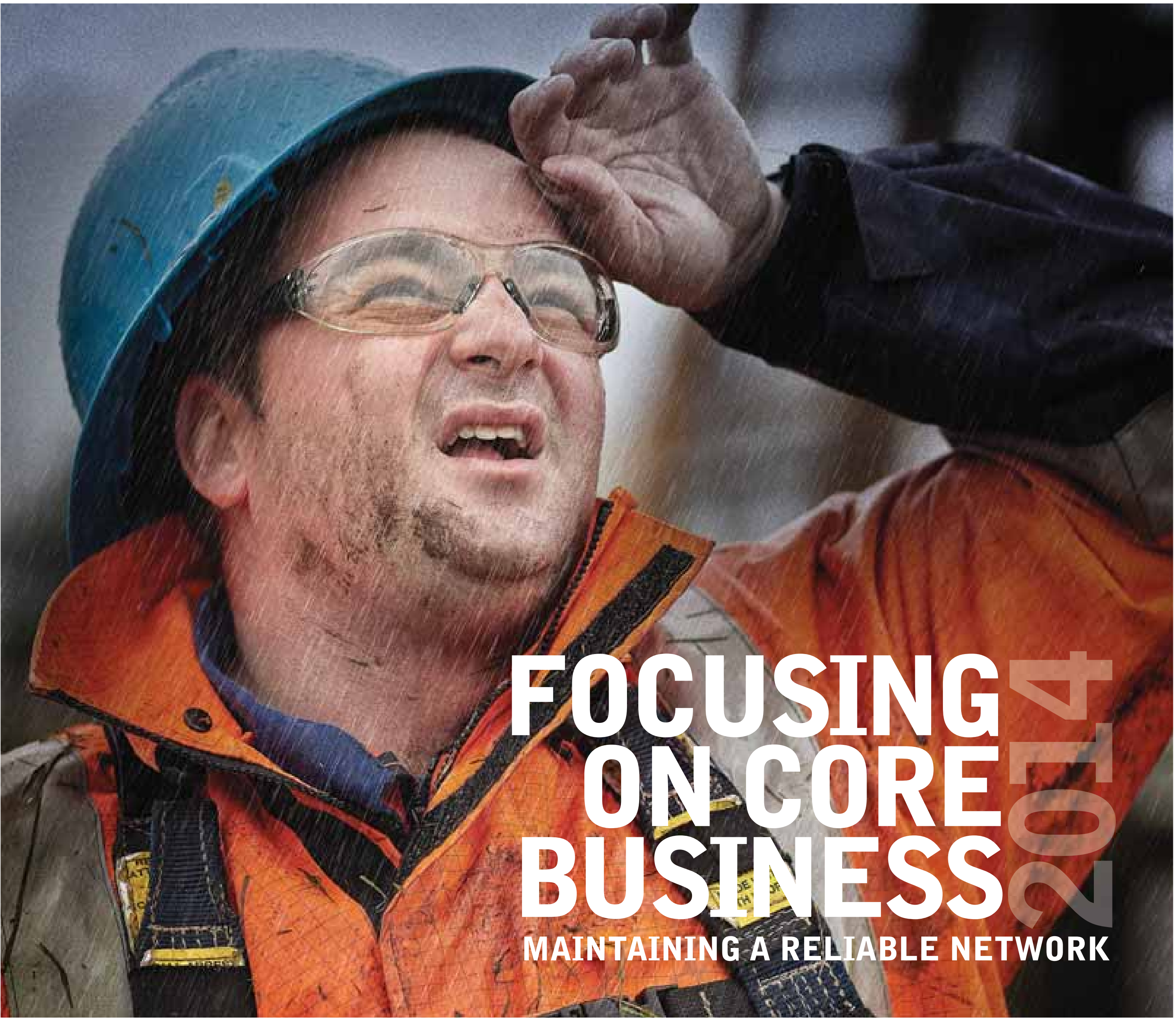
ANNUAL REPORT 2014 | WEL NETWORKS LIMITED & SUBSIDIARIES



BEST IN SERVICE. BEST IN SAFETY.

wel.co.nz

This is the annual report of WEL Networks Limited

Dated this 29th day of May 2014
Signed for and on behalf of the Board of Directors

