WEL Networks Limited

NZBN 9429039416926

Interim Report - 30 September 2021

WEL Networks Limited
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WEL Networks Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 September 2021

	Note	Consolidated 30 September 2021 Unaudited $'000	Consolidated 30 September 2020 Unaudited $'000
Revenue from continuing operations	8	65,715	70,350
Expenses			
Expenses, excluding finance costs	13	(41,784)	(35,144)
Other gains/(losses)	14	(1,013)	-
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) from continuing operations		22,918	35,206
Depreciation and amortisation expense		(13,842)	(13,293)
Finance expenses	15	(3,556)	(28,091)
Finance income	16	3,242	8
Profit/(loss) before income tax (expense)/benefit from continuing operations		8,762	(6,170)
Income tax (expense)/benefit		(1,890)	755
Profit/(loss) after income tax (expense)/benefit from continuing operations		6,872	(5,415)
Profit after income tax expense from discontinued operations	5	-	215,039
Profit after income tax (expense)/benefit for the half-year		6,872	209,624
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Change in the fair value of equity investments at fair value through other comprehensive income	9	3,117	-
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		-	(385)
Cash flow hedge losses reclassified to profit or loss, net of tax		-	12,920
Other comprehensive income for the half-year, net of tax		3,117	12,535
Total comprehensive income for the half-year		9,989	222,159
Profit for the half-year is attributable to:			
Non-controlling interest		-	30,038
Shareholder of WEL Networks Limited		6,872	179,586
		6,872	209,624

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

WEL Networks Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 30 September 2021

	Note	Consolidated 30 September 2021 Unaudited $'000	Consolidated 30 September 2020 Unaudited $'000
Total comprehensive income for the half-year is attributable to:			
Continuing operations		-	-
Discontinued operations		-	30,038
Non-controlling interest		-	30,038
Continuing operations		9,989	7,120
Discontinued operations		-	185,001
Shareholder of WEL Networks Limited		9,989	192,121
		9,989	222,159
		Cents	**Cents**
Earnings per share for profit/(loss) from continuing operations attributable to the shareholder of WEL Networks Limited			
Basic earnings per share		84.29	(66.42)
Diluted earnings per share		84.29	(66.42)
Earnings per share for profit from discontinued operations attributable to the shareholder of WEL Networks Limited			
Basic earnings per share		-	2,269.12
Diluted earnings per share		-	2,269.12
Earnings per share for profit attributable to the shareholder of WEL Networks Limited			
Basic earnings per share		84.29	2,202.70
Diluted earnings per share		84.29	2,202.70

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

WEL Networks Limited
Balance sheet
As at 30 September 2021

	Note	Consolidated 30 September 2021 Unaudited $'000	Consolidated 31 March 2021 Audited (restated) $'000
Assets			
Current assets			
Cash and cash equivalents		21,535	124,047
Trade and other receivables		16,128	14,494
Work in progress		98	79
Redeemable Convertible Preference shares	11	196,836	194,534
Financial assets at fair value through other comprehensive income	9	83,727	-
Derivative financial instruments	17	-	2,962
Net investment in lease	10	560	550
Total current assets		318,884	336,666
Non-current assets			
Other receivables – vendor tax losses due	5	1,398	1,388
Derivative financial instruments	17	1,832	5,654
Property, plant and equipment	6	642,619	631,454
Right-of-use assets		1,949	1,845
Intangibles	7	13,811	13,808
Net investment in lease	10	27,176	27,457
Total non-current assets		688,785	681,606
Total assets		1,007,669	1,018,272
Liabilities			
Current liabilities			
Trade and other payables		10,484	11,115
Lease liabilities		266	231
Derivative financial instruments	17	157	-
Income tax		1,612	1,118
Employee benefit obligations		3,781	3,114
Customer discount payable	8	6,629	-
Contract liabilities		10,964	7,388
Total current liabilities		33,893	22,966
Non-current liabilities			
Borrowings	12	150,567	152,178
Lease liabilities		1,755	1,674
Deferred tax liabilities		86,199	86,153
Employee benefit obligations		118	112
Contract liabilities		842	856
Total non-current liabilities		239,481	240,973
Total liabilities		273,374	263,939
Net assets		734,295	754,333

