

The background of the cover is a photograph of a large, modern bridge with a prominent green arch, illuminated at night. The bridge's lights reflect in the water below. A dark blue semi-transparent box is overlaid on the right side of the image, containing the report's title and contact information.

# 2018

WEL Networks

## Interim Report

0800 800 935 | [wel.co.nz](http://wel.co.nz)



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# CHAIRMAN'S REPORT

This interim report for the Group is the first since entering the NZX Debt market. The WEL Networks Group comprises a modern electricity distribution business and a newly developed fibre communication network.



## Health, Safety and Wellbeing

The health, safety and wellbeing of our people and communities remains our top priority. During the six month period WEL has completed a two year roadmap of activity aimed at continuous improvement in this area. We have also retained our certification for our Occupational Health and Safety Management System and our Public Safety Management System with pleasing audit results in these areas.

## Financial performance

The Group achieved a positive operating result for the six months ended 30 September 2018, with increased revenue from prior year due to higher commercial lines consumption, continued strong urban development in the Waikato region and customer growth across the fibre network.

Group highlights include:

- Revenue of \$109 million, ahead of prior year by \$19 million predominately relating to strong urban development via third party contributions, increased utilisation of our electricity network and stronger uptake of fibre network access services.
- Total net debt of the Group was \$513 million, an increase of \$36 million from March 2018, with borrowings relating to the completion of the UFB2 fibre network build programme. Total assets of \$1.1 billion, an increase of \$46 million from March 2018.
- Profit after tax of \$21 million, an increase of \$11 million from the 30 September 2017 result.

## NZX debt bond issue

On 2 August 2018 WEL issued \$150 million unsecured subordinated, fixed-rate debt securities listed on the NZX Debt Market. The funds were used to repay a portion of WEL's bank debt.

There was a strong level of interest in the bonds which were oversubscribed by two times.

## Innovation

WEL was a finalist in the Innovation Category of the Waikato Business Excellence Awards for our off-grid lighting solution on the Te Awa cycleway. Our solution involved pairing solar and wind generation with lithium ion battery storage.

Earlier this year we received funding from Energy Efficiency Conservation Authority (EECA) to convert an internal combustion engine truck to an electric vehicle with an elevated work platform for line maintenance work. We aim to have the truck in our fleet by June 2019. There is the possibility that the truck may be able to help power our Maui Street headquarters if needed as its battery will be twice the size of the building's permanent one.

We also received funding from EECA to expand out electric vehicle fast charger units; an additional 15 AC units were recently installed at Countdown supermarket sites across the Waikato.

WEL is now a Meter Equipment Provider (MEP) in the Waikato which gives us the ability to offer meter data services to other retailers.



The mass smart meter deployment in Top Energy area has been successfully completed and is now moving to a business as usual function.

## Customers

Regional growth continues to be strong resulting in an increase in demand. Despite sustained high growth WEL continues to provide a quality and reliable power supply.

We are encouraging customers to move towards using power at off-peak times by charging at 'time of use'. This takes advantage of our smart meters which record how much power is used at different times during the day, ensuring the price plans more closely reflect the cost of providing the service. Power is more expensive during power consumption peaks and less expensive at night or during the middle of the day. We are the first lines company in the country able to do this because we own the data from our meters.

OurPower, our electricity retail platform, will be instrumental in supporting the wellbeing of communities through reducing the cost of electricity to consumers. This is at a time where power companies face pressure to reduce residential prices after the Electricity Price Review, released in September, showed 100,000 households are experiencing energy hardship. So far over 350 customers have joined OurPower with indications that their savings are averaging 25%.

Ultrafast Fibre (UFF) added 11,000 subscriber lines in the six months to 30 September to reach a cumulative 107,300 active subscribers, representing a 51.8% uptake. Some of the Ultrafast Broadband (UFB) initiative's highest uptake areas are within UFF's footprint with Hamilton 57%, and Tauranga 56% leading the way, with New Plymouth and Cambridge also reaching the 50% mark in the period.

In the same period UFF's addressable market (total end user premises that can access the network) also grew by 5,700 to 207,000 due to the first UFB2 towns becoming available and new greenfields growth.

Average connection revenue per user, as well as the costs associated with physically connecting each of these users to the fibre network, are both favourable to budget and reflect well on the operational efficiency achieved by UFF and the value that our customers receive from the service.

