2021 Annual Report

WELGroup.

WEL Group 2021
ANNUAL REPORT

This is the Annual Report of WEL Group Limited

Signed for and on behalf of the Board of Directors

Rob Campbell
Chair

Carolyn Steele
Chair, Audit and Risk Committee

Contents

About WEL Group

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

With over 95,000 households and businesses connecting to our electricity services, we're playing an essential role in the economic and social development of our communities.

Key to this growth are strong partnerships and innovation which see us explore new ways of providing critical infrastructure and services to ensure our customers receive affordable, reliable, fairly priced and environmentally sustainable energy.

WELGroup.

WEL Networks OURPOWER INFRATEC

A Snapshot – WEL Group

WEL Networks

builds, owns and operates over

$571M

worth of electricity network infrastructure.

WEL Group is

100%

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

Over 290 people

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

2,517

residential customers are currently registered with online retailer,

OurPower,

saving an average of $456 each annually as at March 31, 2021.

WEL Networks connects

94,897

residential properties, small businesses and

875

commercial/ industrial sites...

to a power supply within our network area.

WEL Networks maintains

6,890

kilometres of electricity lines.

49.7%

are overhead and

50.3%

are underground.

This includes LV Service lines but excludes street lighting pilots, fibre and communications lines.

Over

65,000

homes and businesses

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

In the past 12 months (April 2020 – March 2021) across our 25 public EV chargers within our network we've saved approximately

30,000kg of $CO2_e$

We've also delivered approximately

307,000 kWh

This translates to approximately

1.8 million km

of EV range.

We've aligned our business activity to

four of the United Nations' Sustainability Development Goals (SDGs)

where we believe we can make the most impact and generate the most synergy with our strategic direction.

View our Sustainability Section on pg 17.

3 GOOD HEALTH AND WELL-BEING

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

13 CLIMATE ACTION

Over the next decade, we've planned to spend

$269M

on network development projects

to support the current and projected growth within our network.

Find out more in our 2021 Asset Management Plan.

Group Chair Report

Rob Campbell

The COVID-19 pandemic shifted the landscape for all New Zealand businesses. As a lifeline utility the WEL Group responded to the evolving situation to maintain system reliability and protect the safety of our staff and communities. In a changing energy market the Group also continued to pursue our strategic direction, with a focus on innovation and sustainability, to ensure our businesses are well-positioned to deliver energy services now and into the future.

Our Community

For our customers the focus on reducing energy hardship remains. Following the successful 2018 trial of our electricity retailer, OurPower, as at 31 March 2021, we have now extended the low cost electricity offering to 2,517 energy customers, many of whom face energy hardship.

In addition to this WEL Networks, in alignment with our shareholder the WEL Energy Trust, are bringing back the WEL Electricity Discount Programme to provide further support to the Waikato community.

With the ongoing hardships associated with COVID-19 we want to provide further support for our community and bringing back the discount programme is one way of achieving this.

Health, Safety and Wellbeing

The Board is committed to supporting health, safety and wellbeing initiatives that contribute to ongoing improvement. Directors take part in work site safety observations and during the year also commissioned an external review of health and safety governance practices with a positive report received.

Sustainability

We are continuing to measure and report on our progress towards our identified sustainability goals.

Our sustainability programme is being expanded to not only include the reporting of carbon emissions, but to also include wider initiatives for our people, our communities and our network in alignment with the selected United Nations' Sustainability Development Goals; 3 (Good Health and Wellbeing), 7 (Affordable and Clean Energy), 9 (Industry, Innovation and Infrastructure) and 13 (Climate Action).

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

Sale of UFF Holdings Limited

In September, the unconditional sale of UFF Holdings Limited (UFFH), the holding company for Hamilton-based fibre business UltraFast Fibre Limited, to First Sentier Investments (FSI) was completed.

This was the largest corporate Merger and Acquisition sale in New Zealand in 2020 and was awarded the top M&A deal at the recent INFINZ Awards.

The sale enabled WEL Networks to strengthen the core electricity business balance sheet, allowing us to pursue new opportunities and invest in innovative energy solutions in accordance with our business strategy.

Infratec Purchase

In December, WEL Networks purchased the New Zealand operations of Infratec Limited from Alpine Energy Limited.

Infratec specialises in the sustainable development of renewable generation and distribution systems, such as large solar PV and battery solutions, in New Zealand, the Pacific and ASEAN region to reduce diesel usage and to develop local capability.

The purchase enables WEL to further develop sustainable technologies and take new opportunities in the provision of clean, innovative and affordable electricity.

Financial Performance

Following the sale of UFF Holdings Limited (UFFH) WEL Networks is in a strong financial position. Highlights include:

- The proceeds from the sale were used to repay all bank borrowings, leaving only the $150M subordinated bond (maturing in August 2023).
- Net Profit after Tax (NPAT) attributed to shareholders of $210M up from $32M last year. Included within the net profit is a Gain on Sale of $183M which represents WEL's 85% shareholding in UFFH.
- Revenue from continuing operations was $128M, $13M lower than the previous year, largely as a result of price reductions in lines charges. While WEL Networks is subject to Information Disclosure Requirements, these price reductions were in line with a lower regulatory return on investment of 4.57% (down from 7.19%) being set by the Commerce Commission for regulated lines companies for 2020-2025.
- Profit from continuing operations was $4.6M, down from $17.5M in the prior year, primarily due to a combination of lower lines revenue and costs associated with the termination of interest rate swaps relating to the repayment of all bank borrowings.
- The Group's equity as at 31 March 2021 was $754M, up from $570M in the prior period. As at year end, current assets include $124M of cash and $195M in redeemable convertible preference shares, a feature of the UFFH sale which reflects $200M in deferred sale consideration due to be paid 31 March 2022.

Governance

Following the sale of UFF Holdings, we farewelled Keith Goodall, Director of UFF Holdings Limited and UltraFast Fibre Limited. I would like to thank him for his contribution.

COVID-19

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

As New Zealand navigated through and responded to the COVID-19 alert level changes, an increased reliance was placed on electricity services across our region. With no major network and infrastructure disruptions experienced, all staff played a key role in ensuring our communities continued to receive a reliable supply of electricity.

WEL Networks Chief Executive Report

Garth Dibley

2020-21 has been another busy year as we've continued to identify and invest in new, sustainable technologies that modernise our network and future-proof our region while navigating the challenges associated with the COVID-19 pandemic. WEL Networks also marked a proud 100 year history of bringing electricity to the Waikato in 2020.

COVID-19 Response

In a challenging year, as a lifeline utility, a number of measures were put in place to ensure essential electricity services were maintained in the Waikato region as part of WEL Networks' response to the COVID-19 pandemic.

WEL took a proactive approach by implementing our business continuity plan very early on to ensure potential impacts to our network were minimised. We were well prepared which enabled us to prioritise the health and safety of our team and our communities.

As part of WEL's response, we quickly set up all office based staff to be able to work remotely thereby ensuring social distancing and isolation options were available. Our field teams adopted a work control framework which was aligned to other organisations in our industry to ensure essential work could continue while keeping staff working in very small teams to reduce the risk to them, their families and wider whanau. WEL did everything in its power to ensure our communities received a safe and reliable electricity supply.

I'd like to personally thank everyone for their efforts.

Health & Safety

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

We continue to look for opportunities to continuously improve our health and safety practices and we have engaged international operational risk management consultants Forge Works to work with us to take the next steps in our maturity journey.

Enhancing WEL Networks' safety leadership role within our Waikato communities is one of our core communication focuses.

WEL provides specialised electrical safety training for emergency services personnel. The training provides increased awareness of the dangers and what personnel can do to keep themselves and the public safe.

A number of public safety campaigns designed to educate and raise awareness of the dangers of electricity have also been delivered.

WEL Balanced

The programme is now embedded into the WEL way with a number of wellbeing and wellness initiatives and opportunities, for our staff and our community, carried out as part of the programme.

The programme is based on the Mental Health Foundation's five ways to wellbeing – Give, Be Active, Keep Learning, Connect and Take Notice.

Some of the highlights from the year have included; mole mapping for all staff, the introduction of flexible working options for staff, support of local charities and continuing the promotion of physical wellbeing through involvement in events such as *Round The Bridges*, and the *Aotearoa Cycle Challenge*.

Designing the Future of WEL Networks – Our Business Strategy

The acceleration of electrification, solar, batteries and electric vehicles is changing the energy landscape at pace and we are responding to ensure customer retention and future growth.

This change is also driven by the shifting expectations of our customers. They are more reliant than ever before on the availability of power which is a trend that will continue.

In response to these changes in the energy market and in alignment with our purpose and our vision, we've created our E^3 Strategy, which we believe will assist us in ensuring a thriving WEL Networks for tomorrow.

Extract the value of our core

Ensuring we gain the greatest benefit from the investments made in our core infrastructure.

- Mobility. A programme of works ensuring full mobility of field staff, enabling enhanced and streamlined instructions, administration and communications.
- ISO 55001. A project to gain ISO 55001 accreditation and continuous improvements in Asset Management thereby reducing costs and risk, and improving performance.
- WEL Balanced. A comprehensive programme of wellbeing initiatives for WEL staff in support of our sustainability goal for Employee Relations, Welfare, Diversity and Inclusion (United Nations SDG 3). Delivery will be based on the Mental Health Foundation's "Five Ways to Wellbeing".

Explore energy solutions

Providing what customers and businesses need today and tomorrow for a low carbon, low price, choice-driven energy future.

- Low Voltage (LV) visibility. The ability to view the current and future condition of the LV network including the ability to manage distributed energy resources. Providing for the active management of energy flows on the LV network, improving the utilisation and management of assets.
- Energy Markets. Expanding our current offering in the ancillary services market growing revenues and creating different product offerings for consumers on WEL's Network.

Expand into our future state

Incubate new ideas with an investment committee and invest in scale-ups and start-ups.

- Renewable Generation. Grow WEL's generation portfolio by increasing our investment in renewable generation, exploring opportunities for solar, wind and batteries.
- OurPower. Reducing energy hardship in the Waikato by expanding WEL's retailer offering by growing the customer base in line with our generation and hedge portfolio.

Operating Sustainably

WEL Networks remains committed to the Toitū carbonreduce programme to measure and report our greenhouse gas emissions.

A key part of our sustainability programme is to reduce our relative greenhouse gas footprint by 50% by 2030 and to become net carbonzero by 2050 in alignment with the Climate Change Commission's goals and Paris Agreement Targets.

By targeting efficiencies in selected areas to reduce our emissions, we're already seeing progress.

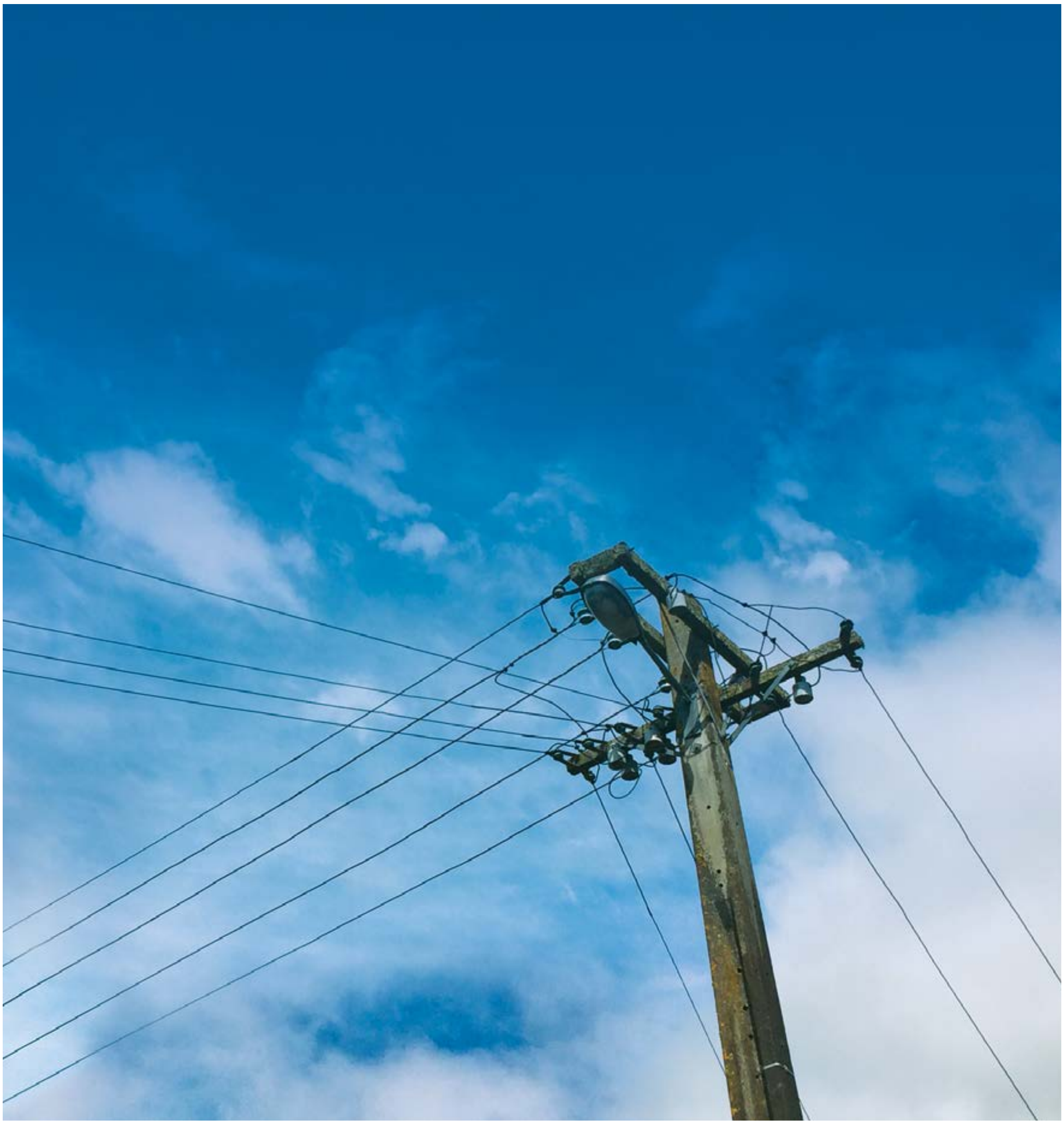
Management

Congratulations to Kerry Green, appointed as General Manager Energy Services. We also welcomed Sally Rosenberg to WEL Networks as General Manager Works Programme.

In Summary

I'd like to thank all of our WEL staff for continuing to demonstrate an unwavering commitment to our vision and purpose particularly as we, as a business, pulled together and worked through the COVID-19 pandemic alert level changes.