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

WEL Networks Limited
Balance sheet
As at 30 September 2021

	Note	Consolidated 30 September 2021 Unaudited $'000	Consolidated 31 March 2021 Audited (restated) $'000
Equity			
Contributed equity		111,142	127,142
Reserves		161,061	159,436
Retained earnings		462,092	467,755
Equity attributable to the shareholder of WEL Networks Limited		734,295	754,333
Total equity		734,295	754,333

Rob Campbell
Chairman

Carolyn Steele
Director

25 November 2021

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

WEL Networks Limited
Statement of changes in equity
For the half-year ended 30 September 2021

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2020	111,142	29,000	144,286	279,364	5,879	569,671
Profit after income tax benefit for the half-year	-	-	-	179,586	30,038	209,624
Other comprehensive income for the half-year, net of tax	-	-	-	-	-	-
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(1,046)	1,046	-	-
Cashflow hedges (net of tax)	-	-	12,535	-	-	12,535
Total comprehensive income for the half-year	-	-	11,489	180,632	30,038	222,159
Disposal of minority interest	-	-	-	-	(35,917)	(35,917)
Transactions with owners:						
Repayment of convertible notes (note 19)	-	(13,000)	-	-	-	(13,000)
Interest on convertible notes (note 19)	-	-	-	(301)	-	(301)
Dividends paid (note 19)	-	-	-	(6,000)	-	(6,000)
Balance at 30 September 2020	111,142	16,000	155,775	453,695	-	736,612

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 April 2021	111,142	16,000	159,436	467,755	754,333
Profit after income tax expense for the half-year	-	-	-	6,872	6,872
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(1,492)	1,492	-
Movement in equity investments at fair value through other comprehensive income	-	-	3,117	-	3,117
Total comprehensive income for the half-year	-	-	1,625	8,364	9,989
Transactions with owners:					
Repayment of convertible notes (note 19)	-	(16,000)	-	-	(16,000)
Interest on convertible notes (note 19)	-	-	-	(44)	(44)
Dividends/discount distributions paid (note 19)	-	-	-	(13,983)	(13,983)
Balance at 30 September 2021	111,142	-	161,061	462,092	734,295

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

WEL Networks Limited
Statement of cash flows
For the half-year ended 30 September 2021

		Consolidated	
	Note	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Cash flows from operating activities			
Receipts from customers		74,228	66,976
Payments to suppliers and employees		(36,944)	(33,937)
Income taxes paid		(1,350)	(1,751)
Discontinued operations from operating activities	5	-	26,269
Net cash from operating activities		35,934	57,557
Cash flows from investing activities			
Payments for financial assets at fair value through other comprehensive income	9	(80,000)	-
Payments for property, plant and equipment	6	(25,356)	(20,276)
Payments for intangibles	7	(1,131)	(1,130)
Proceeds from disposal of property, plant and equipment		181	99
Interest received		48	-
Interest received on finance leases		850	-
Payments received for finance leases		271	-
Discontinued operations from investing activities	5	-	502,029
Net cash from/(used in) investing activities		(105,137)	480,722
Cash flows from financing activities			
Repayment of borrowings		-	(361,000)
Interest paid		(3,116)	(28,051)
Interest on convertible notes	19	(44)	(301)
Interest paid on lease liabilities		(37)	(51)
Dividends/discount distributions paid	19	(13,983)	(6,000)
Payments for lease liabilities		(129)	(68)
Repayment of convertible notes	19	(16,000)	(13,000)
Discontinued operations from financing activities	5	-	1,493
Net cash used in financing activities		(33,309)	(406,978)
Net increase/(decrease) in cash and cash equivalents		(102,512)	131,301
Cash and cash equivalents at the beginning of the financial half-year		124,047	871
Cash and cash equivalents at the end of the financial half-year		21,535	132,172

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

Note 1. Summary of significant accounting policies

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

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

The principal continuing activities of the Group consist of:

- The electricity networks business delivering energy to customers in the Waikato Region;
- The generation and sale of wholesale and retail electricity; and
- Providing project and commercial management in the delivery of innovative energy solutions.