## Network

WEL Networks reliability of supply result for the six months was a SAIDI of 43.02 minutes against a target 44.33 minutes (average time that customers were without electricity). A number of weather events contributed 7.63 SAIDI to the result with the largest of these in April and August. Our full year SAIDI target is 84.55.

## Sustainability

WEL is developing a formal approach to sustainability and corporate social responsibility. This will allow the Group to track and report on non-financial benefits being delivered to our community. WEL will align our efforts to four of the Sustainable Development Goals (SDGs); Good Health and Wellbeing, Affordable and Clean Energy, Industry, Innovation and Infrastructure and Climate Action.

## Regulatory environment

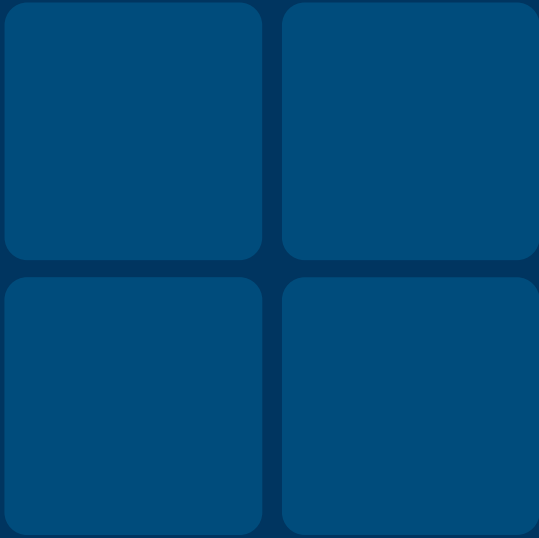
WEL is supportive of the Electricity Pricing Review and the outcome of ensuring that customers are receiving efficient, fair and equitable prices.

The Telecommunications Regulatory Framework Review has now concluded. While the full impact of the new regime is not likely to come into effect until 2022, UFF has received a positive outcome resulting from their interactions with the regulator and we expect that UFF will be subject to an information disclosure regime similar to WEL's regulatory obligations.

## Governance and management

A number of significant changes have taken place in the first half of this year at both Board and management level. Paul McGilvary and Mark Franklin retired as Directors and Geoff Lawrie, Tony Barnes and Candace Kinser joined the Board.

At management level, Sue Tindal was welcomed as Group CFO in July and William Hamilton retired as Chief Executive of UFF in September.



# DIRECTOR PROFILES

AS AT 30 SEPTEMBER 2018



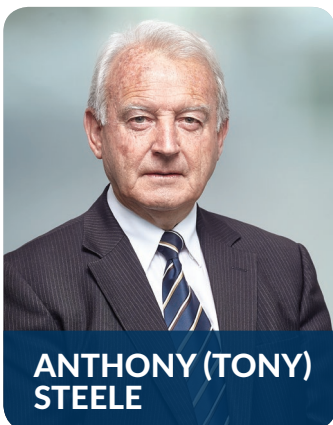
# DIRECTOR PROFILES



**ROB  
CAMPBELL**

## **WEL Group Chair**

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



**ANTHONY (TONY)  
STEELE**

## **Director of WEL Networks Limited, Waikato Networks Limited and Ultrafast Fibre Limited, Chair of the Group Audit and Risk Committee**

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



**BARRY  
HARRIS**

## **Director of WEL Networks Limited, Waikato Networks Limited and Ultrafast Fibre Limited and Member of the Group Audit and Risk Committee**

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



**Director of WEL Networks Limited and Waikato Networks Limited and Ultrafast Fibre Limited and Member of the Group Audit and Risk Committee**

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



**Director of WEL Networks Limited, Waikato Networks Limited and Ultrafast Fibre Limited and Chair of the Group Remuneration Committee**

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



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

Tony has 30 years' broad business experience in the utilities, media, HR services, technology and cyber security sectors in New Zealand, Australia and the UK. Tony is currently CEO of IT security specialist Cyber Research Group Limited. He has previously served as CEO of LSE-listed smart metering pioneer BGlobal PLC, utility market software company Utilisoft, electricity retail outsourcer MBCGlobal, and as COO of ASX-listed HR services provider Chandler Macleod Group. Tony is a Certified Information Systems Security Professional (CISSP) and is a member of the Australian Institute of Company Directors.