John Spencer CNZM
Chairman

Margaret Devlin
Deputy Chairman

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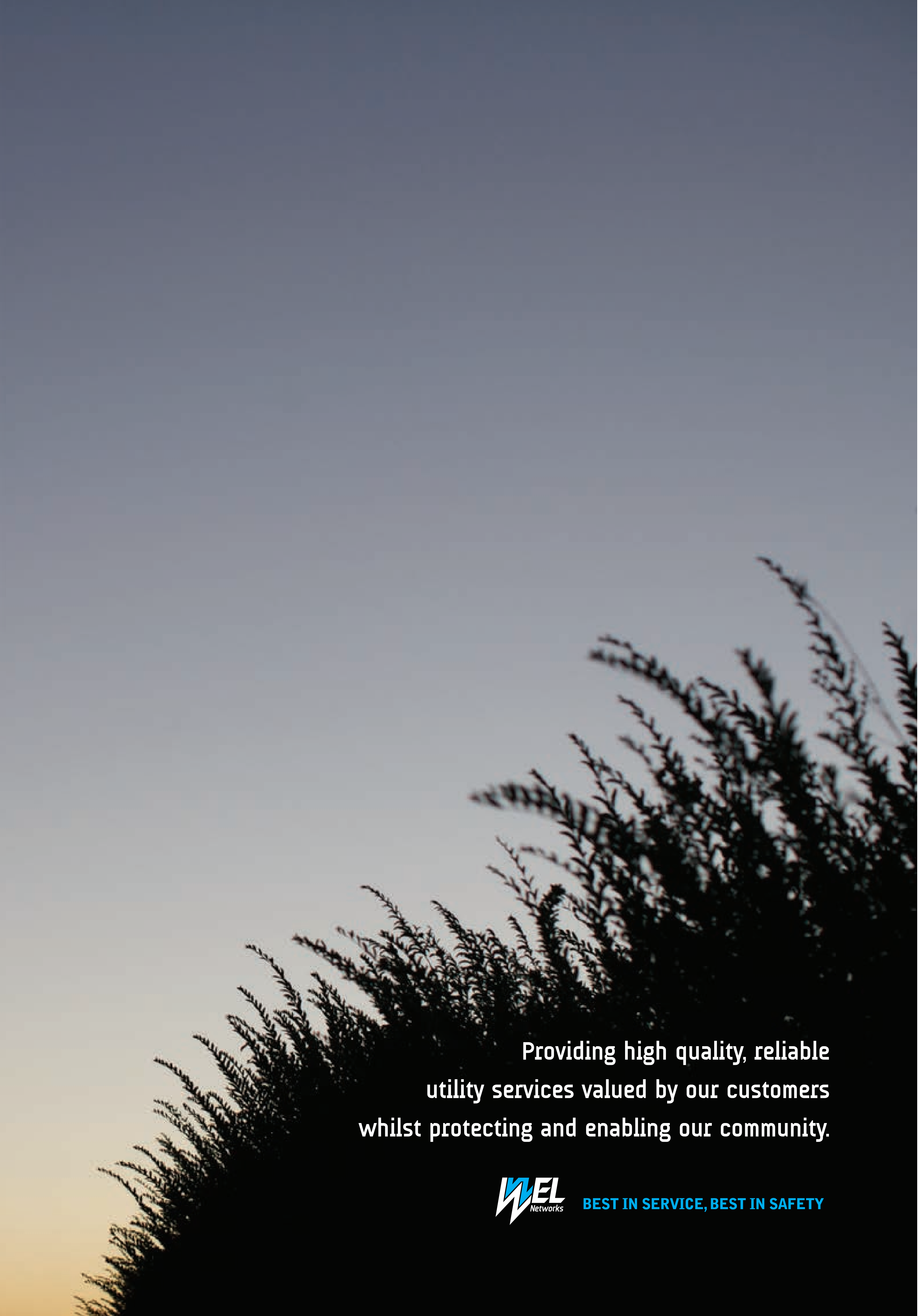


Providing high quality, reliable
utility services valued by our customers
whilst protecting and enabling our community.