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.

These financial statements have been approved for issue by the Board of Directors on 25 November 2021.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2021 and any public announcements made by WEL Networks Limited during the interim reporting period. The same accounting policies and methods of computation have been applied in preparation of the financial statements as were applied in the most recent set of annual financial statements for the year ended 31 March 2021. Where relevant, further information has been either set out below or in the relevant note. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Basis of preparation of financial statements

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

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

These interim 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.

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

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

Note 1. Summary of significant accounting policies (continued)

Significant changes and disclosures in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 September 2021:

- $28.4M was derecognised from the electricity network in property, plant and equipment as at 31 March 2021 relating to assets now subject to a finance lease (as a lessor). $3.1M of this was subsequently identified as relating to an easement recorded as an intangible asset. The property, plant, and equipment, and intangibles opening net book amounts as at 1 April 2021 have been restated to correct this error (refer to note 6 and note 7);
- Reintroduction of the WEL Electricity Discount Programme for the financial year ended 31 March 2022. The discount has been proposed to be paid in April 2022. The discount payable is accrued monthly and recognised as a reduction in electricity line revenue. As at 30 September 2021, $6.6M discount payable is accrued (refer to note 8);
- Investment of $80M into equity and fixed interest managed funds (refer to note 9);
- Reduction of bank debt facilities by $80M to $45M (refer to note 12);
- Convertible note repayment to WEL Energy Trust of $16M (refer to note 19);
- Dividend payment to WEL Energy Trust of $5M (refer to note 19); and
- Discretionary discount payment of $9.0M paid to consumers on instruction from WEL Energy Trust in July 2021, recorded as a distribution (refer to note 19).

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their 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:

- Property, plant and equipment (refer to note 6);
- Intangibles (refer to note 7);
- Equity investments at fair value through other comprehensive income (refer to note 9),
- Redeemable Convertible Preference shares (refer to note 11); and
- Price discount (refer to note 19).

Coronavirus (COVID-19) pandemic

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

Note 3. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest 30 September 2021 Unaudited %	31 March 2021 Audited %
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%	100%

* Subsidiary of OurPower Holdings Limited

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

Infratec New Zealand Limited was incorporated on 24 November 2020, and purchased the New Zealand net assets of Infratec Limited on 3 December 2020. As the acquisition date was after 30 September 2020, amounts of revenue and profit and loss from the operations of Infratec New Zealand Limited are not included in the statement of profit or loss and other comprehensive income as at 30 September 2020. Infratec New Zealand Limited net assets are included in the balance sheet for the year ended 31 March 2021.

Note 4. 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 1. Depreciation and amortisation, finance income and finance expenses are not allocated to segments, as these types of activities are driven by the central treasury function of the Group.

Assets and liabilities, including financial assets, tax and borrowings, that are managed by the central treasury function of the Group are also not allocated to segments.

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.

Note 4. Operating segments (continued)

Operating segment information - continuing operations

Consolidated - 30 September 2021 Unaudited	Electricity network $'000	Other segments $'000	Total $'000
Revenue			
Segment revenue	60,023	6,843	66,866
Intersegment sales	(1,151)	-	(1,151)
Total revenue	58,872	6,843	65,715
EBITDA	22,954	(36)	22,918
Depreciation and amortisation			(13,842)
Finance income			3,242
Finance expenses			(3,556)
Profit/(loss) before income tax expense			8,762
Income tax expense			(1,890)
Profit after income tax expense			6,872
Assets			
Segment assets	677,237	26,504	703,741
Unallocated assets:			
Cash and cash equivalents			21,535
Redeemable Convertible Preference shares			196,836
Financial assets at fair value through other comprehensive income			83,727
Derivative financial instruments			1,830
Total assets			1,007,669
Liabilities			
Segment liabilities	33,423	1,573	34,996
Unallocated liabilities:			
Income tax			1,612
Borrowings			150,567
Deferred tax liabilities			86,199
Total liabilities			273,374