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

Candace has held a number of senior roles in the tech sector including over a decade of experience as a CEO and Director on private, government and listed Boards. She is currently the Head of Transformation (Digital) at FNZC; an Advisor and Non-Executive Director for a number of high growth companies including NZX listed EROAD, bovine genetics technology company Livestock Improvement (LIC) and global tech recruitment company Talent International, based in Australia. Previously, she also served as a Director for Crown SOE entity Quotable Value (QV) and has worked to develop family-owned businesses McCashins Brewing and the Superb Herb Company. She is a NZ Advisor for Palo Alto data analytics and cyber company, Palantir Technologies and a Beachheads Advisor for New Zealand Trade and Enterprise.

**Director of Ultrafast Fibre Limited and Waikato Networks Limited**

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



# FINANCIAL STATEMENTS

for the period ended 30 September 2018



# HALF-YEAR FINANCIAL STATEMENTS

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## WEL NETWORKS LIMITED

### Consolidated statement of comprehensive income

For the 6 month period ended 30 September 2018

	Notes	30 September 2018 Unaudited \$'000	30 September 2017 Unaudited \$'000
Revenue	6	109,770	90,641
Expenses, excluding finance costs	8	(47,824)	(46,474)
<b>Earnings before interest, taxes, depreciation and amortisation expenses (EBITDA) and interest in associate</b>		<b>61,946</b>	<b>44,167</b>
Depreciation and amortisation expense		(22,947)	(21,425)
<b>Earnings before interest and tax (EBIT) and interest in associate</b>		<b>38,999</b>	<b>22,742</b>
Finance expenses		(10,762)	(9,468)
Finance income		244	33
Share of net profits/(loss) of interest in associates		(266)	(220)
<b>Profit before income tax</b>		<b>28,215</b>	<b>13,087</b>
Income tax		(7,093)	(3,210)
<b>Profit for the period</b>		<b>21,122</b>	<b>9,877</b>
<b>Other comprehensive income:</b>			
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Gains and losses on cash flow hedges		(655)	(818)
<b>Other comprehensive income for the period, net of tax</b>		<b>(655)</b>	<b>(818)</b>
<b>Total comprehensive income for the period</b>		<b>20,467</b>	<b>9,059</b>
<b>Profit is attributable to:</b>			
Owners of WEL Networks Limited		21,188	10,818
Non-controlling interest		(66)	(941)
		<b>21,122</b>	<b>9,877</b>
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of WEL Networks Limited		20,533	10,000
Non-controlling interest		(66)	(941)
		<b>20,467</b>	<b>9,059</b>
		Cents	Cents
<b>Earnings per share attributable to the ordinary equity holders of the company during the period:</b>			
Attributable to continuing operations:			
Basic earnings per share		259.9	132.7
Diluted earnings per share		259.9	132.7

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

## WEL NETWORKS LIMITED

## Consolidated balance sheet

As at 30 September 2018

	Notes	30 September 2018 Unaudited \$'000	30 March 2018 Audited \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		753	901
Trade and other receivables		21,552	19,723
<b>Total current assets</b>		<b>22,305</b>	<b>20,624</b>
<b>Non-current assets</b>			
Property, plant and equipment	4	1,083,687	1,036,628
Intangible assets	5	90,526	91,139
Derivative financial instruments	9	590	285
Investment in associates		-	1,595
<b>Total non-current assets</b>		<b>1,174,803</b>	<b>1,129,647</b>
<b>Total assets</b>		<b>1,197,108</b>	<b>1,150,271</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		22,694	17,775
Current tax liabilities		4,432	2,103
Provisions		3,263	3,611
Borrowings	7	104,727	89,068
Derivative financial instruments	9	26	52
Contract liabilities	6	14,425	11,445
Customer discount payable		-	17,590
<b>Total current liabilities</b>		<b>149,567</b>	<b>141,644</b>
<b>Non-current liabilities</b>			
Borrowings	7	335,059	318,537
Provisions		644	423
Deferred income		930	945
Derivative financial instruments	9	7,278	6,627
Deferred tax liabilities		79,170	80,141
Loan from non-controlling interest	11	74,802	70,731
<b>Total non-current liabilities</b>		<b>497,883</b>	<b>477,404</b>
<b>Total liabilities</b>		<b>647,450</b>	<b>619,048</b>
<b>Net assets</b>		<b>549,658</b>	<b>531,223</b>
<b>EQUITY</b>			
Contributed equity		150,142	150,142
Reserves		153,557	155,268
Retained earnings		237,394	218,458
		<b>541,093</b>	<b>523,868</b>
Non-controlling interest		<b>8,565</b>	<b>7,355</b>
<b>Total equity</b>		<b>549,658</b>	<b>531,223</b>