In response to a changing energy market and in alignment with our E^3 Strategy, we will continue to progress our sustainability initiatives, address energy hardship, and develop the safety leadership role we play within our Waikato communities to ensure a thriving WEL Networks for tomorrow.



Our Stories

WEL Networks Purchases Infratec

Electricity distributor WEL Networks Limited (WEL) has purchased the New Zealand operations of Infratec from Alpine Energy Limited.

Infratec specialises in large solar PV and battery solutions and has a track record of providing innovative energy solutions in the Pacific and New Zealand regions. Infratec supports the sustainable development of renewable generation and distribution systems in New Zealand, the Pacific and ASEAN region to reduce diesel usage and to develop local capability.

WEL Chief Executive Garth Dibley says the purchase enables WEL to further develop sustainable technologies and take new opportunities in the provision of clean, innovative and affordable electricity to the Waikato and the rest of New Zealand.

“The acceleration of electrification, solar, batteries and EVs is changing the energy landscape at pace and we need a strong strategic response. We’re driven by the changing expectations of our customers who are more reliant than ever on the availability of reliable, sustainable power at the best price.”

Infratec will work alongside WEL’s new Energy Services division to provide a complete in-house service from design to delivery.

“The Energy Services division is solely focussed on sustainable and innovative energy solutions. The aim is to provide customers with reduced energy costs and choice by using a combination of solar, batteries, micro-grid development and optimisation software. As a result this will enable us to continue to increase the availability, security and supply of electricity; ensure our pricing is fair and equitable and operate more sustainability to ensure we do the right thing for our environment and our communities.

“The time is now. It’s an exciting step forward for WEL Networks as we continue to work towards delivering sound, technical innovation to our customers and our communities, enabling them to thrive,” he says.

> **"Our communities remain at the heart of our business decisions."**

Powering the region for 100 years

WEL Networks is marking a proud 100 year history of bringing electricity to the Waikato in 2020, a history that sees it poised to continue to deliver to the region as a 100 percent community owned company.

Once a traditional lines company, WEL Networks is moving with the times to become an energy services business, all while giving back to the community and playing a key role in the economic and social development of the Waikato region.

The story of the introduction of electricity supply to the Waikato began in 1912 when the Borough of Frankton started constructing lines and a generating plant with the first residential property receiving electricity supply in 1913.

In February 1920 a meeting was held to consider a proposal to constitute an Electric Power District for portions of the Waikato and Waipa Counties. This meeting 100 years ago resulted in the formation of the Waikato Electric Power Board, which became the Central Waikato Electric Power Board (CWEPB).

- In 1931, the power board sold 10 million units of electricity – by 1961 this had grown to 145 million.
- In 1967, the power board installed its first computer system.
- In April 1974, a 33 kilovolt (kV) supply was switched on to supplement the 11 kV system that had operated since the 1920s.
- In 1989, an amalgamation with the Hamilton City Council Electricity Department saw the formation of Waikato Electricity Limited (WEL).
- In 1998, the Electricity Industry Reform Act required WEL to sell off its retail business and thus lose direct contact with its customers.

Today WEL's electricity network spans the region from Maramarua in the north to just south of Hamilton city, from Raglan in the west to Tauhei in the east. It connects more than 95,000 residential properties and businesses, delivering more than 1,200 Gigawatt hours of electricity annually.

"We're proud of our contribution to the Waikato region over the last century and for our track record of innovation and achievement. Our communities remain at the heart of our business decisions, ensuring they continue to benefit and thrive from our ongoing success," WEL Networks Chief Executive Garth Dibley says.

WEL Networks continues to identify and invest in new technologies to serve the future needs of its communities and customer expectations.

Public Safety Campaign – Slow down to keep our teams safe

> ***"We want everyone to get home safe, every day."***

WEL Networks' latest public safety campaign is urging the public to slow down through its work sites to keep our teams safe.

The campaign reminds drivers of the importance of adhering to traffic management instructions which are in place to protect our people and the important work that is being done on-site.

Each year 60 per cent of the jobs WEL carries out are roadside across its 6,800km network.

Chief Executive Garth Dibley says the Company needs the community's help to bring their teams home safely.

"Here at WEL, we prioritise the safety of our staff and our community so please slow down through our work sites. It only takes a speeding driver to lose control or a moment's inattention to have tragic consequences. Help us keep our teams safe and follow all traffic management instructions. We want everyone to get home safe, every day."

Between 2015 to 2019, WorkSafe reports that 69 per cent of New Zealand's work-related acute fatalities were linked to vehicles.

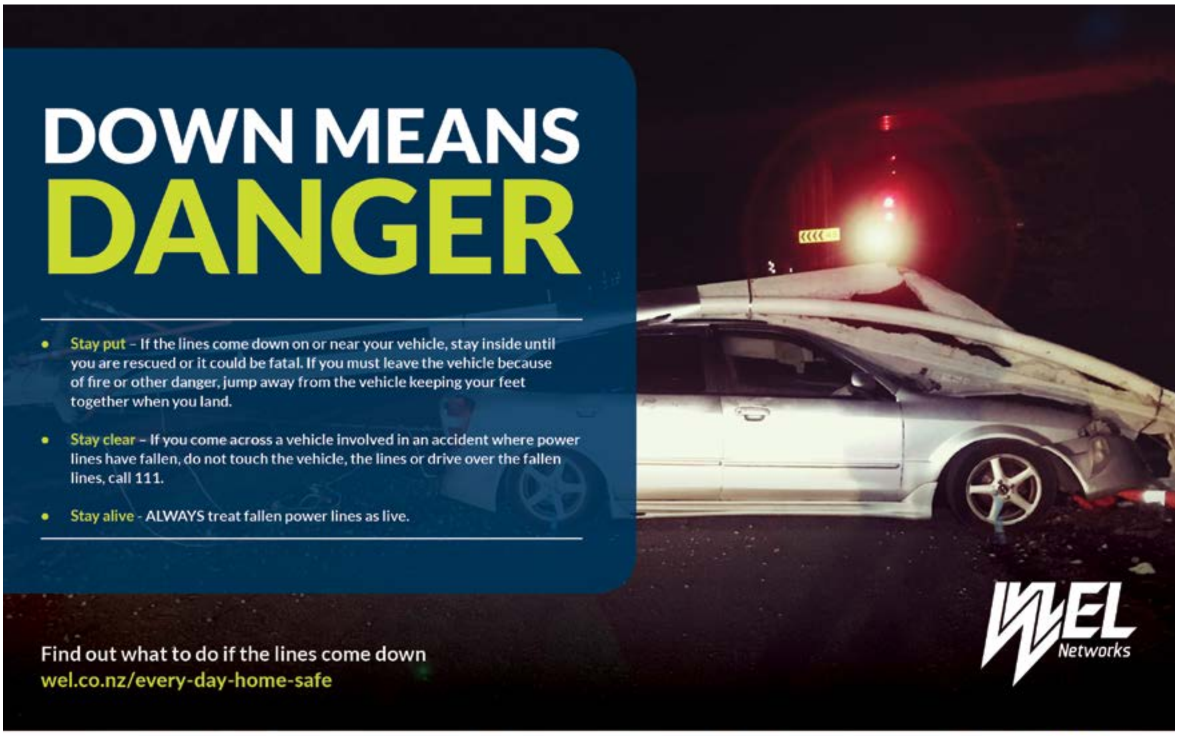
Down Means Danger – Specialised Training

Specialised training has been provided to emergency services personnel as a continuation of WEL Networks' *Down Means Danger* public safety campaign.

The campaign highlights the potentially deadly outcome of not treating all fallen power lines as live; and educates the public on the correct action to take in the event of a fallen power line – particularly as a result of a car accident.

The purpose of the presentation, *Electrical Safety for Emergency Services Personnel*, is to ensure personnel stay safe around power. The presentation provides increased awareness of the dangers and what personnel can do to keep themselves and the public safe.

The presentation was well-received by the Hamilton-based team from Traffic Safe NZ and the Waikato Road Policing Unit. Further presentations for local emergency services personnel are scheduled for 2021.

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Sustainability Statement

Background

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

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

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

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

Strategic Activity Areas

We have chosen to align our activity to four of the United Nations' Sustainability Development Goals (SDGs) where we can make the most impact and generate the most synergy with our strategic direction. In this way we believe we will add the most value and have the largest impact on business performance. Our alignment with the SDGs helps us achieve a vision that encompasses being:

- an ***employer of choice*** that embraces diversity and where employees are valued and treated well, ensuring that the attraction and retention of staff does not become an obstacle to running a successful business
- an ethical, values-based business that ***recognises our community as a key stakeholder*** and implements aspects of the strategy to explicitly ***support the community***, particularly those suffering energy hardship
- a sought after commercial partner, recognised for our network resilience and our ***innovation*** in steering the community into the future, embracing new ways of managing the changing energy market while ***providing customer centric and resilient solutions***

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

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

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

- The WEL Balanced programme, focussed on employee wellbeing and wellness has included the following activities during the year:
  - Molemap: skin screening made available for all staff
  - First Aid training made available to those office staff who would not normally do the training
  - Mental Health Awareness Week, with the theme *Reimagine Wellbeing Together*. We supported employees to look after their mental wellbeing using the Five Ways to Wellbeing model.
  - Retirement planning available to staff
- We have introduced multiple options for flexible working arrangements for staff
- Heart Kids Waikato was one of the many charities nominated by our staff earlier this year as part of the WEL Balanced Programme.
- Participating in the *Aotearoa Bike Challenge* with staff biking 4,078km

Sustainable Community	**Aligned to Affordable and Clean Energy (SDG 7)**	7 AFFORDABLE AND CLEAN ENERGY

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

- Operation of the OurPower retail platform to provide cheaper retail electricity to the wider Waikato community, with over 2,500 customers, saving over $1.4M. OurPower initiated meetings and hui with local community groups to understand how to better support those in energy hardship
- No serious harm in the community from our network assets and operations through the ongoing effective implementation of our public safety management system
- WEL has launched Raglan Local Energy, a peer to peer trading platform that enables excess solar generation to be sold between customers
- Supporting the Pukete Neighbourhood House and our local community through the donation of period products for dissemination to those in need

AREA	UN Sustainable Development Goal - SDG
Resilient Infrastructure	**Aligned to Industry Innovation and Infrastructure (SDG 9)**

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

- The WEL microgrid continues to be developed and upgraded. A new larger capacity 150kVA generator has been added to the microgrid. This generator has smart controls that better interface to the microgrid control systems. An optimisation app for the microgrid has been implemented and is controlling the energy sources to meet electricity demand at the Maui St complex
- WEL monitors the average amount of time that customers experience an outage using a measure called SAIDI. This is an indication of network reliability and resilience, with lower numbers being better. This year WEL achieved unplanned SAIDI of 47 minutes versus a target of 60
- The new Asset Management Plan has been approved, providing a pathway for the development and operation of the network over the next 10 years. This plan includes the requirements for the increased electrification of the Waikato community and industry as we move towards a lower carbon future

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

WEL will undertake an assessment of its greenhouse gas emissions with a view to reducing the relative impact of its emissions over time. WEL will use the 2018 - 2019 financial year as the baseline against which future appraisals will be compared:

- Toitū carbonreduce certification has been successfully retained again this year
- The office, depot and DC lighting has been fully replaced with its LED equivalent, including all the exterior carpark, yard and security lighting, reducing the energy required for lighting
- The WEL carpark EV solar charging station construction has been completed. This includes 11kW of solar PV and four new EV charging stations. This brings the total solar on site to 89kW and increases the number of WEL EV chargers to 32
- Recycling programmes are in place for glass, metals, plastics, paper and cardboard, e-waste and batteries, transformer oil, office furniture, timber pallets and green waste to reduce waste to landfill from WEL operations

Sustainability - Wellbeing

Flexible Working

Here at WEL, we are passionate about enhancing our people's engagement and wellbeing, and being an inclusive and values-driven workplace.

As part of this, we launched 10 Flexible Working options, which are role dependent, to all of our employees in August.

The options include Flexible Location, Flexible Hours, Lifestyle Leave, Graduated Retirement, Career Break, Job Share, Leave Without Pay, Advanced Annual Leave, Part-time Work and we're looking to trial a Nine Day Fortnight.

We've received positive feedback about these options with a large number of our staff utilising the Flexible Location and Flexible Hours options.

Sport Waikato Partnership

In alignment with our WEL Balanced Programme and our organisational purpose of enabling our communities to thrive, we've partnered with Sport Waikato.

Sport Waikato aims to increase the physical activity levels of people in our region by making play, active recreation and sport more accessible, exciting, relevant and inclusive.

By working together, the partnership provides a great opportunity for both organisations to support our Waikato communities to increase total health and wellbeing.

Sustainable Community
– The Gift of Giving

WEL supported a number of community initiatives with our staff getting in behind organisations who are doing great work in our community. Here is a snapshot of our activities during the year.

Daffodils brighten day

The Salvation Army in the Hamilton city centre was one of more than 150 businesses to receive a box of daffodils as part of our vegetation and finance teams' delivery to essential workers to thank them for their efforts during COVID-19 and lockdown.

Pre-COVID, The Salvation Army's food parcel provision in the Hamilton city centre was 50 to 60 parcels a week. At the peak of demand, there was a 600% increase with over 300 parcels distributed in one week.

"We're continuing to see an increased need for welfare support in the community, as well as our other services. We currently distribute at least double the parcels we were pre-COVID and expect demand to increase," Community Development Manager Aimee Kipara says.

Community Donations Help Break Down Barriers

As part of a commitment to reduce period poverty in New Zealand, WEL has ensured the availability of period products for staff and has extended this initiative further by donating up to $200 worth of period products to the Pukete Neighbourhood House each month to distribute as and when required.

"I can't explain how grateful these women are. This has removed barriers for so many women that we support," Pukete Neighbourhood House Community Support Leah Camenzind says.

Heart Kids Waikato

"You've bought joy to every single one of these kids this Christmas," Heart Kids Waikato Support Services Coordinator Alanah Gilder says.

One of the ways for WEL Networks to provide support, as identified by Heart Kids Waikato, was to purchase individual gifts for 14 children who have had an extremely tough year. So members of our WEL Balanced team purchased these gifts, wrapped them and made individual cards for each child.

"I just wanted to say a massive thank you to WEL and the team who put together the gifts, and the people that chose our charity. If we could we'd love to spoil every single kid on our books as they're all so different and incredible, fighting different battles," she says.

OurPower Energy Navigator Hui

Continuing the conversation around energy hardship in our Waikato communities was the main driver of a recent OurPower Energy Navigator hui.

