WEL Networks Limited

NZBN 9429039416926

Interim Report - 30 September 2019

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 2019

	Note	Consolidated 30 September 2019 Unaudited $'000	Consolidated 30 September 2018 Unaudited $'000
Revenue	6	115,167	109,770
Expenses			
Expenses, excluding finance costs	8	(48,107)	(47,824)
Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associates		67,060	61,946
Depreciation and amortisation expense		(26,140)	(22,947)
Finance expenses	9	(12,258)	(10,762)
Finance income		14	244
Share of net profits/(losses)/revaluations of existing interest in associates		-	(266)
Profit before income tax expense		28,676	28,215
Income tax expense		(7,613)	(7,093)
Profit after income tax expense for the half-year		21,063	21,122
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(3,646)	(655)
Other comprehensive income for the half-year, net of tax		(3,646)	(655)
Total comprehensive income for the half-year		17,417	20,467
Profit for the half-year is attributable to:			
Non-controlling interest		135	(66)
Shareholder of WEL Networks Limited		20,928	21,188
		21,063	21,122
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		135	(66)
Shareholder of WEL Networks Limited		17,282	20,533
		17,417	20,467

Earnings per share attributable to the ordinary equity holders of the company during the period:		
Attributable to continuing operations:	Cents	Cents
Basic earnings per share	256.69	259.90
Diluted earnings per share	256.69	259.90

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

WEL Networks Limited
Statement of financial position
As at 30 September 2019

	Note	Consolidated 30 September 2019 Unaudited $'000	31 March 2019 Audited $'000
Assets			
Current assets			
Cash and cash equivalents		1,830	1,289
Trade and other receivables		24,746	19,611
Total current assets		26,576	20,900
Non-current assets			
Trade and other receivables		562	-
Derivative financial instruments	10	4,747	2,538
Property, plant and equipment	4	1,170,990	1,128,231
Right-of-use assets	12	5,983	-
Intangibles	5	89,688	89,907
Total non-current assets		1,271,970	1,220,676
Total assets		1,298,546	1,241,576
Liabilities			
Current liabilities			
Trade and other payables		25,261	22,791
Borrowings	7	-	99,179
Lease liabilities	13	894	-
Derivative financial instruments	11	-	115
Income tax		2,533	4,142
Provisions		3,934	3,858
Contract liabilities		15,153	14,938
Total current liabilities		47,775	145,023
Non-current liabilities			
Borrowings	7	499,154	363,000
Lease liabilities	13	5,159	-
Derivative financial instruments	11	17,202	12,023
Deferred tax liabilities		85,059	84,060
Provisions		92	92
Loan from non-controlling interest	14	86,673	81,170
Contract liabilities		901	915
Total non-current liabilities		694,240	541,260
Total liabilities		742,015	686,283
Net assets		556,531	555,293

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

WEL Networks Limited
Statement of financial position
As at 30 September 2019

	Note	Consolidated 30 September 2019 Unaudited $'000	Consolidated 31 March 2019 Audited $'000
Equity			
Contributed equity		140,142	150,142
Reserves		145,330	149,736
Retained profits		264,530	247,505
Equity attributable to the shareholder of WEL Networks Limited		550,002	547,383
Non-controlling interest		6,529	7,910
Total equity		556,531	555,293

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

WEL Networks Limited
Statement of changes in equity
For the half-year ended 30 September 2019

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2018 (audited)	111,142	39,000	155,268	216,735	7,355	529,500
Profit/(loss) after income tax expense for the half-year	-	-	-	21,188	(66)	21,122
Other comprehensive income for the half-year, net of tax:						
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(1,056)	1,056	-	-
Cash flow hedges (net of tax)	-	-	(655)	-	-	(655)
Acquired minority interest	-	-	-	-	1,276	1,276
Total other comprehensive income	-	-	(1,711)	1,056	1,276	621
Total comprehensive income	-	-	(1,711)	22,244	1,210	21,743
Transactions with owners:						
Interest on convertible notes (note 14)	-	-	-	(1,235)	-	(1,235)
Dividends paid	-	-	-	(350)	-	(350)
Balance at 30 September 2018 (unaudited)	111,142	39,000	153,557	237,394	8,565	549,658