For and on behalf of the Board:


**Rob Campbell**Chairman  
22.11.2018

**Tony Steele**Director  
22.11.2018

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



## WEL NETWORKS LIMITED

### Consolidated statement of changes in equity

For the 6 month period ended 30 September 2018

	Notes	Share Capital \$'000	Share Premium \$'000	Other Reserves \$'000	Retained Earnings \$'000	Total \$'000	Non-Controlling Interest \$'000	Total equity \$'000
Balance as at 1 April 2018 (audited)		111,142	39,000	155,268	218,458	523,868	7,355	531,223
Effect of changes in accounting policies	6	-	-	-	(1,723)	1,723	-	(1,723)
Balance as at 1 April 2018 (restated)		111,142	39,000	155,268	216,735	522,145	7,355	529,500
<b>Comprehensive income</b>								
Profit/(loss) for the period		-	-	-	21,188	21,188	(66)	21,122
Movement in revaluation from disposal of distribution network assets (net of tax)		-	-	(1,056)	1,056	-	-	-
Cash flow hedges (net of tax)		-	-	(655)	-	(655)	-	(655)
Acquired minority interest		-	-	-	-	-	1,276	1,276
Total other comprehensive income		-	-	(1,711)	1,056	(655)	1,276	621
Total comprehensive income		-	-	(1,711)	22,244	20,533	1,210	21,743
<b>Transactions with owners</b>								
Interest on convertible note		-	-	-	(1,235)	(1,235)	-	(1,235)
Dividends		-	-	-	(350)	(350)	-	(350)
Total distributions to owners		-	-	-	(1,585)	(1,585)	-	(1,585)
Balance as at 30 September 2018 (unaudited)		111,142	39,000	153,557	237,394	541,093	8,565	549,658
Balance as at 1 April 2017 (audited)		111,142	39,000	153,250	205,121	508,513	8,784	517,297
<b>Comprehensive income</b>								
Profit/(loss) for the period		-	-	-	10,819	10,819	(941)	9,878
Movement in revaluation from disposal of distribution network assets (net of tax)		-	-	(603)	603	-	-	-
Cash flow hedges (net of tax)		-	-	(818)	-	(818)	-	(818)
Total other comprehensive income		-	-	(1,421)	603	(818)	-	(818)
Total comprehensive income		-	-	(1,421)	11,422	10,001	(941)	9,060
<b>Transactions with owners</b>								
Interest on convertible notes		-	-	-	(1,228)	(1,228)	-	(1,228)
Dividends		-	-	-	(198)	(198)	-	(198)
Total distributions to owners		-	-	-	(1,426)	(1,426)	-	(1,426)
Balance as at 30 September 2017 (unaudited)		111,142	39,000	151,829	215,117	517,088	7,843	524,931

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

## WEL NETWORKS LIMITED

### Consolidated statement of cash flows

For the 6 month period ended 30 September 2018

	30 September 2018 Unaudited \$'000	30 September 2017 Unaudited \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	93,316	83,341
Payments to employees and suppliers	(47,180)	(41,016)
Income taxes paid	(4,183)	(3,094)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>41,953</b>	<b>39,231</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(68,372)	(52,309)
Proceeds from sale of property, plant and equipment	194	-
Purchases of intangible assets	(1,287)	(1,842)
Purchase of investments	-	(2,224)
<b>Net cash inflow / (outflow) from investing activities</b>	<b>(69,465)</b>	<b>(56,375)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	(112,013)	23,666
Interest paid	(9,038)	(9,435)
Interest on convertible notes	(1,235)	(1,228)
Dividends paid	(350)	(198)
Proceeds from bond	150,000	-
<b>Net cash inflow / (outflow) from financing activities</b>	<b>27,364</b>	<b>12,805</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(148)</b>	<b>(4,339)</b>
Cash and cash equivalents at the beginning of the period	901	5,612
<b>Cash and cash equivalents at the end of the period</b>	<b>753</b>	<b>1,273</b>

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

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 1 Summary of significant accounting policies

These financial statements are for WEL Networks Limited ('the Company') and its subsidiaries (together, 'the Group'). The Group is an electricity networks business delivering energy to customers in the Waikato region and also delivers the Government Ultrafast Fibre roll out programme and 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 22 November 2018.