BEST IN SERVICE, BEST IN SAFETY

COMPANY PROFILE

WEL Networks Limited (WEL) is the provider of electricity infrastructure, for the distribution of energy to over 86,000 homes, businesses and organisations throughout the Waikato region. WEL is also constructing an ultra fast fibre network in several cities and towns throughout the central North Island.

WEL is committed to providing high quality, reliable infrastructure while maintaining a strong focus on community safety and holding prices below the industry average.

Our network includes more than 5,200 kilometres of lines and has an annual throughput of 1,181GWh. WEL has assets totalling in excess of $612 million. Hamilton City is at the centre of our coverage area which extends to Maramarua in the north and across to the west coast. The towns of Huntly, Raglan, Te Kauwhata and Ngaruawahia are incorporated.

In 2010 WEL Networks won the contract to roll ultra fast broadband out via a fibre network to not only the Waikato but also to parts of the Bay of Plenty and Taranaki regions. The five year build programme will see; Hamilton, Cambridge, Te Awamutu, New Plymouth, Wanganui, Tauranga, Hawera and Tokoroa provided with an ultra fast fibre network. Waikato Networks Limited, a subsidiary of WEL, has commenced the construction of this infrastructure network which will have a value in excess of $300 million. Ultrafast Fibre Limited, a partnership between WEL and the Crown, has over 4,000 end users connected to the network, with this predicted to grow exponentially. The build is on budget and on schedule for completion in June 2016.

WEL is leading the way with the implementation of a Smart Network, enabling the transformation from a traditional lines company, to a next generation Smart Multi-Utility. This deployment enables us to closely and proactively monitor the voltage levels within our customers' premises and allows us to identify faults instantly and get the power back on faster. This project will be completed in 2016.

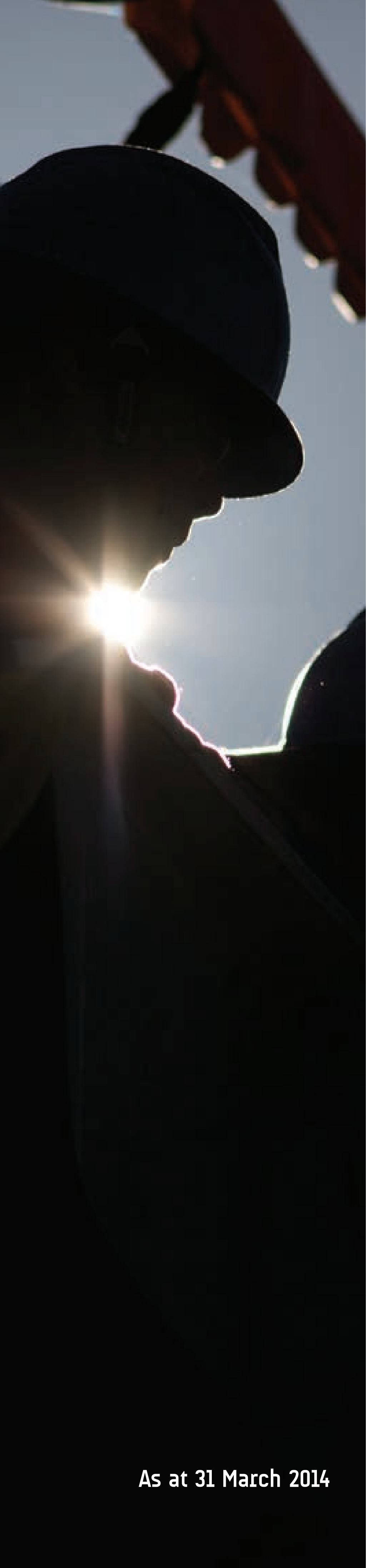
In line with WEL's commitment to modernise the network for its customers, a close watching brief is maintained on technologies that may impact on future planning, such as electric vehicles and distributed generation technologies. The Company supports initiatives which help achieve the national target of 90% renewable energy generation by 2025.

As a result of the Company's annual discount programme, which was established in 2003, discounts of approximately $235 million (incl. GST) have been disbursed to our local customers over the past eleven years.

The Company employs 279 staff based at WEL's premises in Te Rapa, Hamilton.

WEL operates under strong commercial principles and is fortunate to have in place a highly-skilled and experienced Board of Directors. Chaired by John Spencer, the Board brings substantial business acumen and applies high standards of corporate governance.