Note 4. Operating segments (continued)

Consolidated - 30 September 2020 Unaudited	Electricity network $'000	Other segments $'000	Total $'000
Revenue			
Segment revenue	64,832	6,280	71,112
Intersegment sales	(762)	-	(762)
Total revenue	64,070	6,280	70,350
EBITDA	31,484	3,722	35,206
Depreciation and amortisation			(13,293)
Finance income			8
Finance costs			(28,091)
Loss before income tax benefit			(6,170)
Income tax benefit			755
Loss after income tax benefit			(5,415)
Consolidated - 31 March 2021 Audited			
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

Note 5. Discontinued operations

Description

On September 2020, WEL Networks Limited (WEL) and Waipa Networks (Waipa) sold their shares in UFF Holdings Limited (UFFH) Group, including Hamilton based fibre business Tuatahi First Fibre Limited (formally known as Ultrafast Fibre Limited (UFF)).

First Fibre Bidco NZ Limited purchased WEL's 85% majority shareholding and Waipa's 15% shareholding for $854M, of which consideration of $200M payable to WEL is deferred for 18 months from completion. The $200M deferred payment is in the form of Redeemable Convertible Preference shares issued by First Fibre Bidco NZ Limited. If no notice of redemption or sale is received from First Fibre Bidco NZ Limited prior to 28 February 2022, then the put option for conversion to ordinary shares can be initiated by WEL (refer to note 11).

Note 5. Discontinued operations (continued)

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 was recognised at 31 March 2021 following changes to NZ tax legislation for a 'same or similar' business test. This allows UFF to utilise historical 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 3.25%. This is payable when the losses are utilised and therefore $2.8M is recognised as current assets in 'Trade receivables' and $1.4M recognised as non-current assets in 'Other receivables - vendor tax losses due'.

Financial performance information

	Consolidated 30 September 2020 Unaudited $'000
Revenue	46,376
Expenses	(30,959)
Profit before income tax expense	15,417
Income tax expense	(10,342)
Profit after income tax expense	5,075
Gain on disposal before income tax	209,964
Income tax expense	-
Gain on disposal after income tax expense *	209,964
Profit after income tax expense from discontinued operations	215,039

* An additional gain on disposal of $4.6M was recognised at 31 March 2021 which resulted in a total gain on disposal after income tax of $214.5M. This was due to $4.9M of vendor tax losses gained as a result of the change NZ tax legislation detailed above; and $0.3M additional costs of disposal identified subsequent to 30 September 2020.

Cash flow information

	Consolidated 30 September 2020 Unaudited $'000
Net cash from operating activities	26,269
Net cash from investing activities	502,029
Net cash from financing activities	1,493
Net increase in cash and cash equivalents from discontinued operations	529,791

Included in net cash from investing activities, for the period ended 30 September 2020, is cash consideration received from disposal of UFFH of $528.5M.

Note 5. Discontinued operations (continued)

Details of the disposal

	Consolidated 31 March 2021 Audited $'000
Cash received	653,478
Fair value of Redeemable Convertible Preference Shares	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 Limited	(31,448)
Gain on disposal before and after income tax attributable to the shareholder of WEL Networks Limited	183,084