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 2018 and any public announcements made by WEL Networks Limited during the interim reporting period. Other than the adoption of NZ IFRS 9 and NZ IFRS 15 (refer note 6 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 2018. 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.

### (a) 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.

### (b) 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 2018:

- Acquisition of Opunake Hydro Holdings Limited (OHHL)

On 8 September 2017, a 33% shareholding was purchased in OHHL which is an energy and utility specialist based in Taranaki. OHHL has generators located in Taranaki to supplement its retail business that traded as Utilise. The impact of the transaction is immaterial to the Group.

On 28 June 2018 an additional 18% shareholding was obtained in OHHL, giving WEL Networks Limited a 51% shareholding at which point in time accounting changed from equity accounting to full consolidation within the Group. A fair value loss on remeasurement of the pre-existing 33% shareholding and the subsequent step acquisition, including an insignificant amount of negative goodwill, are both recognised in the Group's share of net profit/(loss) of interest in associate. The Group has used fair values where appropriate on the transaction, however makes use of the provisional acquisition accounting under NZ IFRS 3 to finalise those valuations over the next year.

- The adoption of the new revenue standard IFRS 15 Revenue from Contracts with Customers, refer (note 6).
- The actual and effective income tax vary as a result of permanent deductible expenditure (convertible note interest) resulting in an income tax effect of less than 28%.
- Issue of subordinated fixed rate bonds, refer (note 7) and repayment of bank loans.

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 1 Summary of significant accounting policies (continued)

- The adoption of the new financial instruments standard IFRS 9 Financial Instruments, the impact of adoption is:
  - ♦ The interest rate swaps in place as at 31 March 2018 qualified as cashflow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.
  - ♦ There have been no changes made to the classification of the Group's financial assets as a result of the adoption of IFRS 9.
  - ♦ For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group has assessed the impact of adoption of this approach and there is no material change to the provision for impaired receivables.

## 2 Critical accounting estimates and judgements

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

### Deferred tax asset

Included in the balance sheet as at 30 September 2018 is a deferred tax liability of \$79.2 million (31 March 2018: \$80.1 million) arising principally from the recognition of tax on the

revaluation of the electricity and fibre network assets offset by the recognition of tax loss assets in Ultrafast Fibre Limited of \$15.1 million (31 March 2018: \$15.5 million). 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 the losses against and this remains unchanged from the position at 31 March 2018.

## 3 Segment information

### (a) Revenue

	30 September 2018 Unaudited			30 September 2017 Unaudited		
	Total segment revenue \$'000	Inter-segment revenue \$'000	Revenue from external customers \$'000	Total segment revenue \$'000	Inter-segment revenue \$'000	Revenue from external customers \$'000
Electricity Network	88,173	(14,167)	74,006	76,449	(11,109)	65,340
Fibre Network	31,721	(9)	31,712	42,296	(17,818)	24,478
Other	4,052	-	4,052	823	-	823
<b>Total</b>	<b>123,946</b>	<b>(14,176)</b>	<b>109,770</b>	<b>119,568</b>	<b>(28,927)</b>	<b>90,641</b>

#### Timing of revenue recognition

	At a point in time \$'000	Over time \$'000	Total \$'000	At a point in time \$'000	Over time \$'000	Total \$'000
Electricity Network	4,066	69,940	74,006	-	65,340	65,340
Fibre Network	1,305	30,407	31,712	1,261	23,217	24,478
Other	-	4,052	4,052	-	823	823
<b>Total</b>	<b>5,371</b>	<b>104,399</b>	<b>109,770</b>	<b>1,261</b>	<b>89,380</b>	<b>90,641</b>

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 3 Segment information (continued)