OurPower aligns with the United Nations' Sustainable Development Goal 7 (Affordable and Clean Energy) and is part of the Waikato Wellbeing Project (WWP) – a regional initiative to achieve a more environmentally sustainable, prosperous and inclusive Waikato region by 2030.

The Waikato Wellbeing Target associated with the WWP SDG 7 is to reduce the number of people experiencing energy hardship in the Waikato from 18,000 in 2019 to zero by 2030. A working definition of energy hardship is those spending more than 10% of their income on energy in a month.

It's a target that is shared by Energy Navigators working within our Waikato community organisations to identify and provide wider social services support to those that need it. OurPower is one component that's available.

Representatives from Habitat 4 Humanity, Ngaruawahia Community House, Pukete Neighbourhood Trust, Waikato Tainui, Community Link Trust, Western Community House, St Vincent de Paul, K'aute Pasifika and WEL Energy Trust attended the hui.

Furniture Donation Well Received

WEL Networks office furniture being replaced as part of a facilities maintenance and improvements project, has found a new home with The WaterBoy.

The WaterBoy is a Waikato-based charity breaking down barriers for New Zealanders to participate in sport.

"We've just expanded our team so we needed more furniture. The furniture donation from WEL means we've saved money that can go directly towards our Taku Wairua programme, sports gear, paying subs and putting on dabble days instead of overheads," says The WaterBoy Director Thomas Nabbs.

"These items were otherwise destined for landfill, so the fact they're being re-used to help a great community cause rather than filling up our dump, really is a win-win," says WEL Networks Sustainability and Business Improvement Manager Nick Childs.

Resilient Infrastructure

Sustainable Energy Solutions

A solar array with EV chargers in the staff carpark and a solar-powered bike shed with chargers for electric bikes are two sustainable projects that our staff are benefitting from.

By installing a solar array in the carpark, we've created four 'covered' carparks. Four EV chargers have also been installed to allow staff to utilise the solar energy to charge their EVs during the work day. Most staff with EVs have been able to get their daily commute range provided from the carport.

The next evolution of this technology is to implement a control system that optimises charging for solar consumption. For example: providing the capability for 100% solar utilisation.

The bike shed has a smaller solar array connected to a series of 3-pin plugs which can be used to charge e-bikes during the day while staff are at work.

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

Charging the Waikato

To support the increased uptake of electric vehicles in the Waikato, WEL Networks have installed EV chargers at Countdown Rototuna. This brings the total number of EV chargers on WEL's network to 32.

Electrified transport is one of the biggest opportunities we have in the energy sector to help New Zealand achieve a low-carbon economy. With the continual growth the Waikato region is experiencing, these chargers are helping to meet a rising demand.

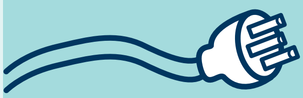
Caro Street had the most charging sessions per day, across our rapid charger sites, with 43 sessions recorded

43 sessions recorded

Raglan and Caro Street are the most popular rapid chargers

Peak charging occurs between **2pm and 4pm**

Wednesday is the most popular charging day of the week across our rapid charger sites



Greenhouse Gas Emissions

Diverting Plastic From Landfill

In an effort to reduce waste and its environmental impact, WEL Networks and Gyro Plastics' sustainable initiative to recycle network pillars that are no longer in service has made great gains.

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

Since the initiative started in November 2019, 810 plastic pillars have been diverted from landfill for recycling.

Environment and community at heart of planting bee

In an effort to increase regeneration and restoration at Ruapuke Beach, more than 700 grasses, trees and shrubs were planted by a team from WEL Networks.

The purpose of the planting bee, organised by Coastcare Waikato, was to support our environment and our community.

"It was great to have WEL's help. We want to restore a native coastal forest here and to restore that whole ecosystem so we can bring back the birds, insects and reptiles that will come with these plants," Coastcare Waikato Coordinator Stacey Hill says.

Hybrid Technology Truck Added to WEL's Fleet

WEL Networks has added a hybrid technology live line elevating work platform (EWP) truck to its fleet.

Chief Executive Garth Dibley says the new truck further demonstrates the organisation's focus on sustainability, joining the 100% electric EWP truck added to its fleet last year.

"Sustainability is front of mind for WEL - not only for energy solutions, but also in terms of transport and we operate a sizable fleet of vehicles. The idea behind this hybrid technology is to operate the truck's elevating bucket with an electric power pack, while maintaining the travel range that a conventional truck offers.

"Conventional EWP trucks need the diesel engine to remain engaged after reaching the work site in order to operate the bucket. So along with being more sustainable, this truck is quieter for our crews and the public nearby, who also have a cleaner environment without the engine running," he says.

The WEL Networks hybrid EWP truck concept includes an electric power pack supplied by the Waimea Group that is a first of its kind with improved performance compared to previous packs, despite being lighter.

If the truck is on site for an extended period causing the power pack to run low, the bucket hydraulics can be driven directly from the truck engine.

Corporate Governance

Director profiles as at 31 March 2021

Rob Campbell

Chair

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

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

Anthony (Tony) Barnes

Director, Innovation and Technology Committee Member

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

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

Paul Connell

Director, Audit and Risk Committee Member

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

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

Director profiles as at 31 March 2021

Barry Harris

Director, Audit and Risk Committee Member

Barry has extensive governance and executive experience.

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

Candace Kinser

Director, Innovation and Technology Committee Chair

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

She is currently on the boards of Livestock Improvement (LIC), Eastland Group and NZ Health Partnerships Ltd, and Chairs the Cancer Society for Auckland Northland and is on the Workforce Development Council for the Tertiary Education Commission for CCRT. Previously, she served as a Director for Crown SOE entity Quotable Value (QV), NZX listed telematics company EROAD and on the board of Australian-based global tech recruiting company Talent International. She was the NZ Advisor for global analytics company Palantir and while the CEO of NZTech, founded NZTechWeek. Candace was appointed to the Board of WEL Networks Limited in August 2018.

Geoff Lawrie

Director, Remuneration Committee Chair, Innovation and Technology Committee Member

Geoff has 36 years of experience in the technology industry in New Zealand and overseas.

He is currently the Chair of Auror Limited, a Director of Obex Medical and Plan B Ltd, and Chair of the Advisory Board at Younity. Geoff has previously held directorships with Ngai Tahu Farming and Pivot Software Limited, and was the first elected Chairman of the industry body, NZ Tech. Geoff was appointed to the Board of WEL Networks Limited in June 2018.

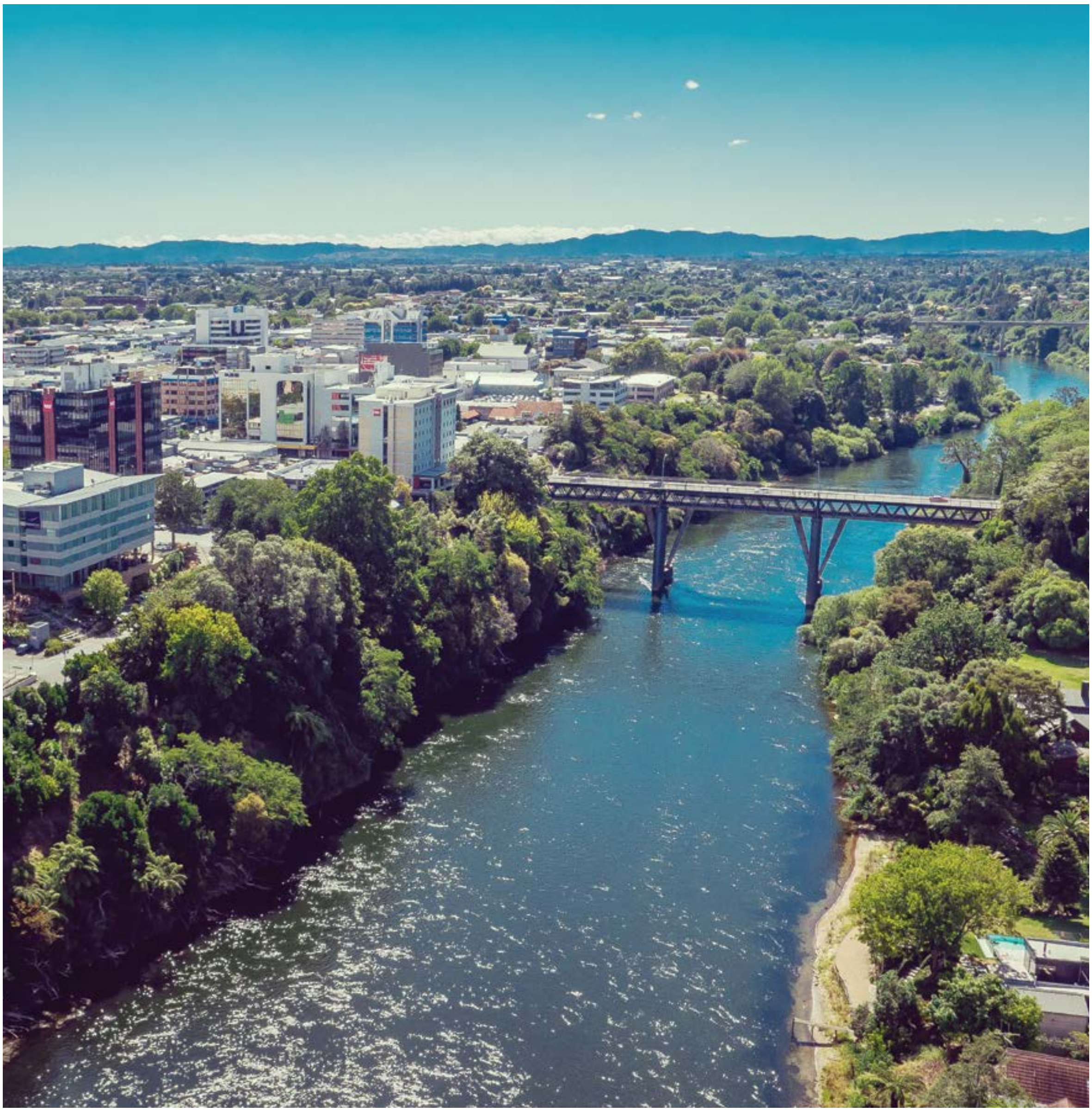
Director profiles as at 31 March 2021

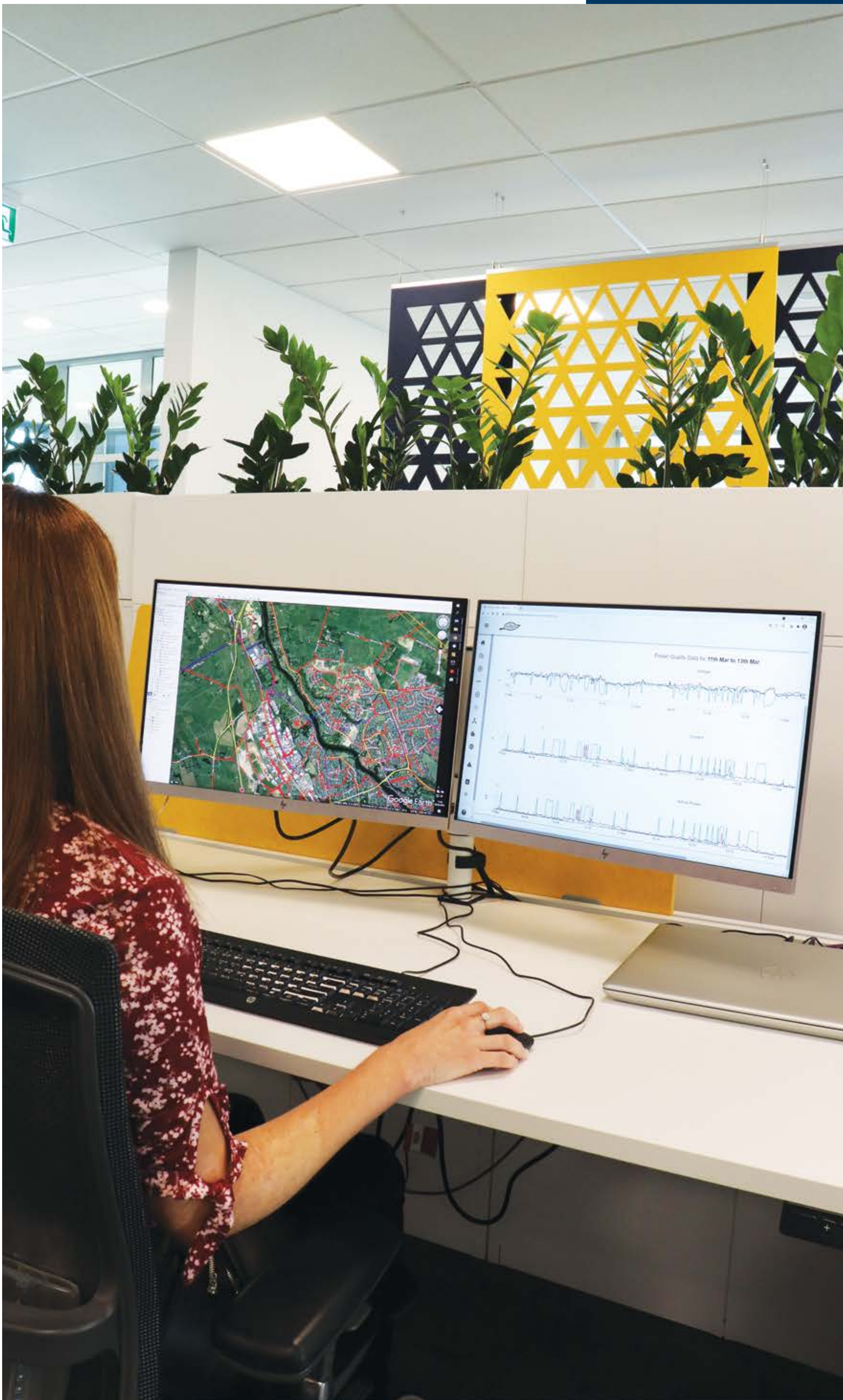
Carolyn Steele

Director, Audit and Risk Committee Chair

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

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





Corporate Governance Statement

Boards of Directors

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

The Board operates in accordance with the WEL Networks Corporate Governance Charter. Adopted initially by WEL in October 2005, the Charter was most recently amended in March 2021 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 and the NZX Corporate Governance Code. The Board receives monthly reports from management and meets at least eight times during each financial year.

The Board runs four operating committees:

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

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

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

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

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

(d) The Investment Committee; assists the Board developing WEL's investment strategy for surplus funds, recommending the appointment of an Investment Manager and monitoring their performance, monitoring and evaluating WEL's investment performance and compliance with the Investment Strategy; and recommending to the Board any distribution of the income earned from the investments.

