flow hedge reserve	**(1,318)**	2,452
Closing balance	**(4,605)**	(3,287)

(b) Retained earnings

Movements in retained earnings were as follows:		
Opening balance	**205,121**	112,928
Net profit for the year	**14,860**	93,745
Dividends	**(548)**	(1,127)
Convertible note interest	**(2,449)**	(2,449)
Disposal of distribution network assets	**1,474**	2,024
Closing balance	**218,458**	205,121

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

20 COMMITMENTS

(a) Capital commitments

Ultrafast Fibre Limited has committed capital expenditure to the value of $67 million at the end of the year but not incurred. This expenditure is a contracted commitment with Crown Infrastructure Partners Limited (formerly Crown Fibre Holdings) for the second phase of the fibre network build.

(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.

	2018 $'000	2017 $'000
Within one year	957	1,070
Later than one year and not later than two years	607	777
Later than two year and not later than five years	1,758	2,109
Later than five years	5,427	10,313
	8,749	14,269

21 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 2018 and 31 March 2017 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.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

	2018 $'000	2017 $'000
Key management compensation		
Salaries and other short-term employee benefits	**5,298**	3,636
Post-employment benefits	**294**	109
Total	**5,592**	3,745
(ii) Related party transactions with WEL Energy Trust		
Interest on convertible note	**(2,449)**	(2,449)
	(2,449)	(2,449)

Total dividends paid during the year were $548,234 (2017: $1,127,000).

	2018 $'000	2017 $'000
(iii) Related party transactions between Ultrafast Fibre Limited and Waikato Networks Limited for the 5 months to 31 August 2016 prior to acquisition		
Sale of fibre assets and related services	-	29,342
Provision for management services	-	163
Fibre access services on Velocity network	-	43
	-	29,548
iv) Related party transactions with SmartCo Limited		
Other income	**1,301**	482
Operating expenses (contract services expenditure)	**(517)**	(457)
Purchase of plant and equipment	**(548)**	(785)
Advance to related party	**210**	210

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

	2018 $'000	2017 $'000
(v) Related party transactions with Waipa Networks Limited		
Current year interest expense	2,781	2,097
Loans from non-controlling interests	67,950	61,239
Total non-controlling interests	70,731	63,336
Pole make ready and lease costs	30	30
Contract Services	148	148

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

Waipa Networks Limited owns 15% of Waikato Networks Limited. The terms of the loan are set out in the shareholders' agreement between WEL Networks Limited, Waikato Networks Limited (WNL), Waipa Networks Limited and Ultrafast Fibre Limited. The parties have agreed a put and call arrangement whereby should Waipa Networks Limited reduce its shareholding in WNL to less than 10%, or there is a change in control of Waipa Networks Limited, at the option of WEL Networks Limited, Waipa Networks Limited's shareholding in WNL can be acquired by WEL Networks Limited at fair value. Waipa Networks Limited also has the option to sell its shares in WNL to WEL Networks Limited at fair value from the third anniversary from the effective date. Based on the anniversary date, the loan from Waipa Networks Limited is considered non current. The loan funding provided by Waipa Networks Limited is commensurate with its shareholding in WNL.

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

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

22 BUSINESS COMBINATIONS

On 31 August 2016, Waikato Networks Limited (Group 85%, Waipa Networks Limited 15%) acquired the remaining 65% of 'A' shares not already owned by Waikato Networks Limited, with the exception of the single Government Share. The Government Share has the right to acquire new shares and to participate in the distribution of surplus assets of the Company. The Government Share does not have the right to vote or to receive dividends.

The Group obtained 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 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	
Cash consideration	117,942
	117,942
Fair value of previously held interest	267,674
Total consideration	385,616

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

	31 August 2016 $'000
Fair value of assets acquired	
Cash and cash equivalents	6,282
Other current assets	6,105
Property, plant and equipment and intangible assets	371,862
Current liabilities	(71,115)
Deferred tax liabilities	870
Goodwill	71,612
Total identifiable net assets	385,616

A gain of $87.9 million was recorded on remeasurement of the previously held interest.

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 Ultrafast Fibre Limited	220
Share of loss in Ultrafast Fibre Limited	(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
Derecognition of equity interest on acquisition	(267,674)
Closing balance	-

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(b) Revision of prior period comparatives

The consideration and fair value of assets acquired and liabilities assumed were accounted for on a provisional basis in the financial statements for the year ended 31 March 2017. These amounts have now been finalised and the comparative balances in the 31 March 2018 financial statements have now been revised as follows:

	31/03/17 Previously stated $'000	31/03/17 Revised $'000	Revision $'000
At 31 March 2017			
PPE & intangibles	**371,862**	371,862	**-**
Other assets	**18,372**	6,105	**(12,267)**
Current liabilities	**(68,049)**	(71,115)	**(3,066)**
Deferred tax	**(2,297)**	870	**3,167**
Goodwill	**59,446**	71,612	**12,166**
	379,334	379,334	**-**

23 CONTINGENCIES

As at 31 March 2018 the Group had a $5 million contingent liability in relation to a guarantee (2017: $5 million).