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

Note 6. Property, plant and equipment

Consolidated	Electricity 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 2021	570,695	18,928	29,955	4,709	741	3,327	628,355
Correction of error - transferred to intangibles *	3,099	-	-	-	-	-	3,099
Restated opening net book amount as at 1 April 2021	573,794	18,928	29,955	4,709	741	3,327	631,454
Additions	22,015	3	692	729	82	1,802	25,323
Disposals	(1,483)	-	(8)	(93)	(1)	-	(1,585)
Transfers	276	393	1,164	23	406	(2,262)	-
Depreciation expense	(9,806)	(175)	(1,750)	(518)	(324)	-	(12,573)
Closing net book amount as at 30 September 2021	584,796	19,149	30,053	4,850	904	2,867	642,619
Cost/valuation	816,040	20,931	59,874	10,402	4,227	2,867	914,341
Accumulated depreciation	(231,244)	(1,782)	(29,821)	(5,552)	(3,323)	-	(271,722)
	584,796	19,149	30,053	4,850	904	2,867	642,619

The net book value of the Electricity network includes $24.1M of work in progress at 30 September 2021 (31 March 2021: $20.1M).

Note 6. Property, plant and equipment (continued)

* In the prior year, $28.4M was derecognised from the electricity network in property, plant and equipment relating to assets now subject to a finance lease (as a lessor), refer to note 10. $3.1M of this was subsequently identified as relating to an easement recorded as an intangible asset. The property, plant, and equipment, and intangibles (note 7) opening net book amount as at 1 April 2021 have been restated to correct this error.

Critical accounting judgements, estimates and assumptions

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.

A fair value assessment was undertaken (using updated market data) on 30 September 2021. Key inputs of market rent at $920,000 and a capitalisation rate of between 4.59% and 5.09% result in a valuation range of $18.1M to $20.0M. The Directors have determined that the current carrying value of $18.2M is within this valuation range and can be retained as it materially reflects fair value.

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 30 September 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 $581M to $633M (based on sensitivity to WACC low/high estimates), the Directors consider that the current carrying value of the network fixed assets of $585M 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 below.

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

Electricity Network:	Mid-point for valuation	Sensitivity Range	Valuation Impact of Sensitivity Range from Mid-point
WACC (Weighted Average Cost of Capital)	4.75%	4.25% - 5.25%	+ $27M / - $26M
Regulatory Asset Base (RAB) Multiple for Terminal Value (TV)	1.00x	0.98x - 1.02x	+/- $10M

Note 7. Intangibles

	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Customer contracts $'000	Total
Opening net book amount as at 1 April 2021	2,007	3,058	3,121	5,370	107	2,602	642	16,907
Correction of error - transferred from property, plant and equipment *	-	-	-	(3,099)	-	-	-	(3,099)
Restated opening net book amount as at 1 April 2021	2,007	3,058	3,121	2,271	107	2,602	642	13,808
Additions	5	120	-	15	-	991	-	1,131
Transfer	-	380	-	52	-	(432)	-	-
Amortisation charge	(235)	(677)	-	(23)	-	-	(193)	(1,128)
Closing net book amount as at 30 September 2021	1,777	2,881	3,121	2,315	107	3,161	449	13,811
Cost	4,106	20,417	3,121	4,857	107	3,161	770	36,539
Accumulated amortisation and impairment	(2,329)	(17,536)	-	(2,542)	-	-	(321)	(22,728)
	1,777	2,881	3,121	2,315	107	3,161	449	13,811

* Intangibles opening net book amount as at 1 April 2021 has been restated to correct an error, refer to note 6 for further information.

Critical accounting judgements, estimates and assumptions for intangibles

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

The carrying amount 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.

The key assumptions in the 5 year discounted cash flow value in use model include a discount rate of 13.5% pre-tax (11.1% post-tax) and a terminal growth rate of 2%. The cash flows are based on the current three-year management forecast (FY22 to FY24), with the remaining two years increasing with CPI (at 2%), followed by a terminal value. The most sensitive components of the cash flows driving the valuation are the assumptions in FY24. These include annual revenue of $34M, gross margin at 15%, and fixed costs of $4.1M p.a. This results in approximately $0.7M of pre-tax annual cash flows (before discounting) in the terminal value calculation.

The carrying amount of the CGU is $4.4M, and the midpoint of the valuation is $5.3M.