WEL is locally owned. The Company has one shareholder, the WEL Energy Trust. The capital beneficiaries are the region's local councils; Hamilton City Council, Waikato District Council and Waipa District Council.



QUICK FACTS

Staff numbers	279
Annual Revenue	$185 million (before discount)
NETWORK CONNECTIONS (including embedded networks)	
Residential	85,699
Commercial/Industrial	694
Maximum Demand	255 Megawatts
Volume Throughput (WEL traditional area after technical Loss Factors)	1,181 Gigawatt hours
Annual Investment in Capital Projects	$56 million

Kilometres of Lines

CATEGORY	KM	%
Overhead Lines	3,243	62%
Underground	1,995	38%
TOTAL	**5,238**	**100%**

Excl. street lighting, fibre and communications lines)

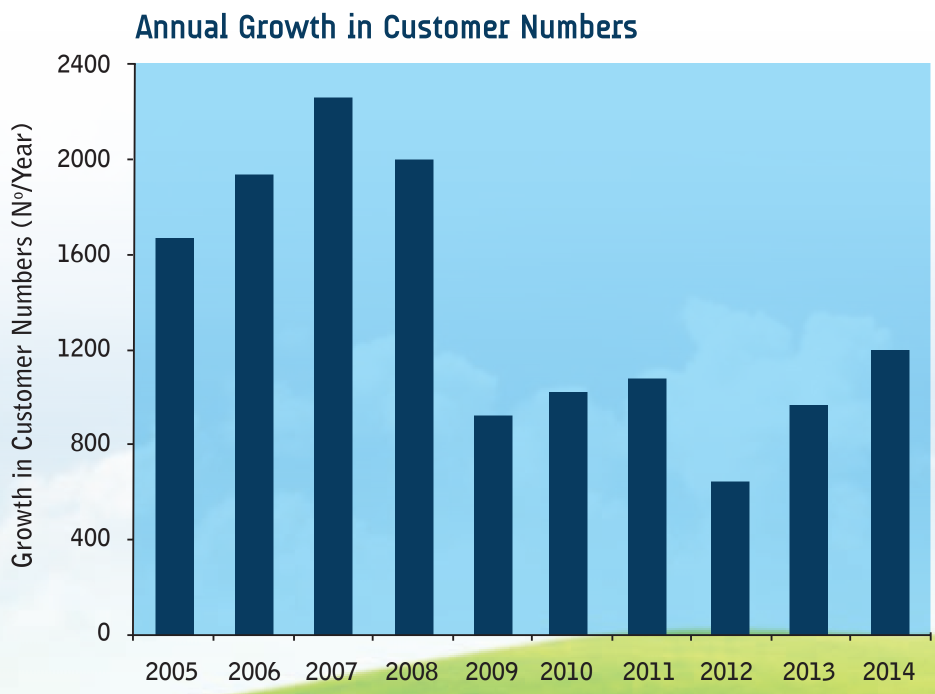
Outages

OUTAGE CAUSES	SAIDI MINUTES	% OF SAIDI MINUTES
Equipment faults	26.35	29%
Adverse weather and other foreign interference	22.19	24%
Vehicle accidents	6.46	7%
Planned shutdowns	21.98	24%
Insulators and discs	6.64	7%
Tree contacts	7.54	8%
TOTAL	**91.15**	**100%**

*SAIDI - System Average Interruption Duration Index (the average number of minutes that customers were without electricity