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

24 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

Name of entity	Measurement method	% of ownership interest
Opunake Hydro Holdings Limited	Equity accounting	33

In September 2017, a 33% shareholding was purchased in Opunake Hydro Holdings Limited (OHHL). OHHL are energy and utility specialists based in Taranaki.

OHHL have generators located in Taranaki to supplement their retail business (Utilise). WEL Networks Limited have one director on the Board of OHHL.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

Summarised financial information for associate

Set out below is the summarised financial information for Opunake Hydro Holdings Limited which is accounted for using the equity method.

Summarised consolidated balance sheet

	Opunake Hydro Holdings Limited	
	2018 $'000	2017 $'000
Current		
Assets	1,710	-
Liabilities	(1,928)	-
Total current net assets	(218)	-
Non current		
Assets	4,580	-
Liabilities	-	-
Total non current net assets	4,580	-
Net assets	4,362	-
Reconciliation of summarised income statement		
Opening net assets as at acquisition being 8 September 2017	6,268	-
Loss for the period	(1,906)	-
Closing net assets	4,362	-
Fair value of net assets acquired at acquisition	2,072	-
Share of loss	(629)	-
Goodwill	152	-
Carrying value	1,595	-
Consideration	2,224	-
Fair value of net assets acquired	(2,072)	-
Goodwill	152	-

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2018 %	Equity holding 2017 %
Operating Subsidiaries and associates				
Waikato Networks Limited	New Zealand	Ordinary	**85**	85
WEL Services Limited	New Zealand	Ordinary	**100**	100
Ultrafast Fibre Limited **	New Zealand	Ordinary	**85**	85
Opunake Hydro Limited	New Zealand	Ordinary	**33**	-
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 and associates have balance dates of 31 March with the exception of Opunake Hydro Limited which has a balance date of 28 February.

**Subsidiary of Waikato Networks Limited

25 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 $'000	2017 $'000
Non Current assets		
Interest rate swaps – cash flow hedges ((a))	**285**	892
Total non current derivative financial instrument assets	**285**	892
Current and non current liabilities		
Current interest rate swaps – cash flow hedges ((a))	52	-
Non current interest rate swaps – cash flow hedges ((a))	6,627	5,457
Total derivative financial instrument liabilities	6,679	5,457
	(6,394)	(4,565)

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(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) Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2018 were $200 million (2017: $200 million).

At 31 March 2018, the fixed interest rates vary from 2.25% to 4.18% (2017: 2.25% 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 2018 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

26 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.

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 2018 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 (2017: nil).

(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 within minimum and maximum fixed interest rate cover of its borrowings with fixed rate instruments.

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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. 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 2018		31 March 2017	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Interest rate swaps (notional/principal amounts)	4.40%	(200,000)	4.40%	(200,000)
Borrowings	4.09%	407,605	4.17%	381,707
Loan from non-controlling interest	4.09%	70,731	4.17%	63,336
Net exposure to cash flow interest rate risk		278,336		245,043

(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 2018 *(continued)*

		Interest rate risk +/ 1%	
31 March 2018	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**
Financial assets			
Cash and cash equivalents	901	9	-
Trade and other receivables (excluding prepayments)	17,817	-	-
Derivative financial instruments	285	-	2
Financial liabilities			
Trade and other payables	17,775	-	-
Interest bearing liabilities	407,605	2,076	-
Derivative financial instruments	6,679	-	66
Loan from non-controlling interest	70,731	707	-
Customer discount payable	17,590	-	-
Total increase/ (decrease)		2,792	68
31 March 2017			
Financial assets			
Cash and cash equivalents	5,612	56	-
Trade and other receivables (excluding prepayments)	18,675	-	-
Derivative financial instruments	892	-	8
Financial liabilities			
Trade payables	13,132	1	-
Interest bearing liabilities	381,707	1,817	-
Derivative financial instruments	5,457	-	54
Loan from non-controlling interest	63,336	633	-
Customer discount payable	17,391	-	-
Total increase/ (decrease)		2,507	62

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

(b) Credit risk

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

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 34% (2017: 22%) 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 short-term fixed deposits, cash and bank balances and derivatives placed with major financial institutions, the Directors believe that the possibility of non performance by these financial institutions is remote on the basis of their financial strength.