### (b) Earnings before interest, tax, depreciation and amortisation (EBITDA) before interest in associate

	30 September 2018 Unaudited \$'000	30 September 2017 Unaudited \$'000
Electricity Network	42,680	32,891
Fibre Network	17,980	10,345
Other	1,286	931
<b>Total adjusted EBITDA</b>	<b>61,946</b>	<b>44,167</b>
Depreciation and amortisation	(22,947)	(21,425)
Share of net profit/(loss) of existing interests in associates	(266)	(220)
Finance expenses	(10,762)	(9,468)
Finance income	244	33
<b>Profit before income tax</b>	<b>28,215</b>	<b>13,087</b>

### (c) Assets

	30 September 2018 Unaudited \$'000	31 March 2018 Audited \$'000
Electricity Network	607,385	594,636
Fibre Network	561,200	526,634
Other	27,179	26,220
<b>Total</b>	<b>1,195,764</b>	<b>1,147,490</b>

### (d) Liabilities

	30 September 2018 Unaudited \$'000	31 March 2018 Audited \$'000
Electricity Network	25,002	35,034
Fibre Network	16,438	16,755
Other	455	-
<b>Total</b>	<b>41,895</b>	<b>51,789</b>



## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 4 Non-current assets - Property, plant and equipment

### Critical accounting estimates and judgements

#### Estimated lives of electricity lines and fibre network assets

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

#### Valuations and impairment review

A review of the fair value of electricity distribution network and the fibre network assets has been undertaken as at 30 September 2018 and 31 March 2018. The review considered the WACC & terminal capex in the context of the debt issue and fibre rollout. While not a full revaluation exercise, this

review has provided a range for the fair value of the electricity distribution network and the fibre network assets. The carrying value of the electricity distribution network and the fibre network assets is within this fair value range and, as such, the Directors have determined that the carrying value is appropriate and the 2016 valuations remain materially appropriate.

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

The Group's electricity distribution network was revalued as at 31 March 2016 to fair value by Deloitte. The fibre network was revalued as at 31 August 2016 to fair value by Ernst & Young. The fair values were established in accordance with NZ IAS 16 Property, Plant and Equipment and NZ IFRS 13 Fair Value Measurement. The valuations were prepared using discounted cash flow methodology.

	Distribution network \$'000	Fibre network \$'000	Land and buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Computer hardware \$'000	Assets under construction \$'000	Total \$'000
<b>Period ended 30 September 2018 Unaudited</b>								
Opening net book amount	542,136	418,718	18,159	29,302	5,287	1,033	21,993	1,036,628
Additions	18,888	27,428	-	2,315	138	612	24,960	74,341
Disposals	(2,542)	-	-	(31)	(47)	(9)	(6,185)	(8,814)
Depreciation charge	(9,024)	(9,352)	(130)	(1,667)	(584)	(289)	-	(21,046)
Acquisition of business	-	-	-	2,578	-	-	-	2,578
<b>Closing net book amount</b>	<b>549,458</b>	<b>436,794</b>	<b>18,029</b>	<b>32,497</b>	<b>4,794</b>	<b>1,347</b>	<b>40,768</b>	<b>1,083,687</b>
<b>At 30 September 2018 Unaudited</b>								
Cost	643,915	481,511	18,974	52,150	9,381	4,309	40,768	1,251,008
Accumulated depreciation	(94,457)	(44,717)	(945)	(19,653)	(4,587)	(2,962)	-	(167,321)
<b>Net book amount</b>	<b>549,458</b>	<b>436,794</b>	<b>18,029</b>	<b>32,497</b>	<b>4,794</b>	<b>1,347</b>	<b>40,768</b>	<b>1,083,687</b>

### Capital commitments

Ultrafast Fibre Limited has committed capital expenditure to the value of \$49 million at 30 September 2018 but not yet incurred. This expenditure is a contracted commitment with Crown Infrastructure Partners Limited for the second phase of the fibre network build.

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 5 Non-current assets - Intangible assets

### Critical accounting estimates and judgements

#### Impairment testing of goodwill

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

The carrying value of goodwill relates to Ultrafast Fibre Limited as a single cash generating unit. The recoverable amount was determined at 31 March 2018 using the value in use model. The key assumptions used in the model (aligned with Ultrafast Fibre Limited's latest 5 year plan) are WACC of 7.4% and terminal growth factor of 2%. Scenarios using varying WACC and CAPEX annual spend have been used in the model and no impairment of goodwill was identified.