Note 7. Intangibles (continued)

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	From	To
Gross Revenue FY24 (basis for future years)	$33.6M	$32.9M
Gross Margin FY24 onwards	15.0%	14.7%
WACC (pre-tax)	13.5%	15.7%
Terminal Value Growth Rate	2.0%	-0.7%

Directors have completed an impairment assessment as at 30 September 2021 and noted that the recoverable amount for Infratec is greater than the carrying amount by $0.9M at the mid-point. Based on this the Directors consider that there are no indicators of impairment and the current carrying value of goodwill can be retained.

Note 8. Revenue

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
From continuing operations		
Revenue from contracts with customers		
Electricity lines revenue	61,726	59,266
Discount *	(6,629)	-
Net lines revenue	55,097	59,266
Electricity third party contributions	3,775	4,804
Other income	3,948	3,480
OurPower electricity retail revenue	2,895	1,706
	65,715	69,256
Other revenue		
Operating lease revenue	-	1,094
Revenue from continuing operations	65,715	70,350

* WEL Networks Limited has reintroduced the WEL Electricity Discount Programme for the year ended 31 March 2022. The discount has been proposed to be paid to consumers during April 2022. A discretionary discount of $9.0M was also paid to consumers on instruction from WEL Energy Trust in July 2021, treated in the form of a dividend (refer to note 19).

For the purposes of segmental reporting in note 4, for the period ended 30 September 2020, other operating segments includes operating lease revenue.

Note 8. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Electricity Network		
Electricity line revenue	55,097	59,266
Third party contributions	3,775	4,804
	58,872	64,070
Other Income		
Other income	3,948	3,480
OurPower electricity retail revenue	2,895	1,706
	6,843	5,186
Timing of revenue recognition		
Goods transferred at a point in time	5,308	5,378
Services transferred over time	60,407	63,878
Revenue from contracts with customers from continuing operations	65,715	69,256

Accounting policy for electricity lines revenue

The Group invoices its customers (predominately 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 at the point at which WEL have a right to invoice. The reported net line revenue includes the provision for the annual customer discounts that are accrued on a monthly basis (over time) in line with usage but only paid to customers once a year. Unclaimed discounts are released against the statement of comprehensive income.

Note 9. Financial assets at fair value through other comprehensive income

During May 2021, WEL Networks Limited (WEL) invested $80M into managed equity and fixed interest investment funds. The investments held within these managed funds are in the form of fund units and as such are classified as equity instruments.

Note 9. Financial assets at fair value through other comprehensive income (continued)

	Consolidated 30 September 2021 Unaudited $'000	Consolidated 31 March 2021 Audited $'000
Current assets		
Paua Wealth Management Fund	41,348	-
Harbour Asset Management Fund	42,379	-
	83,727	-

An amount of $3.1M has been recognised in other comprehensive income due to the movements in the fair value of the equity investments to 30 September 2021.

Financial assets at fair value through other comprehensive income are classified as current assets as there are no restrictions on the investments being realised and converted to cash and cash equivalents at any time.

Critical accounting judgements, estimates and assumptions

The Group has made an irrevocable election to classify these equity investments at fair value through other comprehensive income (FVOCI) under NZ IFRS 9 Financial Instruments as the Group considers this measurement to be the most representative of the business model for these assets that are intended to be held long term for strategic purposes.

Equity investments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income, and accumulated in the financial assets revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred directly to retained earnings. Qualifying dividends on these investments are recognised in profit or loss. Refer to note 18 for further information on financial instruments.

Note 10. Net investment in lease

	Consolidated 30 September 2021 Unaudited $'000	Consolidated 31 March 2021 Audited $'000
Net investment in lease - current	560	550
Net investment in lease - non-current	27,176	27,457
	27,736	28,007
Undiscounted lease receivable:		
Current net investment in lease	2,235	2,242
Maturing between 1 and 2 years	2,221	2,229
Maturing between 2 and 3 years	2,203	2,213
Maturing between 3 and 4 years	2,183	2,194
Maturing between 4 and 5 years	2,160	2,172
Beyond 5 years	51,090	52,164
Less effect of discounting	(34,356)	(35,207)
	27,736	28,007

Note 11. Redeemable Convertible Preference shares

	Consolidated	
	30 September 2021 Unaudited $'000	31 March 2021 Audited $'000
Redeemable Convertible Preference shares	196,836	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 5.