Risk Management

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

Compliance

The Company has processes in place to review compliance on an ongoing basis across all aspects of its business. ComplyWith compliance assessments are in place 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 2020-21 internal audit programme comprised of external reviews of: Health and Safety Governance, Materials Returned Off The Network, Operational Technology Cyber Security and a review of Fleet Diesel Consumption.

Health and Safety, Sustainability and the Environment

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

Indemnification and Insurance of Officers and Directors

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

Information Used by Directors

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

Interests Registers

Directors must identify any potential conflict of interest they may have in dealing with the affairs of the Company. 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 Company maintains an interests register to record particulars of transactions or matters involving Directors together with an interests register for Executive and Senior Managers to record potential conflicts of interest.

Interests Register For The WEL Group

As at 31 March 2021

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Campbell, Robert James		
Chair	Summerset Group Limited	Chair
	Tourism Holdings Limited	Chair
	Serica Partners Asia Limited	Board Member
	Precinct Properties NZ	Director
	Tutanekai Investments Limited	Owner and Director
	RC Custodian Limited	Shareholder
	VGI Partners Advisory Board	Member
	SkyCity Entertainment Group Limited	Chair
	Our Energy (a start-up peer to peer trading organisation)	Family Association
	Just Move Charitable Health Trust	Member
	NZ Equity Management	Investment Committee Member
	New Zealand Rural Land Company Limited	Independent Chair
	Paua Wealth Management	Advisory Board Member
	Ara Ake Limited	Chair
	He Toutou Mo Te Ahika Trust	Trustee
	Ultrafast Fibre Limited	Director
	UFF Holdings Limited	Director
	First Fibre Bidco Limited	Director
	Auckland University of Technology	Chancellor

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Harris, Barry Spence		
	Ospri New Zealand Limited	Chair
	TBFree New Zealand Limited	Chair
	National Animal Identification and Tracing (NAIT) Limited	Chair
	Te Awa River Trust Trustee	Director
	New Zealand Food Innovation (Waikato) Limited	Chair
	McFall Fuel Limited	Chair
	National Institute of Water and Atmospheric Research (NIWA)	Chair
	Waikato Regional Airport Limited	Chair

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Steele, Carolyn Mary		
	Halberg Foundation	Chair
	New Zealand Football Foundation	Trustee
	Green Cross Health Limited	Director
	Forsyth Barr Limited	Family Association
	Steele Family Trust	Trustee
	Ultrafast Fibre Limited	Director
	UFF Holdings Limited	Director
	First Fibre Bidco Limited	Director
Lawrie, Geoffrey Alastair		
	Auror Limited	Chair
	Plan B (via Morgan Holdco)	Director
	Obex (NZ) Limited (via Obex Medical Holdings Pty)	Director
	OXC (NZ) Limited	Director
	Younity Limited Advisory Board	Chair
Barnes, Anthony (Tony) Paul		
	Cyber Partners Limited	Director
	Cyber Partners Australia Pty Limited	Director
	Cybefi Pty Limited	Director
	RSPCA (Queensland)	Non-Executive Director
Kinser, Candace		
	Sagitas Consulting Limited	Director and Shareholder
	LIC Agritechnology Limited	Director
	Livestock Improvement Corporation Limited	Director
	Auckland Northland Board of the Cancer Society	Director
	Eastland Group Limited	Director
	NZ Health Partnerships Limited	Director

DIRECTOR	CURRENT DIRECTORSHIPS	ROLE
Connell, Paul Anthony		
	ETEL Limited	Director
	Lucky Light Globalindo	Governor
	The Accreditation Council	Chair
	Telarc Limited	Director
	Bobux International Limited	Chair
	The Environmental Protection Authority	Independent Chair of Audit and Risk
	Connell and Associates Limited	Director and Shareholder
	GNS Science	Independent Chair of Audit and Risk

EXECUTIVE MANAGEMENT	ENTITY	POSITION
Dibley, Garth		
	SmartCo Limited	Director
	Water New Zealand	Director
	Waikato District Council Waters Governance Board	Director
	OurPower Holdings Limited	Director
	OurPower Limited	Director
	OurPower Retail Limited	Director
	Infratec New Zealand Limited	Director

Financial Statements
31 March 2021

Contents

WEL Networks Limited

Statement of comprehensive income

For the year ended 31 March 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000
Revenue from continuing operations	11	127,939	140,827
Expenses			
Expenses, excluding finance costs	16	(75,918)	(69,549)
Other gains/(losses)	39	5,191	-
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA)		**57,212**	**71,278**
Depreciation and amortisation expense	17	(26,916)	(25,902)
Finance expenses	13	(31,782)	(21,770)
Finance income	14	6,856	-
Profit before income tax expense from continuing operations		**5,370**	**23,606**
Income tax expense	18	(810)	(6,062)
Profit after income tax expense from continuing operations		**4,560**	**17,544**
Profit after income tax expense from discontinued operations	7	219,607	17,927
Profit after income tax expense for the year		**224,167**	**35,471**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Gain on the revaluation of land and buildings, net of tax	36	4,176	-
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges transferred to profit or loss, net of tax	36	12,920	-
Net change in the fair value of cash flow hedges taken to equity, net of tax	36	(385)	(3,796)
Other comprehensive income for the year, net of tax		**16,711**	**(3,796)**
Total comprehensive income for the year		**240,878**	**31,675**
Profit for the year is attributable to:			
Non-controlling interest		30,772	(515)
Shareholders of WEL Networks Limited		193,395	35,986
		224,167	**35,471**

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

WEL Networks Limited

Statement of comprehensive income (continued)

For the year ended 31 March 2021

	Note	Consolidated 2021 $'000	2020 $'000
Total comprehensive income for the year is attributable to:			
Continuing operations		-	-
Discontinued operations		30,772	(515)
Non-controlling interest		**30,772**	**(515)**
Continuing operations		21,270	13,748
Discontinued operations		188,836	18,442
Shareholders of WEL Networks Limited		**210,106**	**32,190**
		240,878	**31,675**

	Note	2021 Cents	2020 Cents
Earnings per share for profit from continuing operations attributable to the shareholders of WEL Networks Limited			
Basic earnings per share	38	55.9	215.2
Diluted earnings per share	38	55.9	215.2
Earnings per share for profit from discontinued operations attributable to the shareholders of WEL Networks Limited			
Basic earnings per share	38	2,316.1	226.2
Diluted earnings per share	38	2,316.1	226.2
Earnings per share for profit attributable to the shareholders of WEL Networks Limited			
Basic earnings per share	38	2,372.1	441.4
Diluted earnings per share	38	2,372.1	441.4

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

WEL Networks Limited

Balance Sheet

As at 31 March 2021

	Note	Consolidated 2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	20	124,047	987
Trade and other receivables	21	14,494	22,874
Work in progress	22	79	-
Redeemable Convertible Preference shares	23	194,534	-
Derivative financial instruments	39	2,962	-
Net investment in lease	24	550	-
Total current assets		**336,666**	**23,861**
Non-current assets			
Other receivables - vendor tax losses due	7	1,388	-
Derivative financial instruments	39	5,654	5,059
Property, plant and equipment	9	628,355	1,203,367
Right-of-use assets	25	1,845	5,525
Intangibles	10	16,907	90,921
Net investment in lease	24	27,457	-
Total non-current assets		**681,606**	**1,304,872**
Total assets		**1,018,272**	**1,328,733**
Liabilities			
Current liabilities			
Trade and other payables	28	11,115	23,022
Lease liabilities	26	231	913
Derivative financial instruments	39	-	816
Income tax	18	1,118	271
Employee benefit obligations	29	3,114	3,894
Contract liabilities	31	7,388	14,111
Total current liabilities		**22,966**	**43,027**

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

WEL Networks Limited

Balance Sheet (continued)

As at 31 March 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000
Non-current liabilities			
Borrowings	12	152,178	513,431
Lease liabilities	27	1,674	4,740
Derivative financial instruments	39	-	16,594
Deferred tax liabilities	18	86,153	89,474
Employee benefit obligations	30	112	100
Loan from related party	12	-	90,810
Contract liabilities	32	856	886
Total non-current liabilities		**240,973**	**716,035**
Total liabilities		**263,939**	**759,062**
Net assets		**754,333**	**569,671**

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000
Equity			
Contributed equity	35	127,142	140,142
Reserves	36	159,436	144,286
Retained earnings	37	467,755	279,364
Equity attributable to the owners of WEL Networks Limited		754,333	563,792
Non-controlling interest		-	5,879
Total equity		**754,333**	**569,671**

Rob Campbell
Chairman

Carolyn Steele
Director

27 May 2021

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

WEL Networks Limited

Statement of changes in equity

For the year ended 31 March 2021

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

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2020	111,142	29,000	144,286	279,364	5,879	569,671
Profit after income tax expense for the year	-	-	-	193,395	30,772	224,167
Movement in revaluation reserve from disposal of distribution network assets	-	-	(1,561)	1,561	-	-
Cash flow hedges (net of tax)	-	-	12,535	-	-	12,535
Asset revaluation (net of tax)	-	-	4,176	-	-	4,176
Total comprehensive income for the year (net of tax)	**-**	**-**	**15,150**	**194,956**	**30,772**	**240,878**
Transactions with shareholders:						
Disposal of minority interest	-	-	-	-	(36,651)	(36,651)
Repayment of convertible note	-	(13,000)	-	-	-	(13,000)
Interest on convertible notes (note 35)	-	-	-	(565)	-	(565)
Dividends paid (note 35)	-	-	-	(6,000)	-	(6,000)
Balance at 31 March 2021	**111,142**	**16,000**	**159,436**	**467,755**	**-**	**754,333**

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 2021

	Note	Consolidated 2021 $'000	Consolidated 2020 $'000
Cash flows from operating activities			
Receipts from customers		129,643	138,327
Payments to suppliers and employees		(68,358)	(65,582)
Income taxes paid		(1,751)	(9,144)
Discontinued operations from operating activities	7	26,269	42,811
Net cash from operating activities	43	**85,803**	**106,412**
Cash flows from investing activities			
Payments for acquisition of subsidiary	8	(3,907)	(1,214)
Payments for property, plant and equipment		(44,566)	(48,933)
Payments for intangibles		(2,303)	(3,116)
Proceeds from disposal of property, plant and equipment		68	213
Interest received		298	-
Interest received on finance lease		1,261	-
Payments received for finance lease		402	-
Discontinued operations from investing activities	7	496,217	(81,477)
Net cash from/(used in) investing activities		**447,470**	**(134,527)**
Cash flows from financing activities			
Proceeds from borrowings		-	48,000
Repayment of borrowings		(361,000)	-
Interest paid		(30,900)	(21,229)
Interest on convertible notes		(565)	(1,878)
Payments for leases		(171)	(144)
Interest paid on lease liabilities		(70)	(66)
Payments for shareholders loans		-	(21,534)
Dividends paid		(6,000)	(4,000)
Repayment of convertible note		(13,000)	(10,000)
Discontinued operations from financing activities	7	1,493	38,664
Net cash from/(used in) financing activities		**(410,213)**	**27,813**
Net increase/(decrease) in cash and cash equivalents		123,060	(302)
Cash and cash equivalents at the beginning of the financial year		**987**	**1,289**
Cash and cash equivalents at the end of the financial year		**124,047**	**987**

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

Notes to the Financial Statements

WEL Networks Limited – Notes to the financial statements

31 March 2021

1. General information

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

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

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

- The electricity networks business delivering energy to customers in the Waikato Region; and
- The generation and sale of wholesale and retail electricity.

For the period to 30 September 2020, the Group also delivered the Government Ultrafast Fibre rollout programme and ongoing operations for fibre services in the Waikato, Tauranga and Taranaki regions.

The financial statements were authorised for issue, in accordance with a resolution of Board of Directors, on 27 May 2021. The Board of Directors do not have the power to amend and reissue the financial statements.

2. Basis of preparation

Statutory base

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

Statement of compliance

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

These financial statements include non-NZ GAAP financial measures that are not prepared in accordance with NZ IFRS. The Group presents the statement of comprehensive income to include the non-NZ GAAP measure of Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA). The Group believes that this non-NZ GAAP measure provides useful information to readers, as this is a key measure used by the banks, with the Group's debt covenants based on this figure and also reflects how the Board evaluates and manages the performance of the business, but it should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with NZ IFRS.

Non-NZ GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

Historical cost convention

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

Principles of consolidation

Subsidiaries

Subsidiaries are all those entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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.

Joint Venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the share of the profits or losses of the joint venture is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in joint ventures are carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Income earned from joint venture entities reduces the carrying amount of the investment.

2. Basis of preparation (continued)

Functional and presentation currency

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

COVID-19 impacts

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

Specifically in relation to the valuation of the electricity network, the Directors consider there to be no ongoing impact to the line rental revenue.

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

3. Significant accounting policies

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

Government Grants

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

Foreign currency translation

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

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either:

i. held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or

ii. designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Financial Liabilities

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

3. Significant accounting policies (continued)

Goods and Services Tax ('GST')

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

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

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

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

Changes in accounting policies

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

There are currently no New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') that have recently been issued or amended. Therefore the Group has not assessed any impact beyond the annual reporting period ended 31 March 2021.

4. Critical accounting judgements, estimates and assumptions

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

- Business combinations (note 8);
- Non-current - property, plant and equipment (note 9);
- Non-current - intangibles (note 10);
- Redeemable Convertible Preference shares (note 23); and
- Net investment in finance lease (note 24).

5. Operating segments

Identification of reportable operating segments

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

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

The Board assesses the performance of the operating segments based on a measure of EBITDA as defined in note 2. Interest expenditure is not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

Sales and purchases are recognised within each individual segment to which they relate and are eliminated on consolidation. The revenue from external parties is measured in a manner consistent with that in the statement of comprehensive income.