Consolidated	Share capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 April 2019 (audited)	111,142	39,000	149,736	247,505	7,910	555,293
Profit after income tax expense for the half-year	-	-	-	20,928	135	21,063
Other comprehensive income for the half-year, net of tax:						
Movement in revaluation from disposal of distribution network assets (net of tax)	-	-	(760)	760	-	-
Cashflow hedges (net of tax)	-	-	(3,646)	-	-	(3,646)
Total other comprehensive income	-	-	(4,406)	760	-	(3,646)
Total comprehensive income	-	-	(4,406)	21,688	135	17,417
Transactions with owners:						
Repayment of convertible note	-	(10,000)	-	-	-	(10,000)
Purchase of minority interest	-	-	-	302	(1,516)	(1,214)
Interest on convertible notes (note 14)	-	-	-	(965)	-	(965)
Dividends paid	-	-	-	(4,000)	-	(4,000)
Balance at 30 September 2019 (unaudited)	111,142	29,000	145,330	264,530	6,529	556,531

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 2019

	Note	Consolidated 30 September 2019 Unaudited $'000	Consolidated 30 September 2018 Unaudited $'000
Cash flows from operating activities			
Receipts from customers		108,972	93,316
Payments to suppliers and employees		(47,315)	(47,180)
Income taxes paid		(6,805)	(4,183)
Net cash from operating activities		54,852	41,953
Cash flows from investing activities			
Payments for investments		(1,241)	-
Payments for property, plant and equipment	4	(63,627)	(68,372)
Payments for intangibles	5	(1,784)	(1,287)
Proceeds from disposal of property, plant and equipment		181	194
Net cash used in investing activities		(66,471)	(69,465)
Cash flows from financing activities			
Proceeds from borrowings		38,611	-
Proceeds from bond issue		-	150,000
Repayment of borrowings		-	(112,013)
Interest paid		(10,866)	(9,038)
Interest on convertible notes		(995)	(1,235)
Interest on lease liabilities		(161)	-
Dividends paid		(4,000)	(350)
Repayment of lease liabilities		(429)	-
Repayment of convertible notes		(10,000)	-
Net cash from financing activities		12,160	27,364
Net increase/(decrease) in cash and cash equivalents		541	(148)
Cash and cash equivalents at the beginning of the financial half-year		1,289	901
Cash and cash equivalents at the end of the financial half-year		1,830	753

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

Note 1. Summary of significant accounting policies

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

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

These financial statements have been approved for issue by the Board of Directors on 27 November 2019.

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 2019 and any public announcements made by WEL Networks Limited during the interim reporting period. Other than the adoption of NZ IFRS 16 (refer note 13 for transition), 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 2019. 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, except for the policies stated below.

Basis of preparation of financial statements

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

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

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

Statutory base

WEL Networks Limited is a company registered under the Companies Act 1993 and the consolidated financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting.

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

Significant changes and disclosures in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 September 2019:

- The adoption of the new leases standard NZ IFRS 16 Leases, refer note 13;
- Acquisition of the 49% minority shareholding of Opunake Hydro Holdings Limited (OHHL) on 5 September 2019, making OHHL a 100% owned subsidiary of WEL Networks Limited, the impact of this transaction was immaterial to the Group;
- Repayment of $10M convertible notes to WEL Energy Trust was made on 30 April 2019 as disclosed in the 31 March 2019 financial statements; and
- Waikato Networks Limited, a subsidiary of WEL Networks Limited, changed it's name on 28 August 2019 to UFF Holdings Limited.

Note 2. Critical accounting judgements, estimates and assumptions

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

- Non-current - property, plant and equipment (note 4);
- Non-current - intangibles (note 5); and
- Lease liabilities (note 13).

Deferred tax assets
Included in the net deferred tax liability at 30 September 2019 is a $12.2 million asset (31 March 2019: $13.7 million) arising principally from the recognition of tax losses in Ultrafast Fibre Limited. NZ IAS 12 Income Taxes requires the recovery of the losses to be probable in order to be recognised in the balance sheet. For the losses to be recoverable the Group is required to have, within prescribed limits, continuity of ownership through to the period in which the losses are utilised and foreseeable profits to use against. The directors have reviewed this for the period and on the basis that shareholder continuity has been maintained the Group has continued to recognise the total deferred tax asset associated with these losses.