2013/2014 KEY PERFORMANCE

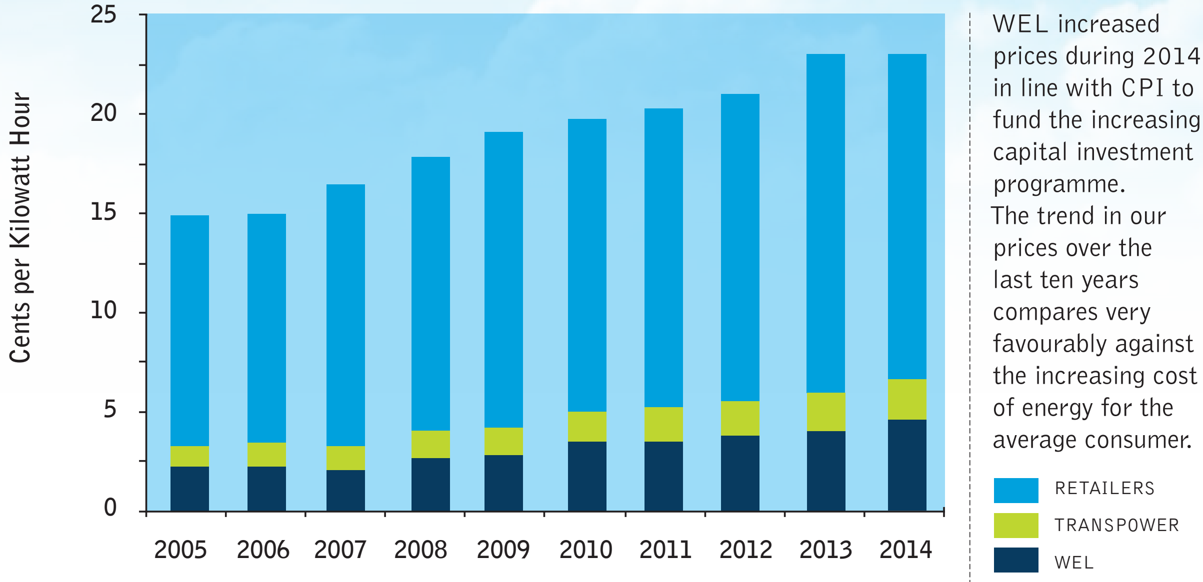
WEL voluntarily follows the Commerce Commission's price path which results, after the revaluation of assets, in a declining trend for return on investment.



The challenges of the global economic recession continue to impact in 2014. The Waikato region saw a continued increase in connections but still at a rate below historical figures.