Other than as mentioned above (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 2018 *(continued)*

31 March 2018	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						
Borrowings – non current	11,680	206,496	101,584	25,999	345,759	318,537
Borrowings – current	93,810	3,230	2,924	5,048	105,012	89,068
Trade and other payables	17,775	-	-	-	17,775	17,775
Customer discount payable	17,590	-	-	-	17,590	17,590
Loan from non-controlling interest	2,893	2,893	73,624	-	79,410	70,731
Total non-derivatives	143,748	212,619	178,132	31,047	565,546	513,701
Derivatives						
Interest rate swaps						
– Inflow	(7,843)	(6,309)	(5,476)	(6,136)	(25,764)	-
– Outflow	8,593	7,785	7,280	8,500	32,158	6,394
Total derivatives	750	1,476	1,804	2,364	6,394	6,394

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						
Borrowings – non current	16,739	15,726	83,939	301,565	417,969	381,707
Trade and other payables	13,132	-	-	-	13,132	13,132
Customer discount payable	17,391	-	-	-	17,391	17,391
Loan from non-controlling interest	63,336	-	-	-	63,336	63,336
Total non-derivatives	110,598	15,726	83,939	301,565	511,828	475,566
Derivatives						
Interest rate swaps						
– Inflow	(8,620)	(8,351)	(7,329)	(11,554)	(35,854)	-
– Outflow	8,803	8,593	7,784	12,589	37,769	4,565
Total derivatives	183	242	455	1,035	1,915	4,565

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(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 2018 and 31 March 2017.

31 March 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Derivatives used for hedging				
Interest rate contracts	-	285	-	285
Total assets	-	285	-	285
Liabilities				
Derivatives used for hedging				
Interest rate contracts	-	6,679	-	6,679
Total liabilities	-	6,679	-	6,679

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

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(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 2018						
Derivative financial instruments	-	-	285	-	-	285
Trade and other receivables (excluding prepayments)	17,817	-	-	-	-	17,817
Cash and cash equivalents	901	-	-	-	-	901
	18,718	-	285	-	-	19,003
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

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 2018				
Borrowings – non current	-	-	318,537	318,537
Borrowings – current	-	-	89,068	89,068
Loan from non-controlling interest	-	-	70,731	70,731
Customer discount payable	-	-	17,590	17,590
Derivative financial instruments	-	6,679	-	6,679
Trade and other payables	-	-	17,775	17,775
	-	6,679	513,701	520,380
At 31 March 2017				
Borrowings – non current	-	-	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	-	-	13,132	13,132
	-	5,457	475,566	481,023

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(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.

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

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

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

	2018 $'000	2017 $'000
Borrowings – non current (note 16)	**318,537**	381,707
Borrowings – current (note 14)	**89,068**	-
Loan from non-controlling interest (note 21)	**70,731**	63,336
Less: cash and cash equivalents	**(901)**	(5,612)
Net debt	**477,435**	439,431
Total equity	**531,223**	517,297
Total capital	**1,008,658**	956,728
Gearing ratio	**47%**	46%

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

27 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.

28 EARNINGS PER SHARE

	2018 Cents	2017 Cents
(a) Basic earnings per share		
Profit from continuing operations attributable to owners of the parent	**182.3**	1,149.8

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares (note 18).

(b) Diluted earnings per share

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

(c) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares in issue	**8,153,000**	8,153,000

WEL NETWORKS LIMITED

Notes to the financial statements

For the year ended 31 March 2018 *(continued)*

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

	2018 $'000	2017 $'000
Profit for the year	**13,431**	105,865
Depreciation and amortisation	**42,819**	34,511
Loss on sale of property, plant and equipment	**5,489**	3,030
Deferred tax	**(768)**	4,555
Loss/(gain) on disposal of share in Ultrafast Fibre Limited	**-**	(87,957)
Share of loss of associate	**629**	723
(Increase) in receivables and prepayments	**141**	(4,165)
Financing costs	**18,704**	8,866
Increase in provision for income taxes payable	**4,616**	(421)
(Increase) in construction work in progress	**-**	(33,614)
Increase (decrease) in payables (excluding capital items), accruals and employee provisions and investments	**8,749**	13,796
Net cash inflow from operating activities	**93,810**	45,189

AUDITOR'S REPORT

pwc

Independent auditor's report

To the shareholder of WEL Networks Limited

The financial statements comprise:

- the balance sheet as at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the 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 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

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

Our firm carries out other services for the Group in the area of regulatory assurance and advice. The provision of these other services has not impaired our independence as auditor 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 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

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Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our auditor's report.

Who we report to

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

The engagement partner on the audit resulting in this independent auditor's report is Julian Prior.

For and on behalf of:

PricewaterhouseCoopers.