Note 3. Operating segments

Operating segment information

Consolidated - 30 September 2019 Unaudited	Electricity network $'000	Fibre network $'000	Other segments $'000	Total $'000
Revenue				
Segment revenue	81,826	44,735	4,664	131,225
Intersegment sales	(10,791)	(5,267)	-	(16,058)
Total revenue	71,035	39,468	4,664	115,167
EBITDA	39,647	24,597	2,816	67,060
Depreciation and amortisation				(26,140)
Finance income				14
Finance costs				(12,258)
Profit before income tax expense				28,676
Income tax expense				(7,613)
Profit after income tax expense				21,063
Assets				
Segment assets	633,392	637,952	25,372	1,296,716
Unallocated assets:				
Cash and cash equivalents				1,830
Total assets				1,298,546
Liabilities				
Segment liabilities	38,578	12,677	139	51,394
Unallocated liabilities:				
Provision for income tax				2,533
Borrowings				585,827
Deferred tax liability				85,059
Derivative financial instruments				17,202
Total liabilities				742,015

Note 3. Operating segments (continued)

Consolidated - 30 September 2018 Unaudited	Electricity Network $'000	Fibre Network $'000	Other segments $'000	Total $'000
Revenue				
Segment revenue	88,173	31,721	4,052	123,946
Intersegment revenue	(14,167)	(9)	-	(14,176)
Total revenue	74,006	31,712	4,052	109,770
EBITDA	42,680	17,980	1,286	61,946
Depreciation and amortisation				(22,947)
Finance income				244
Finance expenses				(10,762)
Share of net profits/(losses)/revaluations of existing interest in associates				(266)
Profit before income tax expense				28,215
Income tax expense				(7,093)
Profit after income tax expense				21,122

Consolidated - 31 March 2019 Audited	Electricity Network $'000	Fibre Network $'000	Other segments $'000	Total $'000
Assets				
Segment assets	612,142	599,108	26,499	1,237,749
Unallocated assets:				
Cash and cash equivalents				1,289
Derivative financial instruments				2,538
Total assets				1,241,576
Liabilities				
Segment liabilities	29,539	13,077	(22)	42,594
Unallocated liabilities:				
Income tax				4,142
Borrowings				543,349
Deferred tax liabilities				84,060
Derivative financial instruments				12,138
Total liabilities				686,283

Note 4. Property, plant and equipment

	Electricity network $'000	Fibre network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Assets under construction $'000	Total $'000
Opening net book amount as at 1 April 2019	559,979	466,912	17,898	32,090	4,917	1,548	44,887	1,128,231
Additions	21,932	29,384	-	168	817	197	15,605	68,103
Disposals	(1,576)	-	-	-	(100)	(5)	-	(1,681)
Transfers	(43)	32,506	-	44	164	5	(32,676)	-
Depreciation charge	(9,385)	(11,336)	(131)	(1,829)	(576)	(406)	-	(23,663)
Closing net book amount as at 30 September 2019	570,907	517,466	17,767	30,473	5,222	1,339	27,816	1,170,990
Cost/valuation	769,938	583,623	18,974	53,622	10,123	4,775	27,816	1,468,871
Accumulated depreciation	(199,031)	(66,157)	(1,207)	(23,149)	(4,901)	(3,436)	-	(297,881)
Net book amount	570,907	517,466	17,767	30,473	5,222	1,339	27,816	1,170,990

Critical accounting estimates and judgements

Land and buildings were revalued to fair value for highest and best use on 31 March 2018 by independent valuers, SGHU Valuations LP Registered Valuers using a market approach being a Level 3 valuation. This has been reviewed by the Directors as at 30 September 2019 and have determined that the carrying value remains materially appropriate.