	Internally generated computer software \$'000	Computer software \$'000	Goodwill \$'000	Easements and consents \$'000	Leasehold interest \$'000	Assets under construction \$'000	Total \$'000
<b>Period ended 30 September 2018 Unaudited</b>							
Opening net book amount	3,428	7,178	74,484	5,168	107	774	91,139
Additions	264	348	-	21	-	908	1,541
Disposals	-	(645)	-	-	-	(223)	(868)
Acquisition of business	-	645	-	-	-	-	645
Amortisation charge	(977)	(923)	-	(31)	-	-	(1,931)
<b>Closing net book amount</b>	<b>2,715</b>	<b>6,603</b>	<b>74,484</b>	<b>5,158</b>	<b>107</b>	<b>1,459</b>	<b>90,526</b>
<b>At 30 September 2018 Unaudited</b>							
Cost	5,607	23,997	74,484	7,541	107	1,459	113,195
Accumulated amortisation and impairment	(2,892)	(17,394)	-	(2,383)	-	-	(22,669)
<b>Net book amount</b>	<b>2,715</b>	<b>6,603</b>	<b>74,484</b>	<b>5,158</b>	<b>107</b>	<b>1,459</b>	<b>90,526</b>

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 6 Revenue

### Accounting policy

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (i) Electricity line revenue

The Company 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 (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. Revenue is recognised at the price per unit of kWh (kilowatt hours) delivered to the customer in that period, incorporating variable pricing and reflects demand and deductions for losses. The Company makes use of a practical expedient to record revenue monthly being a distinct period that the Company captures usage and price information for invoicing. In prior periods the reported net line revenue included the provision for the annual customer discounts that were accrued on a monthly basis but only paid to customers once a year. This discount has been replaced with reduced lines prices for residential electricity customers for the 31 March 2019 financial year.

#### (ii) Sale of fibre network access services

Ultrafast Fibre Limited (UFF) invoices its customers (predominately internet service providers) monthly for fibre access services to the fibre network across range of contract periods varying from immediate termination, and up to two years. Prices are charged in accordance with the Ultrafast Fibre UFB Services Agreement General Terms and Price List. The Company'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 Group makes use of a practical expedient to record revenue monthly being a distinct period that UFF captures usage and price information for invoicing. Unbilled revenue from the date of the connection to the billing cycle is recognised in the month of service. Revenue is deferred in respect of the portion of the fixed monthly charges that have been billed in advance.

In addition to fibre access services, UFF recognises revenue for ancillary services such as plan change fee on a point in time basis as they occur. Fees for connecting customers are determined to be separate performance obligations and are recognised when connection completes. These other services are also charged in accordance with the Ultrafast Fibre UFB Services Agreement General Terms and Price List.

#### (iii) Third party contributions

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

#### (iv) Operating lease revenue

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

### Critical accounting estimates and judgements

IFRS 15, 'Revenue from Contracts with Customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and related interpretations. The Group has adopted NZ IFRS 15 on 1 April 2018. The application of the new standard has resulted in a \$1.7 million decrease to prior year revenue recognition (including deferred tax impact of \$0.6 million).

## 6 Revenue (continued)

The Group has used the modified approach to transition, with the impact on prior periods adjusted through opening equity. The opening equity adjustment arose as the percentage of completion basis used for third party contributions is now recognised on completion of connection to the networks. There were no other adjustments required under IFRS 15 to the recognition of any other revenue categories.

The impact of adoption of IFRS 15 includes the following changes in presentation:

- Contract liabilities in relation to Third Party Contributions were previously presented as deferred income.

- Transpower pass through costs previously presented as part of other income are now included in electricity line revenue.
- Operating lease income previously presented as part of other income is now disclosed separately.
- Earnings per share for the 6 months ended 30 September 2018 prior to the adoption of IFRS 15 would be 280.92 cents per share compared to the current EPS of 259.9 cents per share.