5. Operating segments (continued)

Consolidated – 2021	Electricity Network $'000	Fibre Network $'000	Other Segments $'000	Total $'000
Revenue				
Segment revenue	118,466	-	10,940	129,406
Intersegment sales	(1,467)	-	-	(1,467)
Total revenue	**116,999**	**-**	**10,940**	**127,939**
EBITDA	45,130	-	12,082	57,212
Depreciation and amortisation				(26,916)
Finance income				6,856
Finance expenses				(31,782)
Profit before income tax expense from continuing operations				**5,370**
Income tax expense				(810)
Profit after income tax expense from continuing operations				**4,560**
Assets				
Segment assets	666,312	-	29,593	695,905
Unallocated assets:				
Cash and cash equivalents				124,048
Redeemable Convertible Preference shares				194,534
Derivative financial instruments				3,785
Total assets				**1,018,272**
Liabilities				
Segment liabilities	21,722	-	2,766	24,488
Unallocated liabilities:				
Income tax				1,118
Borrowings				152,178
Deferred tax liabilities				86,153
Total liabilities				**263,937**

WEL Networks Limited – Notes to the financial statements

31 March 2021

5. Operating segments (continued)

Consolidated – 2020	Electricity Network $'000	Fibre Network $'000	Other Segments $'000	Total $'000
Revenue				
Segment revenue	130,890	-	9,937	140,827
Total revenue	**130,890**	**-**	**9,937**	**140,827**
EBITDA	65,034	-	6,244	71,278
Depreciation and amortisation				(25,902)
Finance expenses				(21,770)
Profit before income tax expense from continuing operations				**23,606**
Income tax expense				(6,062)
Profit after income tax expense from continuing operations				**17,544**
Assets				
Segment assets	639,997	659,296	23,394	1,322,687
Unallocated assets:				
Cash and cash equivalents				987
Derivative financial instruments				5,059
Total assets				**1,328,733**
Liabilities				
Segment liabilities	41,008	6,479	179	47,666
Unallocated liabilities:				
Income tax				271
Borrowings				604,241
Deferred tax liabilities				89,474
Derivative financial instruments				17,410
Total liabilities				**759,062**

The results for UFFH were previously recognised within the Fibre Network segment. Refer Note 7 for further information.

6. Interests in subsidiaries and joint ventures

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

Name	Principal place of business / Country of incorporation	Ownership interest 2021 %	2020 %
UFF Holdings Limited (UFFH)	New Zealand	-	85%
Ultrafast Fibre Limited (UFF) *	New Zealand	-	85%
OurPower Holdings Limited	New Zealand	100%	100%
OurPower Retail Limited **	New Zealand	100%	100%
OurPower Limited **	New Zealand	100%	100%
Smartco Limited (joint venture)	New Zealand	14%	14%
Infratec New Zealand Limited	New Zealand	100%	-

* Subsidiary of UFFH Limited

** Subsidiary of OurPower Holdings Limited

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

On 30 September 2020, WEL Networks Limited sold their 85% shareholding in UFF Holdings Limited. See note 7 for further information.

WEL Networks Limited incorporated the company Infratec New Zealand Limited, which then purchased the New Zealand net assets of Infratec Limited from Alpine Energy Limited on 3 December 2020. See note 8 for further information.

7. Discontinued operations

Description

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

On 12 May 2020, First Fibre Bidco NZ Limited agreed to purchase WEL's 85% majority shareholding and Waipa's 15% shareholding for $854 million of which a consideration of $200 million payable to WEL is deferred for 18 months from completion. The $200 million deferred payment is supported by Redeemable Convertible Preference shares issued by First Fibre Bidco NZ Limited to WEL Networks that will be redeemed in 18 months time (or prior). If redemption is not completed the put option for conversion can then be initiated by WEL Networks Limited (see note 23 for further information).

Further to the consideration noted above the sale and purchase agreement allowed for additional consideration should UFF be able to utilise tax losses earned during the period up to the date of disposal. This consideration has now been recognised as current NZ tax legislation provides for a 'same or similar' business test which will allow UFF to utilise tax losses, contingent on UFF making a taxable profit. The total value of the tax losses available to UFFH is $6.8M of which 75% is payable to both WEL Networks Ltd (85%) and Waipa Networks Ltd (15%). This has resulted in the Group recognising a $4.2M receivable on the balance sheet for this which is discounted to present value based on a discount rate of 2.81%. This is payable when the losses are utilised and therefore $2.8M is recognised as 'other current receivables' and $1.4M recognised as 'other non-current receivables".

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

7. Discontinued operations (continued)

Financial performance information	Consolidated 2021 $'000	Consolidated 2020 $'000
Revenue	46,376	82,423
Expenses	(30,959)	(58,188)
Profit before income tax expense	15,417	24,235
Income tax expense	(10,342)	(6,308)
Profit after income tax expense	5,075	17,927
Gain on disposal before and after income tax expense	214,532	-
Profit after income tax expense from discontinued operations	**219,607**	**17,927**

Cash flow information	Consolidated 2021 $'000	Consolidated 2020 $'000
Net cash from operating activities	26,269	42,811
Net cash from/(used in) investing activities	496,217	(81,477)
Net cash from financing activities	1,493	38,664
Net increase/(decrease) in cash and cash equivalents from discontinued operations	**523,979**	**(2)**

Included in net cash from/(used in) investing activities is cash consideration received from disposal of UFFH of $528,456,000 (net of repayment to Waipa Networks Ltd and disposal costs).

Carrying amounts of assets and liabilities disposed	2021 $'000
Cash and cash equivalents	1,451
Trade and other receivables	12,363
Right of use assets	3,694
Property, plant and equipment	577,161
Intangibles	79,389
Total assets	**674,058**
Trade and other payables	3,168
Provisions	1,687
Other liabilities	40,489
Total liabilities	**45,344**
Net assets	**628,714**

7. Discontinued operations (continued)

Details of the disposal	2021 $'000
Cash received	653,478
Fair value of Redeemable Convertible Preference shares on disposal	189,237
Fair value of tax losses receivable	4,893
Total consideration	**847,608**
Carrying amount of net assets disposed	(628,714)
Total gain on discontinued operation	218,894
Costs of disposal	(4,362)
Attributable to Waipa Networks Ltd	(31,448)
Gain on disposal before after income tax attributable to the shareholder of WEL Networks Limited	**183,084**

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

8. Business combinations

On 3 December 2020 Infratec New Zealand Limited, a 100% subsidiary of WEL Networks Limited, purchased the New Zealand net assets from Infratec Limited for the total cash consideration transferred of $3.9 million.

Infratec specialises in large solar PV and battery solutions and has a track record of providing innovative energy solutions in the Pacific and New Zealand regions. The operations purchased will enable extensive services around project and commercial management to deliver energy projects and allow synergies between WEL Networks Limited and Infratec New Zealand Limited on future energy projects.

Details of the acquisition	Fair Value $'000
Plant and equipment	113
Right-of-use assets	294
Customer contracts	770
Software	300
Other intangible assets	36
Deferred tax liability	(215)
Employee benefits	(218)
Lease liability	(294)
Net assets acquired	**786**
Goodwill	3,121
Acquisition-date fair value of the total consideration transferred	**3,907**

The goodwill is made up of intangible assets and synergies that do not meet the criteria for separate recognition. The acquisition accounting is provisional as at 31 March 2021.

WEL Networks Limited – Notes to the financial statements

31 March 2021

8. Business combinations (continued)

Amounts of revenue and profit and loss included from the operations of Infratec New Zealand Limited for the 4 months since acquiring the assets are included in the consolidated statement of comprehensive income:

31 March 2021	$'000
Revenue	629
Expenses	(1,522)
Profit/(loss) before income tax	**(893)**

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of:

i. 12 months from the date of the acquisition or

ii. when the acquirer receives all the information possible to determine fair value.

Critical accounting estimates and judgements

Customer contracts arising from the business combination have been separately identified from other intangible assets. These were contracts that were transferred as part of the sale and purchase agreement and relate to projects that were in progress at the time of acquisition. The value of the customer contracts have been determined using forecasted cashflows and assigning a probability weighting of the project progressing to the next phase (being development or project build) and this was then discounted back to present value using a discount rate of 4.5%.

9. Non-current assets – property, plant and equipment

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

2021	Electricity network $'000	Fibre network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Non-network Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2020	581,326	563,835	17,737	31,577	4,971	1,443	2,478	1,203,367
Additions	41,979	24,330	184	1,494	746	416	2,809	71,958
Revaluation	-	-	4,930	-	-	-	-	4,930
Additions through business combination (note 8)	-	-	-	92	-	21	-	113
Transfers*	3,566	-	(3,654)	1,228	331	135	(1,606)	-
Disposals	(7,416)	(247)	-	(43)	(42)	(34)	(1)	(7,783)
Disposals due to sale of discontinued operation (note 7)	-	(575,419)	-	(711)	(184)	(493)	(353)	(577,160)
Depreciation charge	(19,501)	(12,499)	(269)	(3,682)	(1,113)	(747)	-	(37,811)
Derecognition of assets relating to finance lease	(28,409)	-	-	-	-	-	-	(28,409)
Impairment loss	(850)	-	-	-	-	-	-	(850)
Closing net book amount as at 31 March 2021	**570,695**	**-**	**18,928**	**29,955**	**4,709**	**741**	**3,327**	**628,355**
Cost/valuation	792,371	-	20,535	58,053	10,116	3,765	3,327	888,167
Accumulated depreciation	(221,676)	-	(1,607)	(28,098)	(5,407)	(3,024)	-	(259,812)
	570,695	**-**	**18,928**	**29,955**	**4,709**	**741**	**3,327**	**628,355**

WEL Networks Limited – Notes to the financial statements

31 March 2021

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

The amount of capitalised interest was $7,000 (2020: $1,779,000).

* Transfers include a $3.6M reclassification of substation land from land and buildings to electricity network assets.

Included in the Electricity network assets there is a derecognition of $28.4M of assets that are now subject to a finance lease (as a lessor), see note 24 for further information.

The net book value of the Electricity network includes $20.1M of work in progress as at 31 March 2021 (2020: $17.3M).

The impairment loss of $850,000 relates to an asset in electricity network category that is currently installed on the network but is not used as it was intended. This will be decommissioned from the network and disposed during the next financial year and therefore an impairment has been recognised.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

2020	Land and buildings $'000	Electricity network $'000	Fibre network $'000
Cost	10,232	649,718	641,736
Accumulated depreciation	(1,338)	(230,487)	(77,839)
Net book amount as at 31 March 2020	**8,894**	**419,231**	**563,897**
2021			
Cost	8,552	660,252	-
Accumulated depreciation	(1,607)	(243,757)	-
Net book amount at 31 March 2021	**6,945**	**416,495**	**-**

Critical accounting estimates and judgements

Maui St land and buildings, included in the land and buildings asset category, were revalued to fair value for highest and best use on 31 March 2021 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach being a Level 3 valuation.

Key inputs include market rent at $920,000 and a capitalisation rate of between 4.75% and 5.25% resulting in a valuation range of $17.5M to $19.4M. The midpoint of $18,400,000 has been used to revalue the Maui St land and buildings as at 31 March 2021 (carrying value as at 31 March 2020: $13,580,000).

It is the Group's policy to revalue the Electricity Network at least every three years, or more frequently if there is evidence to suggest a significant change in fair value, and as such the Group engaged Deloitte, an independent third party valuer, to perform the network valuation for the year ended 31 March 2019. For the purposes of assessing fair value of the electricity network as at 31 March 2021, management have updated the key inputs to develop an estimated valuation range and consider the carrying value relative to the respective valuation range. This is a Level 3 valuation.

Based on the updated estimated valuation range for the Electricity Network of $564M to $617M (based on sensitivity to WACC low/high estimates), the Directors consider that the current carrying value of the network fixed assets of $571M can be retained, as the carrying value materially reflects estimated fair value. The primary valuation method is the discounted cash flow (DCF) methodology, over a 10 year period, with a terminal value based on the estimated regulatory asset base (RAB) using a multiple of 1.0x. While isolated changes to revenue and expenditure assumptions used in the discounted cash flow model can have a significant impact on the valuation range, as the valuation is prepared under a regulatory framework to earn a regulated return on investment, these assumptions are inter-related and therefore any reasonable changes to these assumptions would not result in a significant change to the valuation range. The valuation is however sensitive to the Weighted Average Cost of Capital (WACC) and the Regulated Asset Base (RAB) multiple used in the valuation as outlined in the table on the next page.

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

Prior year comparatives include an updated valuation range for the Fibre Network of $546M to $651M (including WIP), the Director's considered that the current carrying value of $564M could be retained as carrying value materially reflects estimated fair value.

The table below shows the sensitivities to the inputs of the valuation, which are represented by the valuation ranges.

	Mid-point for valuation	Sensitivity Range	Valuation Range
Electricity Network:			
WACC (Weighted Average Cost of Capital)	4.5%	4.0 - 5.0%	$564M - 617M
RAB (Regulatory Asset Base) Multiple for Terminal Value (TV)	1.00x	0.98 – 1.02	$580M - 599M

Accounting policy for property, plant and equipment

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

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

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

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

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

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

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

Buildings	10-50 years
Electricity network	6-75 years
Fibre network	5-40 years
Computer hardware	2-12 years
Plant and equipment	3-30 years
Motor vehicles	4-20 years

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

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

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

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

10. Non-current assets – intangibles

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

2021	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Customer contracts $'000	Total $'000
Opening net book amount as at 1 April 2020	2,056	5,595	74,484	5,318	107	3,361	-	90,921
Additions	45	1,303	-	-	-	3,140	-	4,488
Additions through business combination (note 8)	300	36	3,121	-	-	-	770	4,227
Disposals due to sale of discontinued operation (note 7)	-	(2,595)	(74,484)	-	-	(2,309)	-	(79,388)
Disposals	-	-	-	-	-	(491)	-	(491)
Transfers	32	974	-	93	-	(1,099)	-	-
Amortisation charge	(426)	(2,255)	-	(41)	-	-	(128)	(2,850)
Closing net book amount as at 31 March 2021	**2,007**	**3,058**	**3,121**	**5,370**	**107**	**2,602**	**642**	**16,907**

10. Non-current assets – intangibles (continued)

2021	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Customer contracts $'000	Total $'000
Cost	4,101	19,916	3,121	7,889	107	2,602	770	38,506
Accumulated amortisation and impairment	(2,094)	(16,858)	-	(2,519)	-	-	(128)	(21,599)
	2,007	**3,058**	**3,121**	**5,370**	**107**	**2,602**	**642**	**16,907**

Critical accounting judgments, estimates and assumptions for intangibles

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

The carrying value of goodwill of $3.1M was acquired with the purchase of Infratec New Zealand Limited. The purchase price of Infratec New Zealand Limited was supported with a forecasted discounted cash flow model which considered contracts and opportunities and current market conditions at the time of acquisition. Key assumptions in the 5 year discounted cashflow value in use model include a discount rate of 11% and a terminal growth rate of 2%. Directors have completed an impairment assessment as at 31 March 2021 and noted that there were no significant changes to the key assumptions used in the initial model. Based on this the Directors consider that there are no indicators of impairment and the current carrying value of goodwill can be retained.

Accounting policy for intangible assets

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

Goodwill

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

Accounting policy for infinite life intangibles

Easements

Acquired easement rights are capitalised on the basis of the costs incurred. Where the rights have no expiration date and have an indefinite useful life these costs are not amortised. Impairment reviews for infinite life intangibles are undertaken annually linked to the valuation of the electricity network as the easements give rights for network assets to be physically located on that land.