It is the Group's Policy to revalue the Electricity Network with sufficient regularity to ensure the carrying value does not differ materially from the fair value, but on an at least three yearly basis, and as such the Group engaged Deloitte to perform the valuation for the year ended 31 March 2019. This was a Level 3 valuation. In September 2019 the Commerce Commission published their determination of regulatory WACC for electricity distribution businesses, set at 4.57% (Vanilla, 67% percentile). The determination will apply to for the 2020-2025 default price-quality paths, and while WEL Networks is not a price-quality regulated electricity distribution business, it aims to be broadly in-line. The change in regulatory WACC will impact WEL's regulated revenues over the next five years. This reduction in WACC is driven by low interest rates. This also drives a reduction in the WACC used to discount future cash flows in the DCF model. These offsetting impacts have been evaluated and reviewed by the Directors as at 30 September 2019, with the conclusion that there is no material difference between the current carrying value and fair value.

It is the Group's Policy to revalue the Fibre Network with sufficient regularity to ensure the carrying value does not differ materially from the fair value, but on an at least three yearly basis, and as such the Group engaged Deloitte to perform the valuation for the year ended 31 March 2019. This was a Level 3 valuation. Since then there has been no changes to the underlying assumptions used to derive the fair value determined at that time, the Directors are of the view that there is no material difference between the current carrying value and fair value.

Capital commitments

Ultrafast Fibre Limited has committed capital expenditure to the value of $5 million at 30 September 2019 but not yet incurred. This expenditure is a contracted commitment with Crown Infrastructure Partners Limited for the second phase of the fibre network build.

Note 5. Intangibles

	Internally generated software $'000	Computer software $'000	Goodwill $'000	Easements and consents $'000	Leasehold interests $'000	Assets under construction $'000	Net Book Value $'000
Opening net book amount as at 1 April 2019	2,998	5,845	74,484	5,247	107	1,226	89,907
Additions	146	243	-	20	-	1,401	1,810
Disposals	-	(51)	-	-	-	-	(51)
Transfer	121	147	-	49	-	(316)	1
Amortisation charge	(811)	(1,141)	-	(27)	-	-	(1,979)
Closing net book amount as at 30 September 2019	2,454	5,043	74,484	5,289	107	2,311	89,688
Cost	6,470	25,025	74,484	7,731	107	2,311	116,128
Accumulated amortisation and impairment	(4,016)	(19,982)	-	(2,442)	-	-	(26,440)
	2,454	5,043	74,484	5,289	107	2,311	89,688

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.

The carrying value of goodwill is $74M and relates to Ultrafast Fibre Limited as a single cash generating unit. This has been reviewed by the Directors as at 30 September 2019, and the carrying value remains materially appropriate.

Note 6. Revenue

	Consolidated 30 September 2019 Unaudited $'000	Consolidated 30 September 2018 Unaudited $'000
Revenue from contracts with customers		
Electricity lines revenue	65,116	68,375
Discount	-	36
Electricity third party contributions	5,919	4,324
Fibre network access services	38,442	30,407
Fibre third party contributions	1,026	1,305
Other income	3,576	4,052
	114,079	108,499
Other revenue		
Operating lease revenue	1,088	1,271
Revenue	115,167	109,770

Note 6. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	
	30 September 2019 Unaudited $'000	30 September 2018 Unaudited $'000
Electricity Network		
Electricity line revenue	65,116	68,411
Third party contributions	5,919	4,324
	71,035	72,735
Fibre Network & Other Income		
Fibre network access services	38,442	30,407
Third party contributions	1,026	1,305
Other income	3,576	4,052
	43,044	35,764
Timing of revenue recognition		
At a point in time	7,703	5,371
Over time	106,376	103,128
	114,079	108,499

For the purposes of segmental reporting (note 3) other operating segments includes the operating lease revenue.

	Consolidated	
	30 September 2019 Unaudited $'000	30 September 2018 Unaudited $'000
Lessor minimum lease commitments		
Committed at the reporting date but not recognised as assets receivable:		
Within one year	2,171	2,178
One to five years	8,560	8,592
More than five years	52,077	54,218
	62,808	64,988

The carrying value of Electricity Network Assets (as noted in Note 4) that are subject to Lessor arrangements is $8.530m. (March 2019: $8.654m)

The lease is for specific electricity distribution assets built for a electricity generator. The lease ensures that a large proportion of the initial cost outlaid is recovered through lease payments. There is an ability to extend the lease for an additional period, but there is no certainty that this will be taken up. Early termination of the agreement ensures that a reasonable recovery of costs is achieved.