INDICATORS

Components of Residential Nominal Prices

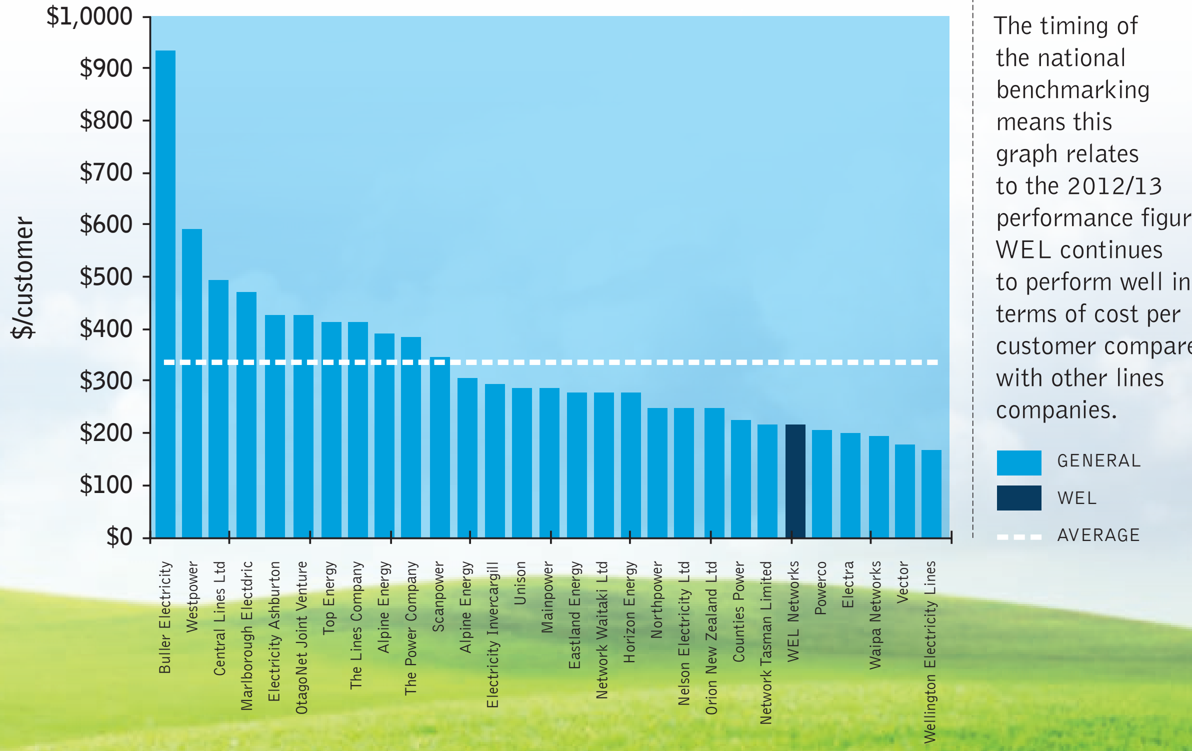


NOTE: Retailers' components include 10% reduction for prompt payment.
WEL Discounts are included.

WEL increased prices during 2014 in line with CPI to fund the increasing capital investment programme.

The trend in our prices over the last ten years compares very favourably against the increasing cost of energy for the average consumer.

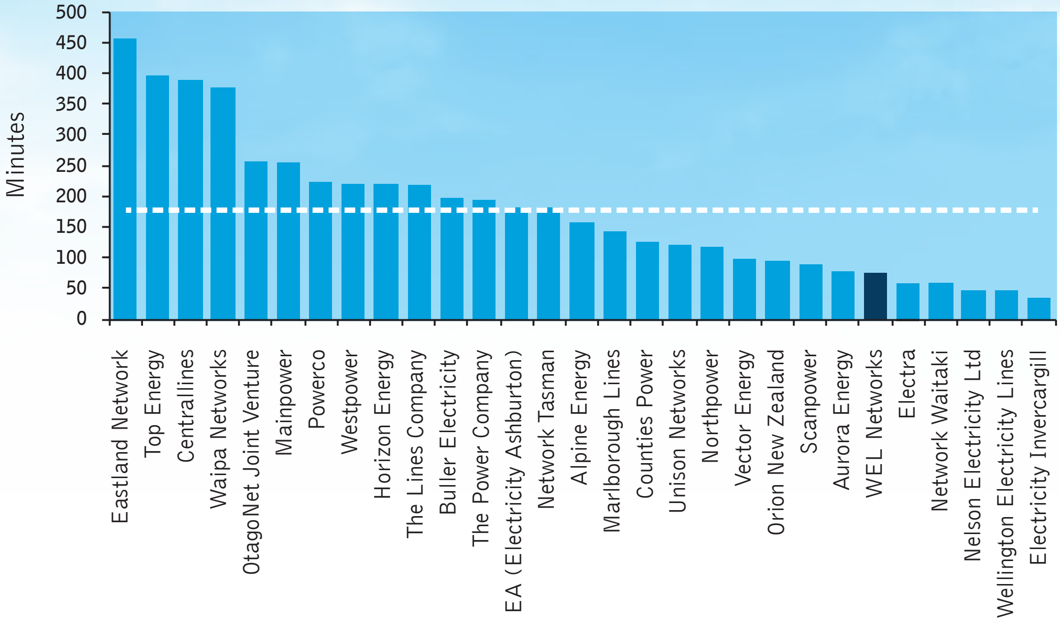
Cost Per Customer ($/Customer) Year ended 31 March 2013



The timing of the national benchmarking means this graph relates to the 2012/13 performance figure. WEL continues to perform well in terms of cost per customer compared with other lines companies.