Accounting policy for finite life intangibles

Software

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

10. Non-current assets – intangibles (continued)

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

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

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

Customer contracts

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 2 years.

Easements

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

11. Revenue

	Consolidated	
From continuing operations	**2021 $'000**	2020 $'000
Revenue from contracts with customers		
Electricity lines revenue	108,130	118,862
Electricity third party contributions	8,868	12,028
Other income	7,113	6,355
OurPower electricity retail revenue	3,334	1,407
	127,445	**138,652**
Other Revenue		
Operating lease revenue	494	2,175
Revenue from continuing operations	**127,939**	**140,827**

Disaggregation of revenue

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

	Consolidated	
	2021 $'000	2020 $'000
Electricity Network		
Electricity lines revenue	108,130	118,862
Electricity third party contributions	8,868	12,028
	116,998	**130,890**
Other income		
Other income	7,113	6,355
OurPower electricity retail revenue	3,334	1,407
	10,447	**7,762**

11. Revenue (continued)

	Consolidated 2021 $'000	2020 $'000
Timing of revenue recognition		
Goods transferred at a point in time	10,747	13,597
Services transferred over time	116,698	125,055
Revenue from contracts with customers from continuing operations	**127,445**	**138,652**

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

Accounting policy for revenue recognition

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

Electricity lines revenue

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

Third party contributions

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

Operating lease revenue

Operating lease revenue is charged to the lessee for the construction, connection and ownership of the Te Uku Wind Farm up until 30 June 2020 at which time this lease was modified and recorded as a finance lease. Refer to note 24 for further information.

OurPower electricity retail revenue

OurPower invoices its customers weekly for consumption of electricity. Customers do not have extended contract terms and can terminate at short notice. Prices are the same across all customers. OurPower's obligation is to provide a single performance obligation of continuous service to which the customer benefits incrementally and consecutively over time, as the service is delivered. OurPower makes use of a practical expedient to record revenue weekly being a distinct period that OurPower captures usage and price information for invoicing.

Other income

The majority of other income relates to revenue from OurPower Holdings Limited generation and Infratec New Zealand Limited.

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

Infratec New Zealand Limited designs and project manages the installation of solar panels as well as carrying out development and consultancy work related to solar projects. Development and consultancy work is recognised at a point in time on completion and delivery of milestones. Project revenue is recognised over time as there is no alternative use for the asset and the Group have an enforceable right to payment for performance completed to date.

WEL Networks Limited – Notes to the financial statements

31 March 2021

12. Non-current liabilities – borrowings

	Consolidated	
	2021 $'000	2020 $'000
Maturing between 1 and 2 years	-	100,737
Maturing between 2 and 3 years (includes bond*)	152,178	189,930
Maturing between 3 and 4 years	-	222,764
Total bank and bond borrowings	**152,178**	**513,431**

*As at 31 March 2020 the bond was included in the debt balance maturing between 3 and 4 years. Refer to note 40 for further information on financial instruments.

	Consolidated	
	2021 $'000	2020 $'000
Loan from related party	**-**	**90,810**

Refer to note 40 for further information on financial instruments.

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

The loans are secured by a negative undertaking of the Group. The Group complied with all covenants during the year (refer note 35).

The sale proceeds received from the sale of shares and repayment of shareholder loan in UFF Holdings Limited have been utilised to repay bank debt and reduce facilities and terminate interest rate swaps associated with the bank debt (refer to note 40).

The Group uses interest rate swaps to manage interest rate risk. Derivatives are fair valued using assumptions from observable market data where possible, in combination with the underlying derivative contracts and documentation. The fair value of the derivative asset at 31 March 2021 is $3,785,000 (31 March 2020: derivative asset: $5,059,000 and derivative liability: $17,410,000).

The carrying value of interest bearing bank and bond debt is $152,178,000 (31 March 2020: $513,432,000). The fair value of contractual cash flows is $167,197,000 (31 March 2020: $581,015,000). Refer to note 40.

During the year the total bank loan facilities reduced to $125 million (31 March 2020: $415 million) of which $125 million remains available to the Group to be drawn down at balance date. The facilities expire as follows:

	Facility available $'000	**Total Facility $'000**
31 December 2021	15,000	15,000
30 November 2022	55,000	55,000
30 November 2023	55,000	55,000
	125,000	**125,000**

Bonds

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

12. Non-current liabilities – borrowings (continued)

Accounting policy for borrowings

Interest bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest bearing liabilities are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss component of the statement of comprehensive income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

13. Finance expenses

	Consolidated	
	2021 $'000	2020 $'000
Interest and finance charges paid/payable	13,768	21,704
Finance expense on leases	70	66
Interest swap termination costs (note 40)	17,944	-
	31,782	**21,770**

14. Finance income

	Consolidated	
	2021 $'000	2020 $'000
Short-term bank deposits	298	-
Finance lease income	1,261	-
Fair value of Redeemable Convertible Preference shares (note 23)	5,297	-
	6,856	**-**

15. Net debt reconciliation

	Consolidated	
	2021 $'000	2020 $'000
Net debt		
Cash and cash equivalents	124,047	987
Borrowings - repayable after one year	(152,178)	(604,241)
	(28,131)	**(603,254)**

Net debt		
Cash and cash equivalents	124,047	987
Gross debt - fixed interest rates	(75,000)	(250,000)
Gross debt - variable interest rates	(77,178)	(354,241)
	(28,131)	**(603,254)**

WEL Networks Limited – Notes to the financial statements

31 March 2021

15. Net debt reconciliation (continued)

	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 2019				
Opening balance	1,289	(99,179)	(444,170)	(542,060)
Cash flows	(302)	99,179	(162,699)	(63,822)
Other non-cash movements*	-	-	2,628	2,628
Net debt as at 31 March 2020	**987**	**-**	**(604,241)**	**(603,254)**
Net debt as at 1 April 2020				
Opening balance	987	-	(604,241)	(603,254)
Cash flows	123,060	-	453,670	576,730
Other non-cash movements*	-	-	(1,607)	(1,607)
Net debt as at 31 March 2021	**124,047**	**-**	**(152,178)**	**(28,131)**

*Non-cash movements relate to the movement in amortised costs offset against borrowings.

16. Expenses, excluding finance costs

	Consolidated	
	2021 $'000	2020 $'000
Transmission costs	27,063	29,520
Employee benefits	34,115	30,527
Capitalised labour	(12,888)	(14,054)
Materials and services	3,476	3,210
Contracting services	4,704	4,112
Consultancy	2,467	3,656
Contracting cost of sales	4,077	1,162
Net loss on disposal of property, plant and equipment	5,045	3,527
Vehicle expenditure	1,179	1,209
Operating leases	40	3
Directors' fees	455	288
Bad debts written off	70	153
Change in provision for impaired receivables	22	62
Other expenses	5,243	6,174
Impairment loss	850	-
	75,918	**69,549**

17. Depreciation and amortisation expense

	Consolidated	
	2021 $'000	2020 $'000
Depreciation:		
Buildings	269	262
Plant and equipment	3,612	3,615
Motor vehicles	1,036	987
Distribution network	19,501	19,132
Computer hardware	589	553
Amortisation:		
Computer software	1,099	702
Internally generated software	427	426
Easements and consents	50	55
Customer contracts	128	-
Right of use assets:		
Land and buildings	117	67
Plant and equipment	88	103
	26,916	**25,902**

18. Income tax

	Consolidated	
	2021 $'000	2020 $'000
Income tax expense		
Current tax	2,598	5,280
Deferred tax	8,554	7,090
Aggregate income tax expense	**11,152**	**12,370**
Income tax expense is attributable to:		
Profit from continuing operations	810	6,062
Profit from discontinued operations	10,342	6,308
Aggregate income tax expense	**11,152**	**12,370**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense from continuing operations	5,370	23,606
Profit before income tax expense from discontinued operations	229,949	24,235
	235,319	**47,841**
Tax at the statutory tax rate of 28%	**65,889**	**13,395**

WEL Networks Limited – Notes to the financial statements

31 March 2021

18. Income tax (continued)

	Consolidated 2021 $'000	Consolidated 2020 $'000
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non deductible expenses	9	562
Convertible note interest	(158)	(526)
Gain on sale of discontinued operations	(61,552)	-
	4,188	**13,431**
Prior period deferred tax adjustment	103	395
Prior period tax expense adjustment	76	11
Tax loss offsets/utilisation	-	(19)
Tax losses derecognised	6,785	-
Buildings tax depreciation reinstated*	-	(1,448)
Income tax expense	**11,152**	**12,370**

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

Deferred tax liabilities/(assets)

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

18. Income tax (continued)

	Accelerated tax depreciation/ revaluation of assets $'000	Provisions and other $'000	Derivative instruments $'000	Tax losses $'000	Customer contracts $'000	Finance lease $'000	Total $'000
As at 1 April 2020	105,591	(966)	(4,874)	(10,277)	-	-	89,474
Charged/(credited) to the statement of comprehensive income	(728)	(1,683)	-	3,492	(36)	724	1,769
Charged/(credited) directly to equity - derivatives and revaluations	753	-	4,874	-	-	-	5,627
Opening balance - Infratec NZ Ltd	-	-	-	-	216	-	216
Sale of discontinued operation	(18,167)	449	-	-	-	-	(17,718)
Derecognition of tax losses	-	-	-	6,785	-	-	6,785
As at 31 March 2021	**87,449**	**(2,200)**	**-**	**-**	**180**	**724**	**86,153**

A deferred tax asset of $6.8M has been derecognised during the period as a result of the sale of WEL's share in UFF Holdings Limited. This is included in the discontinued operations in the profit and loss statement. Refer to note 7 for further information.

Accounting policy for income tax

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

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

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

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

19. Imputation credit account

	Consolidated	
	2021 $'000	2020 $'000
Imputation credits available for subsequent financial years based on a tax rate of 28%	**46,233**	**45,969**

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

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

20. Current assets – cash and cash equivalents

Accounting policy for cash and cash equivalents

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

21. Current assets – trade and other receivables

	Consolidated	
	2021 $'000	2020 $'000
Trade receivables	10,731	21,420
Amounts due from customers for contract work	142	297
Less: Allowance for expected credit losses	(607)	(886)
	10,266	20,831
Related party receivable	210	210
Prepayments	1,164	1,750
Other receivables	83	83
Other receivables – vendor tax losses due (note 7)	2,771	-
	4,228	**2,043**
	14,494	**22,874**

21. Current assets – trade and other receivables (continued)

Allowance for expected credit losses

The Group has recognised a loss of $22,000 (2020: $240,000) in profit or loss in respect of the expected credit losses for the year ended 31 March 2021.

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

	Consolidated	
	2021 $'000	2020 $'000
Expected credit losses:		
Current 0.8%	69	208
Between one to three months 1.4%	6	105
Over three months 66.3%	532	573
	607	**886**

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

	Consolidated	
	2021 $'000	2020 $'000
Opening balance	886	646
Increase in provision	22	240
Decrease in provision due to Discontinued Operations	(301)	-
Closing balance	**607**	**886**
Trade receivables:		
Current	9,033	18,289
Between one to three months	430	976
Over three months	803	1,566
	10,266	**20,831**

Accounting policy for trade and other receivables

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

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

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

Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 40 for information on the risk management policy of the Group.

WEL Networks Limited – Notes to the financial statements

31 March 2021

22. Current assets – Work in progress

	Consolidated 2021 $'000	2020 $'000
Work in progress – at cost	**79**	-

Accounting policy for work in progress

Work in progress relates to projects for Infratec that are in progress as at 31 March 2021. Cost comprises of direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

23. Current assets – Redeemable Convertible Preference shares

	Consolidated 2021 $'000	2020 $'000
Redeemable Convertible Preference shares	**194,534**	-

Critical accounting judgements, estimates and assumptions

On sale of WEL's share in UFF Holdings Limited, Redeemable Convertible Preference shares ("RCP shares") with a face value of $200 million were issued to WEL Networks Limited by First Fibre Bidco NZ Limited. Refer to note 7 for further information.

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

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

The RCP shares have been valued at 31 March 2021 using a discounted cash flow (DCF) methodology using a discount rate of between 2.50% - 3.12% with a midpoint of 2.81% and based on the expected redemption date of 31 March 2022. The discount rate is based on the current market pricing reflecting the counterparty risk. This is a Level 3 valuation.

RCP Shares discount range valuation sensitivity to discount rate	Low $'000	Mid $'000	High $'000
Face value	200,000	200,000	200,000
Discount rate %	2.50%	2.81%	3.12%
Fair value	195,122	194,534	193,949

An amount of $5,297,000 has been recognised in finance income in the statement of profit or loss due to the revaluation from initial recognition to 31 March 2021.

24. Non-current assets – net investment in lease

	Consolidated 2021 $'000	Consolidated 2020 $'000
Net investment in lease – current	550	-
Net investment in lease – non current	27,457	-
	28,007	**-**

	31 March 2021 $'000
Undiscounted lease receivable:	
Current net investment in lease	2,242
Maturing between 1 and 2 years	2,229
Maturing between 2 and 3 years	2,213
Maturing between 3 and 4 years	2,194
Maturing between 4 and 5 years	2,172
Beyond 5 years	52,164
Less effect of discounting	(35,207)
	28,007

In the Group's half year financial statements this was classified as an operating lease and the assets were included as part of the property, plant and equipment.

Accounting policy for net investment in lease

The net investment in the lease is recognised at the commencement of the lease. The net investment is recognised at the present value of lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Income for the finance lease is recognised in finance income in the statement of profit or loss.

Critical accounting estimates and judgements

In October 2010, WEL entered into a sale and lease back agreement for the purposes of WEL providing transmission services to the Te Uku wind farm. Transmission infrastructure was constructed for the agreement and an annual charge is levied by WEL for the services provided.

Variations to this agreement were subsequently entered into during the current financial year for additional infrastructure added to the wind farm which will allow it to operate more efficiently. These variations meet the definition of a lease modification under NZ IFRS 16 and this has triggered the reassessment of the original agreement as terms and conditions of the original agreement have been changed for additional assets and consideration.

This has been classified as a finance lease with consideration given to the following:

- The present value of the lease payments amounts to substantially all of the fair value of the underlying assets;
- The lease term for 25 years with the renewable period of a further 25 years is for a significant part of the estimated economic life of the underlying assets; and
- The underlying asset was specifically designed for the lessee's needs.