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 30 September 2021 using a discounted cash flow (DCF) methodology using a discount rate of between 2.94% - 3.56% with a midpoint of 3.25% 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 %	2.94%	3.25%	3.56%
Fair value	197,131	196,836	196,542

Note 12. Borrowings

	Consolidated	
	30 September 2021 Unaudited $'000	31 March 2021 Audited $'000
Non-current liabilities		
Maturing between 1 and 2 years	150,567	-
Maturing between 2 and 3 years	-	152,178
	150,567	152,178

Refer to note 18 for further information on financial instruments.

Note 12. Borrowings (continued)

Following the sale of UFF Holdings Limited, total bank facilities were further reduced in June 2021 from $125M to $45M, of which $45M remains available to the Group to be drawn as at 30 September 2021. The facilities expire as follows:

Facility expiry date	Facility available $'000	Total facility $'000
30 November 2022	15,000	15,000
30 November 2023	15,000	15,000
30 June 2024	15,000	15,000
	45,000	45,000

Bank and debt security interest rate risk, carrying and contractual values
The carrying value of interest-bearing debt is $150.6M (31 March 2021: $152.2M). The fair value of contractual cash flow is $164.7M (31 March 2021: $167.2M).

Note 13. Expenses, excluding finance costs

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited (restated) $'000
Transmission costs	13,360	13,570
Employee benefits	19,986	16,698
Capitalised labour	(7,227)	(6,080)
Materials and services	1,886	791
Contracting services	2,692	2,400
Consultancy	2,012	1,035
Contracting cost of sales	3,595	2,102
Net loss on disposal of property, plant and equipment	1,438	1,589
Vehicle expenditure	674	538
Directors' fees	246	174
Bad debts written off	9	18
Change in provision for impaired receivables	(5)	(95)
Other expenses	3,118	2,404
	41,784	35,144

Due to a classification error, Materials and services was overstated by $3.1M, and Capitalised Labour was understated by $3.1M for the half-year ended at 30 September 2020. Capitalised labour has been restated as $6.1M (30 Sept 2020: $9.2M) and Materials and services has been restated as $0.8M (30 Sept 2020: $3.9M) in the comparatives to correct this error.

Note 14. Other gains/(losses)

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Loss on electricity price derivatives	(1,623)	-
Investment income	610	-
	(1,013)	-

Note 15. Finance expenses

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Interest and finance charges paid/payable	3,519	10,115
Finance expense on leases	37	32
Interest swap termination costs	-	17,944
	3,556	28,091

Note 16. Finance income

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Short-term bank deposits	48	8
Finance income on lease	850	-
Fair value of Redeemable Convertible Preference shares (note 11)	2,302	-
Fair value of vendor tax losses receivable	42	-
	3,242	8

Note 17. Derivative financial instruments

	Consolidated 30 September 2021 Unaudited $'000	Consolidated 31 March 2021 Audited $'000
Current assets		
Electricity price derivatives	-	2,962
Non-current assets		
Electricity price derivatives	2	1,869
Interest rate swaps - fair value hedges	1,830	3,785
	1,832	5,654
Current liabilities		
Electricity price derivatives	157	-
	1,675	8,616

Refer to note 18 for further information on financial instruments.

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

Note 18. Financial instruments

Market risk

Price risk

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

The Group also has exposure to equity securities price risk from investment funds classified in the balance sheet as fair value through other comprehensive income (FVOCI). To manage the price risk arising on the investment funds, the Group diversifies the portfolio through managed funds.

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.