Note 7. Borrowings

	Consolidated 30 September 2019 Unaudited $'000	Consolidated 31 March 2019 Audited $'000
Current liabilities		
Bank loans - maturing within 1 year	-	99,179
Non-current liabilities		
Maturing between 1 and 2 years	-	(808)
Maturing between 2 and 3 years	97,500	63,216
Maturing between 3 and 4 years (includes bond)	341,654	99,291
Maturing between 4 and 5 years	60,000	201,301
	499,154	363,000
	499,154	462,179

Total borrowings

The total borrowings are as follows:

	Consolidated 30 September 2019 Unaudited $'000	Consolidated 31 March 2019 Audited $'000
Current borrowings - bank	-	99,179
Non-current borrowings - bank & bond	499,154	363,000
Loan from non-controlling interest	86,673	81,170
	585,827	543,349

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

The Group utilises interest rate swaps to manage interest rate risk. The fair value of those derivatives as at 30 September 2019 is $12,455,000 (31 March 2019: $9,600,000)

The carrying value of interest bearing debt is $499,154,000 (31 March 2019: $462,179,000). The fair value of contractual cash flow is $634,442,000 (31 March 2019: $603,541,000)

Note 8. Expenses, excluding finance costs

	Consolidated	
	30 September 2019 Unaudited $'000	30 September 2018 Unaudited $'000
Transmission costs	14,805	14,765
Employee benefits	22,859	22,381
Capitalised labour	(12,573)	(13,405)
Materials and services	3,806	4,279
Premise networking costs	4,785	4,867
Contracting services	2,181	2,213
Consultancy	1,789	1,482
Contracting cost of sales	689	2,325
Net loss on disposal of property, plant and equipment	1,498	1,335
Vehicle expenditure	703	789
Operating leases	331	1,247
Directors' fees	322	333
Bad debts written off	133	61
Change in provision for impaired receivables	28	183
Other expenses	6,751	4,969
	48,107	47,824

Expenses relating to leases of low value and short term leases accounted for under NZ IFRS 16 is $288,000 and $43,000 respectively are included in the operating expenses above.

Note 9. Finance expenses

	Consolidated	
	30 September 2019 Unaudited $'000	30 September 2018 Unaudited $'000
Interest and finance charges paid/payable	13,240	11,307
Capitalised interest	(1,143)	(545)
Finance expense on leases	161	-
	12,258	10,762

Note 10. Derivative financial instruments - Assets

	Consolidated	
	30 September 2019 Unaudited $'000	31 March 2019 Audited $'000
Non-current assets		
Interest rate swaps - fair value hedges	4,747	2,538

Note 11. Derivative financial instruments - Liabilities

	Consolidated 30 September 2019 Unaudited $'000	31 March 2019 Audited $'000
Current liabilities		
Interest rate swap contracts - cash flow hedges	-	115
Non-current liabilities		
Interest rate swap contracts - cash flow hedges	17,202	12,023
	17,202	12,138
Total derivative financial instrument liability	12,455	9,600

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

Note 12. Right-of-use assets

Reconciliations

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

Consolidated	Land and Buildings $'000	Plant and Equipment $'000	Fibre Network $'000	Total $'000
Balance at 1 April 2019	2,733	499	3,250	6,482
Additions	-	-	-	-
Depreciation expense	(220)	(50)	(228)	(498)
Balance at 30 September 2019	2,513	449	3,022	5,984

Accounting policy

On transition to NZ IFRS 16, the Group has recognised a right-of-use asset equal to the value of the lease liability recognised.
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 the 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 and loss as incurred (refer note 8).

Note 13. Lease liabilities

New or amended Accounting Standards and Interpretations adopted

NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 from 1 April 2019. The standard replaces NZ IAS 17 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, these expenses associated with the lease under NZ IFRS 16 will be higher when compared to lease expenses under NZ IAS 17. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, payments relating to both the interest and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

NZ IFRS 16 was adopted using the simplified transition approach and as such the comparatives have not been restated. The below provides a reconciliation of the previously disclosed operating lease commitments to the opening lease liability on adoption:

	1 April 2019 $'000
Operating lease commitments disclosed at 31 March 2019	14,029
Discounting using the lessee's incremental borrowing rate at application (weighted average interest rate of 5.14%)	(2,157)
Less short term leases	(227)
Less low-value leases	(9,103)
Add additional service contracts now identified as leases	657
Add adjustments as a result of different treatment of extension and termination options	3,283
	6,482

The Group net profit after tax has decreased by $70,000 for 30 September 2019 as a result of adopting these new rules. Adjusted EBITDA used to measure the segment results has increased by $590,000, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash outflows have decreased and financing cash outflows have increased by $590,000 as repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities.