Chartered Accountants
6 June 2018

Auckland

DIRECTORS' REPORT AND STATUTORY INFORMATION

DIRECTORS' REPORT AND STATUTORY INFORMATION

1. DIRECTORS' REMUNERATION

Year Ended 31 March 2018

	WEL			UFF			TOTAL		
	Directors Fees	Other	Committee Fees	Directors Fees	Other	Committee Fees	Directors Fees	Other	Committee Fees
Rob Campbell *(commenced 29 June 2017)*	70,500	-	-	-	-	-	70,500	-	-
Margaret P Devlin *(ceased 29 June 2017)*	21,250	500	-	-	-	-	21,250	500	-
Mark X Franklin	47,750	1,000	-	44,480	-	-	92,230	1,000	-
Paul D McGilvary	47,750	1,000	5,750	-	-	-	47,750	1,000	5,750
Anthony V Steele	47,750	-	2,875	46,750	-	-	94,500	-	2,875
Carolyn Steele *(commenced 29 June 2017)*	37,125	-	1,750	-	-	-	37,125	-	1,750
Barry S Harris	47,750	1,000	2,875	-	-	-	47,750	1,000	2,875
David R Wright *(ceased 29 June 2017)*	10,625	-	-	-	-	-	10,625	-	-
Keith Goodall	-	-	-	43,750	-	-	43,750	-	-
R Fisher *(ceased 31 March 2018)*	-	-	-	84,750	-	-	84,750	-	-
G Lawrie	-	-	-	43,750	-	-	43,750	-	-
	330,500	**3,500**	**13,250**	**263,480**	**-**	**-**	**593,980**	**3,500**	**13,250**

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 for defence costs.

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 2018	
$	Continuing Employees	Discontinued Employees
270,000 - 279,999	1	0
260,000 - 269,999	3	0
250,000 - 259,999	3	0
240,000 - 249,999	1	0
230,000 - 239,999	1	0
220,000 - 229,999	0	0
210,000 - 219,999	3	0
200,000 - 209,999	1	0
190,000 - 199,999	0	0
180,000 - 189,999	1	1
170,000 - 179,999	1	0
160,000 - 169,999	6	0
150,000 - 159,999	5	1
140,000 - 149,999	8	1
130,000 - 139,999	10	1
120,000 - 129,999	19	2
110,000 - 119,999	28	1
100,000 - 109,999	35	0

CHIEF EXECUTIVES' REMUNERATION

WEL Networks Chief Executive Remuneration for year ended 31 March 2018

Base Salary	Short Term Incentives[1]	Other Benefits	Total Remuneration
$504,700	$119,614	-	$624,314

[1] The performance hurdles for the short term incentives related to; health and safety performance, achievement above budgeted EBITDA, progression of the strategic direction of the Company and a customer service benchmark.

Ultrafast Fibre Chief Executive Remuneration for year ended 31 March 2018

Base Salary	Short Term Incentives[2]	Other Benefits	Total Remuneration
$410,000	$164,000	-	$574,000

[2] The performance hurdles for the short term incentives related to; revenue growth, connection growth, health and safety performance and continuous improvement, and organisational strategy and leadership.

6. SHAREHOLDERS

As at 31 March 2018, the Company's shareholder was

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


ELECTRIC VEHICLE
FAST CHARGER
ELECTRIC
VEHICLE

DIRECTORY

DIRECTORY

AS AT 31 MARCH 2018

REGISTERED OFFICE	
	114 Maui Street Te Rapa Hamilton 3240 New Zealand **Telephone** 64-7-850 3100 **Facsimile** 64-7-850 3210 **Website** wel.co.nz **Email** connect@wel.co.nz
DIRECTORS HOLDING OFFICE – GROUP	
	Robert (Rob) J Campbell – *Chairman WEL Networks* **Rodger H Fisher** – *Chairman Ultrafast Fibre (ceased 31 March 2018)* **Mark X Franklin** – *WEL Networks and Ultrafast Fibre* **Keith N Goodall** – *Ultrafast Fibre* **Barry S Harris** – *WEL Networks* **Geoffrey (Geoff) A Lawrie** – *Ultrafast Fibre* **Paul D McGilvary** – *WEL Networks* **Anthony (Tony) V Steele** – *WEL Networks and Ultrafast Fibre* **Carolyn M Steele** – *WEL Networks*
WEL NETWORKS LIMITED	
Chief Executive	**Garth W Dibley** – *NZCE, BE, MBA*
ULTRAFAST FIBRE LIMITED	
Chief Executive	**William Hamilton** – *MBA*
AUDITORS	
	PricewaterhouseCoopers, Auckland

CREATING AN INNOVATIVE ENERGY FUTURE

CONTACT US

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