Note 18. Financial instruments (continued)

September 2021 Consolidated	Maturity Date	Face value $'000	Unamortised costs $'000	Adjustment on hedged risk $'000	Carrying value $'000
Bond (4.90%)	Aug 23	150,000	(1,263)	1,830	150,567
Fair value interest rate swaps (2.86%)	Aug 23	(75,000)	-	-	-
		75,000	(1,263)	1,830	150,567

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

Liquidity risk

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

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

30 September 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	157,350	-	-	-	164,700	150,567
Trade and other payables	9,033	-	-	-	-	9,033	9,033
Customer discount payable	6,629	-	-	-	-	6,629	6,629
Lease liabilities	266	195	183	143	1,234	2,021	2,021
Total non-derivatives	23,278	157,545	183	143	1,234	182,383	168,250
Derivatives							
Interest rate swaps							
- inflow	3,675	3,661	-	-	-	-	-
- outflow	(2,456)	(3,050)	-	-	-	-	1,830
	1,219	611	-	-	-	-	1,830

Note 18. 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 liabilities	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

Note 18. Financial instruments (continued)

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).

The equity investments (refer to note 9) are revalued based on readily available market prices provided by the fund managers. The equity investments were revalued to market value as at 30 September 2021. This is a Level 1 valuation.

30 September 2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Interest rate contracts	-	1,830	-	1,830
Electricity price contracts	2	-	-	2
Redeemable convertible preference shares	-	-	196,836	196,836
Investments	83,727	-	-	83,727
	83,729	1,830	196,836	282,395
Liabilities				
Electricity price contracts	(157)	-	-	(157)
	83,572	1,830	196,836	282,238

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

Note 19. Related party transactions

Other transactions with key management personnel or entities related to them

Changes to key management personnel during the 6 months to 30 September 2021 include Jacqueline Colliar and Julian Cook who were appointed as directors, and Anthony Barnes and Candace Kinser who ceased as directors, in June 2021.

Significant transactions with other related parties

Related party transactions with WEL Energy Trust

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Interest on convertible notes	(44)	(301)
Repayment of convertible notes	(16,000)	(13,000)
	(16,044)	(13,301)

Total dividends/discount distributions paid during the period ended 30 September 2021 were $14.0M net (30 September 2020: $6M net), comprised of $5.0M dividend paid to WEL Energy Trust and $9.0M discretionary discount paid to consumers on instruction from WEL Energy Trust.

Critical accounting judgements, estimates and assumptions

A discretionary discount of $9.0M was paid to consumers on instruction from WEL Energy Trust in July 2021. In contrast to the on-going WEL Electricity Discount Programme (as outlined in note 8), the discretionary discount is treated in the form of a dividend on the basis that the distribution was fixed based on profits generated by the Group for the previous reporting period, there was no expectation by end consumers that they would receive this payment in exchange for entering into the transaction for WEL's goods and services and it was a discretionary discount distributed to the Trust's beneficiaries on instruction from the Trust. This transaction has therefore been viewed as a dividend as defined under NZ IFRS 9.

Related party transactions with Waipa Networks Limited

	Consolidated	
	30 September 2021 Unaudited $'000	30 September 2020 Unaudited $'000
Current period interest expense	-	1,746

With the completion of the sale of UFF Holdings on 30 September 2020 the loan balance for Waipa Networks Limited was fully repaid (refer to note 5).

Note 20. Events after the reporting period

There were no events occurring subsequent to 30 September 2021 which require adjustments to or disclosure in the financial statements.

Independent auditor's review report

To the shareholder of WEL Networks Limited

Report on the consolidated interim financial statements

Our conclusion

We have reviewed the consolidated interim financial statements of WEL Networks Limited (the Company) and its controlled entities (the Group), which comprise the balance sheet as at 30 September 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended on that date, and a summary of significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2021, and its financial performance and cash flows for the six months then ended, in accordance with the New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

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

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

Directors' responsibility for the financial statements

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

Auditor's responsibility for the review of the financial statements

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

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

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 November 2021

Auckland