On initial recognition of the finance lease $27.7M was derecognised from property, plant and equipment and recorded as the opening net investment in the lease. The discount rate implicit in the lease of 6.09% was used to discount the lease payments back to present value and is based on the fair value of the assets. This was determined to be $27.7M based on the current value of the assets in RAB, and using a 1.00x RAB multiple to arrive at a fair value (see note 9 for further information). A further modification was recognised in February 2021 resulting in $0.7M being recognised as an addition to the net investment in the finance lease at the same discount rate of 6.09%.

WEL Networks Limited – Notes to the financial statements

31 March 2021

25. Non-current assets – right-of-use assets

Reconciliations

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

Consolidated	Land and buildings $'000	Plant and Equipment $'000	Fibre Network $'000	Total $'000
Initial recognition of right of use assets 1 April 2019	2,733	499	3,250	6,482
Additions	-	-	51	51
Depreciation expense	(441)	(103)	(464)	(1,008)
Balance at 31 March 2020	**2,292**	**396**	**2,837**	**5,525**
Additions through business combinations (note 8)	294	-	-	294
Additions	154	4	189	347
Disposal on sale of discontinued operation (note 7)	(903)	-	(2,785)	(3,688)
Depreciation expense	(304)	(88)	(241)	(633)
Balance at 31 March 2021	**1,533**	**312**	**-**	**1,845**

Accounting policy for right-of-use assets

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

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

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred, with the value being $32,000 for short term leases and $3,000 for low value leases.

26. Current liabilities – lease liabilities

	Consolidated 2021 $'000	Consolidated 2020 $'000
Lease liability	**231**	**913**

27. Non-current liabilities – lease liabilities

	Consolidated 2021 $'000	Consolidated 2020 $'000
Lease liability	**1,674**	**4,740**

Total cash outflow for leases is $241,000 for 31 March 2021 (31 March 2020: $1,192,000).

27. Non-current liabilities – lease liabilities (continued)

Accounting policy for lease liabilities

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

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

The Group leases various properties, equipment and network assets. The length of the contracts depends on the underlying assets being utilised. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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

28. Current liabilities – trade and other payables

	Consolidated	
	2021 $'000	2020 $'000
Trade payables	7,443	10,133
Goods and services tax	92	485
Interest payable	921	1,130
Other payables	2,659	11,274
	11,115	**23,022**

Refer to note 40 for further information on financial instruments.

Accounting policy for trade and other payables

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

29. Current liabilities – employee benefit obligations

	Consolidated 2021 $'000	2020 $'000
Annual leave	2,058	2,301
Employee benefits	1,056	1,515
Other	-	78
	3,114	**3,894**

Termination benefits

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

Wages, salaries, annual leave and sick leave

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

Bonuses

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

30. Non-current liabilities – employee benefit obligations

	Consolidated 2021 $'000	2020 $'000
Employee benefits	**112**	**100**

31. Current liabilities – contract liabilities

The Group has recognised the following revenue from continuing operations related to contract liabilities:

	Consolidated 2021 $'000	2020 $'000
Contract liabilities – third party contributions – electricity	7,379	5,014
Contract liabilities – third party contributions – fibre	-	1,901
Contract liabilities – solar	9	-
Other contract liabilities – fibre connection fees in advance	-	7,196
	7,388	**14,111**

Management expects that 93% of the electricity third party contributions and 100% of solar revenue relating to the unsatisfied contracts as at 31 March 2021 will be recognised as revenue in the next reporting period.

31. Current liabilities – contract liabilities (continued)

	Consolidated 2021 $'000	Consolidated 2020 $'000
Revenue recognised in continuing operations that was included in the contract liability balance at the beginning of the period:		
Third party contributions - electricity	4,678	5,414

32. Non-current liabilities – contract liabilities

Consolidated	2021 $'000	2020 $'000
Contract liabilities	856	886

Income received from government organisations to fund the undergrounding of some areas of the electricity network is recognised over 45 years which is the life of the asset. Revenue recognised this year of $29,385 (2020: $29,385).

33. Key management personnel disclosures

Key management personnel compensation for the years ended 31 March 2021 and 31 March 2020 is set out below. The key management personnel are all the directors of the Group and the executives with the greatest authority for the strategic direction and management of the Group.

Key management personnel

Compensation paid to UFF Holdings Limited key management personnel is included up to 30 September 2020 (refer to note 7). There have been no changes to key management personnel during the 12 months to 31 March 2021.

Compensation

The aggregate compensation made to Board of Directors and other members of key management personnel of the Group is set out below:

	Consolidated 2021 $'000	Consolidated 2020 $'000
Short-term employee benefits	4,473	5,844
Termination benefits	-	50
	4,473	5,894

34. Related party transactions

Parent entity

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

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

Subsidiaries

Interests in subsidiaries are set out in note 6.

WEL Networks Limited – Notes to the financial statements

31 March 2021

34. Related party transactions (continued)

Receivable from and payable to related parties

Related party transactions with WEL Energy Trust

	Consolidated	
	2021 $'000	2020 $'000
Interest on convertible note (refer note 35)	(565)	(1,878)
Repayment of convertible note (refer note 35)	(13,000)	(10,000)
	(13,565)	**(11,878)**

Total dividends paid during the year were $6 million net (2020: $4 million net).

Related party transactions with SmartCo Limited

	Consolidated	
	2021 $'000	2020 $'000
Transactions:		
Other income	39	812
Operating expense (contract services expenditure)	(479)	(518)
Purchase of plant and equipment	(192)	(233)
Balances:		
Advance to related party	210	210

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

Related party transactions with Waipa Networks Limited

	Consolidated	
	2021 $'000	2020 $'000
Transactions to 30 September 2020:		
Current year interest expense	1,746	3,878
Pole make ready and lease costs	-	30
Contract Services	261	160
Consulting Services	148	228
Balances:		
Total loan from related party	-	90,810

With the completion of the sale of UFF Holdings Limited on 30 September 2020 the loan balance for Waipa Networks Limited has been fully repaid. See note 7 for further information.

34. Related party transactions (continued)

Related party transactions with Ultrafast Fibre Limited

	Consolidated 2021 $'000	Consolidated 2020 $'000
Transactions from 1 October 2020 to 31 March 2021:		
Pole rental revenue	85	-
Contract services	192	-
Operating expenses	(290)	-
Balances:		
Redeemable Convertible Preference shares	194,534	-

On 30 September 2020, WEL Networks Limited sold their 85% shareholding in UFF Holdings Limited, the holding company for Hamilton based fibre business Ultrafast Fibre Limited (UFF). See note 7 for further information.

35. Equity – contributed equity

	2021 Shares	2020 Shares	Consolidated 2021 $'000	Consolidated 2020 $'000
Ordinary shares – fully paid	8,153,000	8,153,000	111,142	111,142
Convertible notes	-	-	16,000	29,000
	8,153,000	**8,153,000**	**127,142**	**140,142**

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

Convertible notes accounting policy

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

The convertible notes will be fully redeemed with the balance of $16 million being paid on 30 April 2021.

Interest payments on convertible notes are recorded as a distribution through the statement of movements in equity. The interest rate is 3.31% for the year to 31 March 2021 (2020: 6.28%).

Dividend distribution

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

Capital risk management

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

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

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

35. Equity – contributed equity (continued)

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

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

While the Group has currently not drawn down any of its available bank facilities, any drawn amounts 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.

Accounting policy for contributed equity

Ordinary shares are classified as equity.

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

36. Equity – reserves

	Consolidated	
	2021 $'000	2020 $'000
Revaluation reserve	159,436	156,821
Hedging reserve – cash flow hedges	-	(12,535)
	159,436	**144,286**

Hedging reserve – cash flow hedges

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

Movements in reserves

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

Consolidated	Revaluation reserve $'000	Hedging reserve $'000	Total $'000
Balance at 1 April 2019	158,475	(8,739)	149,736
Deferred tax	-	1,476	1,476
Disposal of distribution network assets	(1,654)	-	(1,654)
Fair value gains/(losses) in year	-	(5,272)	(5,272)
Balance at 31 March 2020	**156,821**	**(12,535)**	**144,286**
Revaluation – gross	4,929	-	4,929
Deferred tax on revaluation	(753)	-	(753)
Disposal of distribution network assets	(1,561)	-	(1,561)
Fair value gains/(losses) in year	-	(535)	(535)
Deferred tax on fair value gains/losses	-	150	150
Reclassification of previous gains/losses to statement of profit or loss	-	12,920	12,920
Balance at 31 March 2021	**159,436**	**-**	**159,436**

37. Equity – retained earnings

	Consolidated	
	2021 $'000	2020 $'000
Retained earnings at the beginning of the financial year	279,364	247,505
Profit after income tax expense for the year	193,395	35,986
Dividends paid	(6,000)	(4,000)
Disposal of distribution network assets	1,561	1,654
Convertible note interest	(565)	(1,878)
Transfer to other reserves	-	97
Retained earnings at the end of the financial year	**467,755**	**279,364**

38. Earnings per share

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

39. Derivative financial instruments

	Consolidated	
	2021 $'000	2020 $'000
Current assets		
Electricity price derivative	2,962	-
Non-current assets		
Electricity price derivatives	1,869	-
Interest rate swaps – fair value hedges	3,785	5,059
	5,654	**5,059**
Current liabilities		
Interest rate swap contracts – cash flow hedges	-	(816)
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	-	(16,594)
	8,616	**(12,351)**

The notional principal amounts of the outstanding interest rate contracts as at 31 March 2021 were nil (2020: $175 million). The notional principal amounts of the outstanding fair value interest rate contracts as at 31 March 2021 were $75 million (2020: $75 million). See note 40 for further information.

WEL Networks Limited – Notes to the financial statements

31 March 2021

39. Derivative financial instruments (continued)

As at 31 March 2021 the fixed rate was 4.90% (2020: 2.28% to 4.90%) and the main floating rate is BKBM (Bank bill mid-rate).

The Group has entered into a number of contracts to hedge wholesale electricity price risk. These electricity contracts are not designated as hedges for accounting purposes. The hedges are valued based on the volume traded and the difference between the contract price and the last trade price on the ASX futures market for the relevant contract period. A gain on these electricity price derivatives has been recorded in the statement of profit or loss of $5,191,000 for both realised and unrealised gains for 31 March 2021.

Accounting policy for derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:

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

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Movements in the hedging reserve in the shareholders' equity are shown in note 36. The full fair value of a hedging derivative is classified as a non-current asset or liability when the maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges

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

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

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

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

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

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

Fair value hedges

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

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

40. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

As at 31 March 2021, if the currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, the impact on post-tax profit for the year would have been nil (2020: nil).

Price risk

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

Cash flow and fair value interest rate risk

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

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

The swaps are for the duration of the borrowing term.

Consolidated – 2020	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bank facilities (variable rates)	Apr 21 – Nov 23	361,000	(562)	-	360,438
Loan from related party (4.51%)		90,810	-	-	90,810
Bond (4.90%)	Aug 23	150,000	(2,066)	5,059	152,993
Fair value interest rate swaps (3.86%)	Aug 23	(75,000)	-	-	-
Interest rate swaps (4.87%)	Mar 21 – Dec 23	(175,000)	-	-	-
		351,810	**(2,628)**	**5,059**	**604,241**

Consolidated – 2021	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bond (4.90%)	Aug 23	150,000	(1,607)	3,785	152,178
Fair value interest rate swaps (2.64%)	Aug 23	(75,000)	-	-	-
		75,000	**(1,607)**	**3,785**	**152,178**

WEL Networks Limited – Notes to the financial statements

31 March 2021

40. Financial instruments (continued)

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

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

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

Interest rate risk +/- 1% 31 March 2021	Carrying amount $'000	Profit $'000	Equity $'000
Financial assets:			
Cash and cash equivalents	124,047	1,240	-
Trade and other receivables	13,329	-	-
Derivative financial instruments	3,785	38	-
Redeemable Convertible Preference shares	194,534	1,945	-
Financial liabilities:			
Trade and other payables	11,023	-	-
Interest bearing liabilities	152,178	1,522	-
Lease liabilities	1,905	19	-
Total increase/ (decrease)		**4,742**	**-**

Credit risk

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

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available. See note 21 for further information.

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

40. Financial instruments (continued)

The Group has 31% (2020: 34%) of its trade debtors owing from the incumbent retailer, Genesis Energy Limited. This debt is subject to a written agreement that requires an investment grade credit rating to be maintained. If the credit rating falls below investment grade then a bond will be required as collateral.

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

In respect of the Redeemable Convertible Preference shares, the discount rate used to fair value these incorporates a risk of default, reflecting counterparty risk, and therefore factors in any expected credit loss. See note 23 for further information.

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

Other than as mentioned above, the Group has no significant concentration of credit risk on its financial assets. The maximum exposures to credit risk are represented by the carrying amounts of other financial assets in the balance sheets. Except for the financial guarantees given by the Group (note 41), the Group does not provide any other financial guarantees which would expose the Group to credit risk.

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants as set out in note 35, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The Group was in compliance with covenants during the year.

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

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

40. Financial instruments (continued)

31 March 2021	Less than one year $'000	Between 1 and 2 years $'000	Between 2 and 3 years $'000	Between 3 and 5 years $'000	5 + years $'000	Total fair value contractual cash flows $'000	Carrying amount liabilities $'000
Non-derivatives							
Borrowings – non current	7,350	7,350	152,497	-	-	167,197	152,178
Trade and other payables	11,023	-	-	-	-	11,023	11,023
Lease liability	231	203	73	134	1,264	1,905	1,905
Total non-derivatives	**18,604**	**7,553**	**152,570**	**134**	**1,264**	**180,125**	**165,106**
Derivatives							
Interest rate swaps							
Inflow	3,675	4,134	1,364	-	-	-	-
Outflow	(2,020)	(2,526)	(842)	-	-	-	3,785
	1,655	**1,608**	**522**	**-**	**-**	**-**	**3,785**

Accounting policy for financial instruments

Classification

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

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

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

Recognition

Regular way purchase and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, it's carrying value is written off.

Measurement

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

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

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

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

40. Financial instruments (continued)

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Fair value of financial instruments

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

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

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

31 March 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Interest rate contracts	-	3,785	-	3,785
Electricity price derivatives	4,831	-	-	4,831
Redeemable convertible preference shares	-	-	194,534	194,534
	4,831	**3,785**	**194,534**	**203,150**

Categories of financial assets and liabilities

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

WEL Networks Limited – Notes to the financial statements

31 March 2021

40. Financial instruments (continued)

Consolidated – 2021	Financial assets at amortised cost $'000	Financial assets and liabilities at fair value through OCI or P&L $'000	Financial liabilities at amortised cost $'000	Total $'000
Assets				
Cash and cash equivalents	124,047	-	-	124,047
Trade receivables	13,329	-	-	13,329
Derivative financial instruments (at fair value through profit and loss)	-	3,785	-	3,785
Redeemable Convertible Preference shares	-	194,534	-	194,534
Electricity price derivatives	-	4,831	-	4,831
Other receivables (vendor tax losses due)	-	1,388	-	1,388
Total financial assets	**137,376**	**204,538**	**-**	**341,914**
Liabilities				
Trade and other payables	-	-	11,023	11,023
Borrowings - non current	-	-	152,178	152,178
Lease liability	-	-	1,905	1,905
Total financial liabilities	**-**	**-**	**165,106**	**165,106**

41. Contingent liabilities

As at 31 March 2021 the Group had a total of $1.78 million contingent liabilities to support contracts entered into (2020: $12.78 million).