	30 September 2018 Unaudited \$'000	30 September 2017 Unaudited \$'000
<b>Electricity Network</b>		
Electricity line revenue	68,375	69,474
Discount	36	(9,554)
Third party contributions	4,324	3,980
Operating lease revenue	1,271	1,440
	<b>74,006</b>	<b>65,340</b>
<b>Fibre Network &amp; Other Income</b>		
Fibre network access services	30,407	23,217
Third party contributions	1,305	1,261
Other income	4,052	823
	<b>35,764</b>	<b>25,301</b>
	<b>109,770</b>	<b>90,641</b>

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 7 Borrowings

	30 September 2018 Unaudited \$'000	31 March 2018 Audited \$'000
<b>Current borrowings - bank loans</b>		
Maturing within 1 year	104,727	89,068
<b>Total unsecured current interest bearing bank borrowings</b>	<b>104,727</b>	<b>89,068</b>
<b>Term borrowings - debt security</b>		
Maturing between 4 and 5 years	147,271	-
<b>Total unsecured non-current interest bearing debt security</b>	<b>147,271</b>	<b>-</b>
<b>Term borrowings - bank loans</b>		
Maturing between 1 and 2 years	95,863	208,437
Maturing between 2 and 3 years	91,925	99,606
Maturing between 3 and 4 years	-	10,494
Maturing between 4 and 5 years	-	-
<b>Total unsecured non-current interest bearing bank borrowings</b>	<b>187,788</b>	<b>318,537</b>
<b>Total non-current interest bearing liabilities</b>	<b>335,059</b>	<b>318,537</b>

### Debt security

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

### Bank loans

The loans are secured by a negative undertaking of the Group. The Group was in compliance with all covenants during the period.

### 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 at 30 September 2018 is \$7,303,849 (31 March 2018: \$6,393,823).

The carrying value of interest bearing debt is \$439,785,375 (31 March 2018: \$407,605,000). The fair value of contractual cash flows is \$460,605,311 (31 March 2018: \$450,771,000).



## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 8 Operating expenses

	30 September 2018 Unaudited \$'000	30 September 2017 Unaudited \$'000
<b>Expenses, excluding finance costs, included in the statement of comprehensive income classified by nature</b>		
Transmission costs	14,765	15,684
Employee benefits	22,381	20,894
Capitalised labour	(13,405)	(15,547)
Materials and services	4,279	7,741
Premise networking costs	4,867	3,408
Contract Services	2,213	2,046
Consultancy	1,482	2,014
Net loss on disposal of property, plant and equipment	1,335	2,042
Vehicle expenditure	789	788
Operating leases	1,247	684
Directors' fees	333	344
Bad debts written off	61	15
Change in provision for impaired receivables	183	(14)
Contracting cost of sales	2,325	899
Other expenses	4,969	5,476
	<b>47,824</b>	<b>46,474</b>

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 9 Derivative financial instruments

	30 September 2018 Unaudited \$'000	31 March 2018 Audited \$'000
<b>Non-current assets</b>		
Interest rate swaps - cash flow hedges	-	285
Interest rate swaps - fair value hedges	590	-
<b>Total derivative financial instrument assets</b>	<b>590</b>	<b>285</b>
<b>Current liabilities</b>		
Interest rate swaps - cash flow hedges	26	52
<b>Non-current liabilities</b>		
Interest rate swaps - cash flow hedges	7,278	6,627
<b>Total derivative financial instrument liabilities</b>	<b>7,304</b>	<b>6,679</b>
	<b>(6,714)</b>	<b>(6,394)</b>

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.

## 10 Events occurring after the reporting period

### No events occurring subsequent to reporting period

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

## WEL NETWORKS LIMITED

### Notes to the financial statements

For the period ended 30 September 2018

## 11 Related party transactions

### (a) Other transactions with key management personnel or entities related to them

Changes to key management personnel since 31 March 2018 include Suzanne Tindal, who was appointed as Group Chief Financial Officer and commenced in July 2018 and William Hamilton, who retired as Chief Executive Officer of Ultrafast Fibre Limited in September 2018.

An executive Mr R Riley, is a director and shareholder of UFO Limited. UFO Limited has provided provisioning services amounting to \$69k to Ultrafast Fibre Limited for the six months ended 30 September 2018.

### (b) Significant transactions with other related parties

	30 September 2018 Unaudited \$'000	31 March 2018 Audited \$'000
<i>(i) Related party transactions with Waipa Networks Limited</i>		
Current period interest expense	1,480	2,781
Loans from non-controlling interests	73,322	67,950
<b>Total non-controlling interests</b>	<b>74,802</b>	<b>70,731</b>

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

date, the loan from Waipa Networks Limited is considered non current. The loan funding provided by Waipa Networks Limited is commensurate with its shareholding in WNL.

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

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





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