Accounting policy

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 applicable Company'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.

Note 13. Lease liabilities (continued)

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 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.

Critical estimates and judgements

In relation to the lease commitments of specific spaces on transmission poles, which comprises $9.1 million of the $14 million lease commitment as at 31 March 2019, the Group has considered the space on each pole as a separately identifiable asset. This is because we have the right to control and receive the benefits of the use of that identified asset (space) and each space is not highly dependent or highly related to other assets. On that basis and as permitted by NZ IFRS 16, the Group has applied the practical expedient for leases, classifying the underlying asset as low value.

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.

Lease Maturity	30 September 2019 Unaudited $'000
Current Lease Liability	894
Maturing between 1 and 2 years	895
Maturing between 2 and 3 years	859
Maturing between 3 and 4 years	593
Maturing between 4 and 5 years	487
Beyond 5 years	2,325
	6,053

Note 14. Related party transactions

Other transactions with key management personnel or entities related to them

Changes to key management personnel since 31 March 2019 include John Hanna who commenced in June 2019 as Chief Executive Officer of Ultrafast Fibre Limited, Suzanne Tindal, who resigned as Group Chief Financial Officer in July 2019, David Barnett who commenced as Chief Financial Officer of WEL Networks Limited in September 2019 and Joel Bettley who commenced as Chief Financial Officer of Ultrafast Fibre Limited in September 2019.

Significant transactions with other related parties

Related party transactions with WEL Energy Trust

Note 14. Related party transactions (continued)

	Consolidated 30 September 2019 Unaudited $'000	Consolidated 30 September 2018 Unaudited $'000
Interest on convertible note	(965)	(1,235)
Repayment of convertible note	(10,000)	-
	(10,965)	(1,235)

Total dividends paid during the period ended 30 September 2019 were $4,000,000 net (31 March 2019: $350,000 net).

	Consolidated 30 September 2019 Unaudited $'000	Consolidated 30 September 2018 Unaudited $'000
Current period interest expense	1,927	1,480
Loan from non-controlling interests	86,673	73,322

In addition to owning 15% of the equity in UFF Holdings Limited, Waipa Networks Limited has extended a shareholder loan. The terms of the loan are set out in the shareholders' agreement between WEL Networks Limited, UFF Holdings Limited (UFFH), Waipa Networks Limited and Ultrafast Fibre Limited. The loan funding provided by Waipa Networks Limited is commensurate with its shareholding in UFFH. The parties have agreed a put and call arrangement whereby should Waipa Networks Limited reduce its shareholding in UFFH to less than 10%, or there is a change in control of Waipa Networks Limited, at the option of WEL Networks Limited, Waipa Networks Limited's shareholding in UFFH can be acquired by WEL Networks Limited at fair value. Waipa Networks Limited also has the option to sell its shares in UFFH to WEL Networks Limited at fair value from the third anniversary from the effective date. The loan from Waipa Networks Limited is considered non-current as there is no predetermined settlement date.

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

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

Note 15. Events after the reporting period

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

Independent review report

To the shareholder of WEL Networks Limited

Report on the consolidated interim financial statements

We have reviewed the accompanying consolidated interim financial statements of WEL Networks Limited (the Company) and its controlled entities (the Group) on pages 2 to 18, which comprise the statement of financial position as at 30 September 2019, 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 selected explanatory notes.

Directors' responsibility for the consolidated interim financial statements

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

Our responsibility

Our responsibility is to express a conclusion on the accompanying consolidated interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 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. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these consolidated interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of assurance and agreed upon procedures on regulatory disclosure information, regulatory advisory, and vendor due diligence and related advisory services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these 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 2019, and its financial performance and cash flows for the six months then ended, in accordance with NZ IAS 34.

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

John (Jolly) Morgan
Chartered Accountants
27 November 2019

Auckland