A breakdown of the contingent liabilities are as follows:

Beneficiary	Amount $'000	Supporting
Energy Clearing House Limited	1,750	OurPower Electricity Retailing
NZX Limited	30	Listing Fees associated with the subordinated bond issue

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

42. Commitments

Capital commitments

There is no committed capital expenditure as at 31 March 2021 (2020: nil).

43. Cash flow information

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

	Consolidated	
	2021 $'000	2020 $'000
Profit after income tax expense from continuing operations for the year	4,560	17,544
Adjustments for:		
Depreciation and amortisation	26,916	25,902
Net loss on disposal of property, plant and equipment	5,895	3,527
Financing costs	24,926	21,770
Change in operating assets and liabilities:		
Increase in trade and other receivables	(53)	(457)
Decrease in provision for income tax	847	(3,871)
Increase/(decrease) in trade and other payables	(1,770)	(1,189)
Increase/(decrease) in deferred tax liabilities	(1,789)	375
Net cash from operating activities	**59,532**	**63,601**

44. Events after the reporting period

Subsequent to balance date the Group invested $80M in managed funds made up of cash, fixed interests and listed equities.

Apart from the investment above and the $16 million convertible notes repayment on 30 April 2021 as disclosed in note 35, there were no other events occurring subsequent to balance date which require adjustment or disclosure in the financial statements.

WEL Networks Limited – Notes to the financial statements

31 March 2021

45. Remuneration of auditors

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

	Consolidated	
	2021 $'000	2020 $'000
Audit services – PwC		
Audit financial statements - Current year	272	363
Half year review	64	46
	336	**409**
Assurance and audit related services* – PwC		
Assurance procedures on disclosure information – current year	53	73
Assurance procedures on disclosure information – prior year	5	58
Agreed upon procedures for disclosure information – 2019	-	6
Assurance procedures on the telecommunications development levy – prior year	5	5
	63	**142**
Other services – PwC		
Regulatory advice	43	97
Industry updates	-	44
Vendor due diligence**	-	360
Due diligence***	76	-
	119	**501**

*PwC perform assurance procedures and agreed upon procedures in their capacity as auditors over disclosure information required to be submitted to the Commerce Commission.

**PwC performed vendor due diligence work to assist any potential purchaser in its due diligence related to the sale of UFF Holdings Ltd, refer note 7 for further information.

***PwC completed financial and tax due diligence work as required in relation to a potential investment purchase in October 2020.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Independent Auditor’s Report

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Independent auditor's report

To the Shareholder of WEL Networks Limited

Our opinion

In our opinion, the accompanying financial statements of WEL Networks Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2021, 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).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 31 March 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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.

Independence

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

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

Key audit matters

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

Description of the key audit matter	How our audit addressed the key audit matter
Valuation of the Electricity Network The electricity network assets are carried at $571m as at 31 March 2021 as disclosed in note 9 to the financial statements. At 31 March 2021, management engaged an expert to assist the Directors in assessing whether the carrying value of the electricity network continues to materially reflect its estimated fair value. The Directors have determined that no revaluation is required at balance date as the carrying value of the electricity network is within the estimated valuation range determined by management's expert. The valuation of the electricity network involves significant estimates and assumptions including weighted average cost of capital, capital expenditure, revenue growth rates, and terminal growth rate, which involve significant judgments about the future. Given the significance of the value of the electricity network and the judgments applied to determine whether a valuation adjustment is required at 31 March 2021, this is a key audit matter.	Our procedures included: ● Testing the mathematical accuracy of the model by re-performing the calculations based on the stated estimates and assumptions. ● Assessing the reasonableness of the inputs (including cash flow forecasts) used in the Directors' assessment based on our understanding of the business. ● Assessing the professional competence, independence and objectivity of the Group's external valuation expert. ● Considering the accuracy of historical forecasts by performing look back procedures consisting of comparing the current year actual results with those previously budgeted. ● Engaging our internal industry valuation expert to evaluate whether significant assumptions used in the valuation were reasonable, including: – revenue growth rates by comparison to industry data; – terminal growth rate, by comparison to economic forecasts; and – the weighted average cost of capital, by assessing the discount rate used against comparable external data in the sector and expert knowledge of the industry. ● Reviewing the capital expenditure used in the model by assessing against the asset management plan; ● Assessing the suitability of the valuation range that has been used by considering reasonably possible changes to key assumptions. ● Performing a cross check against the Group's regulated asset base to assess the overall appropriateness of the valuation. ● Performing sensitivity analysis on the significant assumptions. ● Considering the adequacy of the Group's disclosures. There are no matters to report as a result of our procedures.

Accounting for the sale of UFF Holdings Limited Group
WEL Networks Limited completed the sale of its shares in the UFF Holdings Limited Group on 30 September 2020. As disclosed in note 7 the total consideration for the sale was $848m. A gain on disposal of $215m is recognised within profit after income tax expense from discontinued operations of $220m.
 	
Total consideration is made up of $653m of cash, $189m of deferred consideration issued in the form of Redeemable Convertible Preference (RCP) shares, which has been designated as a financial asset at fair value through profit or loss, and contingent consideration of $5m arising from the disposal group's ability to utilise tax losses earned up to the date of disposal.
 	
The gain on disposal involves significant estimates and assumptions including the classification and the discount rate used to derive the fair value of the RCP shares and the estimated contingent consideration, which involve significant judgments about the future.
 	
Given the significance of the judgments involved in measuring the gain on disposal and the impact of the discontinued operation on the presentation of the financial statements, this is a key audit matter.
	Our procedures included:
	● Reviewing the underlying sale and purchase agreement;
	● Testing the calculation of the gain on disposal recognised, which includes verifying the carrying value of the assets and liabilities of the disposal group on completion date and the consideration received;
	● Reviewing the accounting treatment to designate the RCP shares as a financial asset measured at fair value through profit or loss;
	● Assessing the discount rate used to fair value the RCP shares, including:
	  – Assessing the underlying data used to derive the discount rate; and,
	  – Utilising our internal valuation experts to determine a reasonable range for the discount rate;
	● Assessing the adequacy of disclosures within the financial statements.
	
	There are no matters to report as a result of our procedures.

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Accounting for net investment in lease

WEL Networks Limited entered into two arrangements on 30 June 2020 and 26 February 2021, respectively to purchase and lease back transmission infrastructure to a lessee. As disclosed in note 24 these arrangements resulted in a modification to an existing lease arrangement and required reassessment of the original classification. This has resulted in recognition of a finance lease receivable within the financial statements at modification date of $27.7M and $0.7M as at 30 June 2020 and 26 February 2021 respectively.

Accounting for the finance lease involves a significant estimate in determining the appropriate interest rate implicit in the lease. This estimate is derived by reference to the fair value of the underlying leased assets.

Given the subjectivity of this estimate which has a material impact on the financial statements, this is a key audit matter.

Our procedures included:

- Reviewing the original and subsequent agreements entered into during the financial year.
- Testing the calculation of the lease receivable on initial recognition by:
  - Utilising our industry expert to assess the methodology used to determine the fair value of the leased assets used to derive the rate implicit in the lease;
  - Checking the mathematical accuracy of the calculation of the assets’ regulated asset base including regulated depreciation and revaluations;
  - Agreeing the lease payments and lease term to the underlying agreements;
  - Checking the mathematical accuracy of the present value of the lease payments; and
  - Considering any residual value of the lease assets.
- Assessing the adequacy of disclosures in the financial statements related to the lease.

There are no matters to report as a result of our procedures.

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Our audit approach

Overview

Overall group materiality: $1.37 million, which represents approximately 2.5% of earnings before taxation, interest, depreciation and amortisation expenses (EBITDA).

We chose EBITDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users. This benchmark:

- is presented to the market as an alternative non-GAAP measure used to assess performance
- was required to be reported as part of the Product Disclosure Statement on the debt issue
- is seen as a key metric for debt holders as a measure of the Group's ability to pay interest

Following our assessment of the risk of material misstatement, we:

- Performed full scope audits for two of the Group's principal business units being the electricity network and the fibre network distribution businesses
- Performed specified audit procedures and analytical review procedures over the remaining business units within the group.

As reported above, we have three key audit matters, being:

- Valuation of the Electricity Network
- Accounting for the sale of UFF Holdings Limited Group
- Accounting for net investment in lease

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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How we tailored our group audit scope

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

The materiality levels applied in the full scope audits of the electricity network and fibre network distribution businesses were calculated by reference to a portion of Group materiality appropriate to the relative scale of the business concerned.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

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/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants Auckland
27 May 2021

Directors’ Report and Statutory Information

1. Directors' Remuneration

	Annual Remuneration	Committee Fees	Other Benefits	Total Remuneration	Reimbursement of Expenditure
Rob Campbell	140,378	–	–	140,378	904
Tony Barnes	66,550	–	–	66,550	–
Carolyn Steele	66,550	10,325	4,000	80,875	–
Barry Harris	66,550	–	–	66,550	–
Geoff Lawrie	66,550	5,750	14,711	87,011	1,880
Paul Connell	69,566	–	–	69,566	174
Candace Kinser	67,933	5,750	–	73,683	2,926
Keith Goodall (Retired 30 September 2020)	18,000	–	–	18,000	1,149
Total	**562,078**	**21,825**	**18,711**	**602,614**	**7,034**

2. Directors' Indemnities and Insurance

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

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

3. Directors' Transactions

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

4. Employee Remuneration

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

Year Ended 31 March 2021

$ Band	WEL Continuing Employees	WEL Discontinued Employees	Ultrafast Fibre Discontinued Employees
320,000 – 329,999	3		
310,000 – 319,999	1	1	
280,000 – 280,999	2		
260,000 – 269,999	2		
220,000 – 229,999	1		
210,000 – 219,999		1	
200,000 – 209,999	1		1
190,000 – 199,999	3		
180,000 – 189,999	2	1	1
170,000 – 179,999	2		2
160,000 – 169,999	3		1
150,000 – 159,999	4		
140,000 – 149,999	2	1	
130,000 – 139,999	9		2
120,000 – 129,999	23		
110,000 – 119,999	30	2	
100,000 – 109,999	41		1

Note 1: Ultrafast Fibre Ltd was sold by WEL Networks on 30 September 2020

Chief Executives' Remuneration

WEL Networks Chief Executive remuneration for year ended 31 March 2021

Base Salary	Short Term Incentives	Other Benefits	Total Remuneration
$ 717,246	-	-	$ 717,246

Ultrafast Fibre Chief Executive remuneration for the period 01 April 2020 to 30 September 2021

Base Salary	Short Term Incentives	Other Benefits	Total Remuneration
$334,656	63,550	-	$398,206

Note 1: The short term incentive related to the sale of UFF Holdings Ltd

Infratec Chief Executive remuneration for the period 03 December 2020 to 31 March 2021

Base Salary	Short Term Incentives	Other Benefits	Total Remuneration
$ 108,350	-	-	$ 108,350

Note 2: Infratec NZ Ltd was acquired by WEL Networks on 3 December 2020

5. Shareholders

As at 31 March 2021, the Company's shareholder was:

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

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

As at 31 March 2021:

	2021		2020	
	Female	Male	Female	Male
Board of Directors	2	5	2	6
Officers	3	6	3	13

Top 20 Bond Holders’ Report

Top Holders Report

As At Date: 31 March 2021

Report Generated: 25 May 2020 – 14:04pm

Register	Security	Rank	Holder Number	Investor Name	Address	In NZCSD Sub-Reg	Total Units	% Issued Capital
NZL	WEL010	1	225060002	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	38,859,000	25.91%
NZL	WEL010	2	333082527	FNZ Custodians Limited	P O Box 396 Wellington 6140	No	24,081,000	16.05%
NZL	WEL010	3	220001091	New Zealand Central Securities Depository Limited	P O Box 5240 Victoria Street West Auckland 1142	No	16,293,000	10.86%
NZL	WEL010	4	220023800	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	7,735,000	5.16%
NZL	WEL010	5	335943538	Hobson Wealth Custodian Limited	P O Box 991 Wellington 6140	No	5,772,000	3.85%
NZL	WEL010	6	220023796	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	5,438,000	3.63%
NZL	WEL010	7	220023788	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	4,203,000	2.80%
NZL	WEL010	8	220023770	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	3,157,000	2.10%
NZL	WEL010	9	220037681	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	2,726,000	1.82%
NZL	WEL010	10	220039790	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	2,138,000	1.43%
NZL	WEL010	11	220039056	Forsyth Barr Custodians Limited	Private Bag 1999 Dunedin 9054	No	1,360,000	0.91%
NZL	WEL010	12	333326825	Masfen Securities Limited	P O Box 2757 Shortland Street Auckland 1140	No	1,200,000	0.80%
NZL	WEL010	13	220039633	Custodial Services Limited	P O Box 13155 Tauranga Central Tauranga 3141	No	1,165,000	0.78%
NZL	WEL010	14	330388340	Woolf Fisher Trust Inc	P O Box 17084 Greenlane Auckland 1546	No	622,000	0.41%
NZL	WEL010	15	333082560	FNZ Custodians Limited	P O Box 396 Wellington 6140	No	607,000	0.40%
NZL	WEL010	16	332995979	Sports Car World Limited	310 Kohimarama Road St Heliers Auckland 1071	No	525,000	0.35%
NZL	WEL010	17	330773162	Dunedin Diocesan Trust Board	P O Box 13170 Green Island Dunedin 9052	No	500,000	0.33%
NZL	WEL010	18	330603887	J M Butland Limited	P O Box 62661 Greenlane Auckland 1546	No	480,000	0.32%
NZL	WEL010	19	602265528	Mei-Chu Ho	9FL No 2 Alley 6 Lane 485 Section 1 Kung Fu Road Hsin Chu City Taiwan	No	450,000	0.30%
NZL	WEL010	20	335178793	Best Farm Limited	107B Westchester Drive Churton Park Wellington 6037	No	400,000	0.27%

Directory

As at 31 March 2021

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


NP
ENTRY
NO

WEL Networks' Maui Street Premises

WELGroup.

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