2013/2014 KEY PERFORMANCE INDICATORS

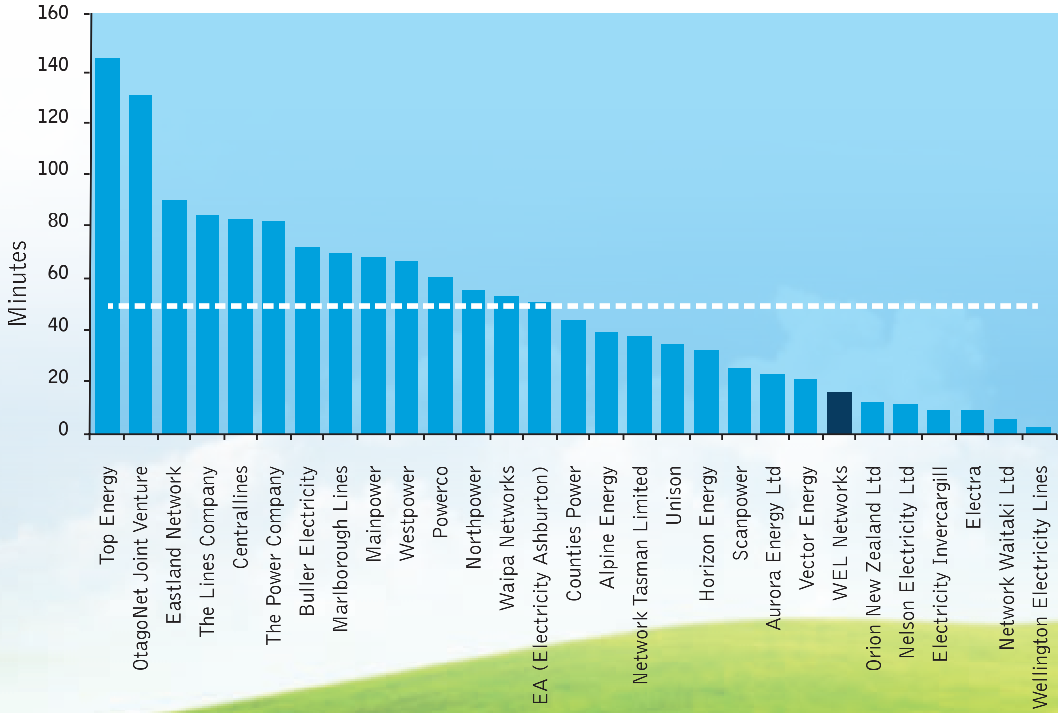
Reliability of Supply (Total SAIDI) Year ended 31 March 2013
(Average number of minutes that customers were without electricity)



WEL's 2014 SAIDI result was higher than the 2013 result due to an increase in the number of faults and planned maintenance shutdowns. The timing of the national industry benchmarking means the graph relates to the 2012-13 performance figures. WEL's performance continues to be significantly ahead of the industry average.

GENERAL
WEL
AVERAGE

Planned Outages Year ended 31 March 2013

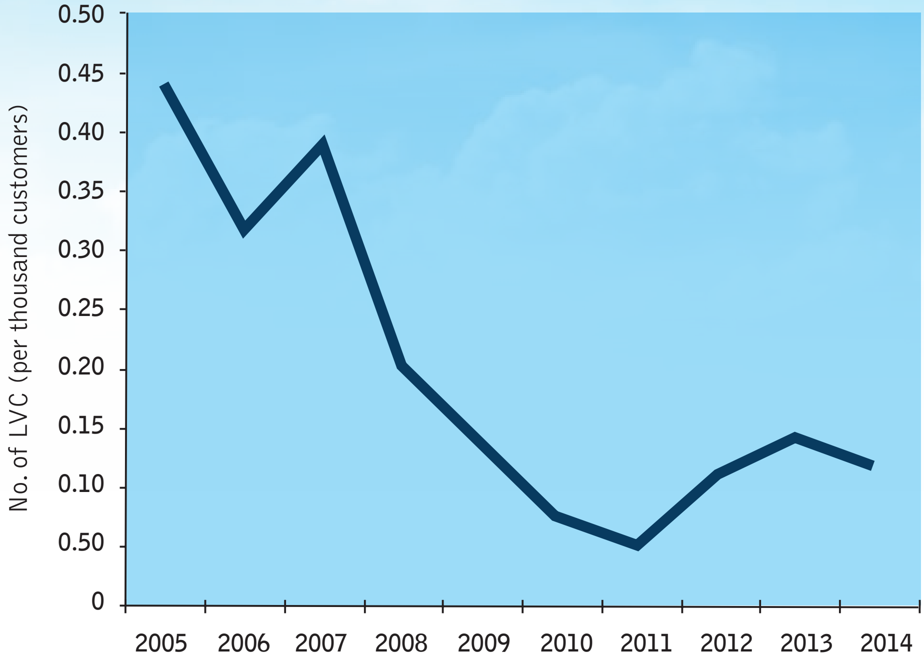


Live line maintenance techniques continue to allow WEL to achieve industry leadership in the area of minimising planned customer outages.

GENERAL
WEL
AVERAGE

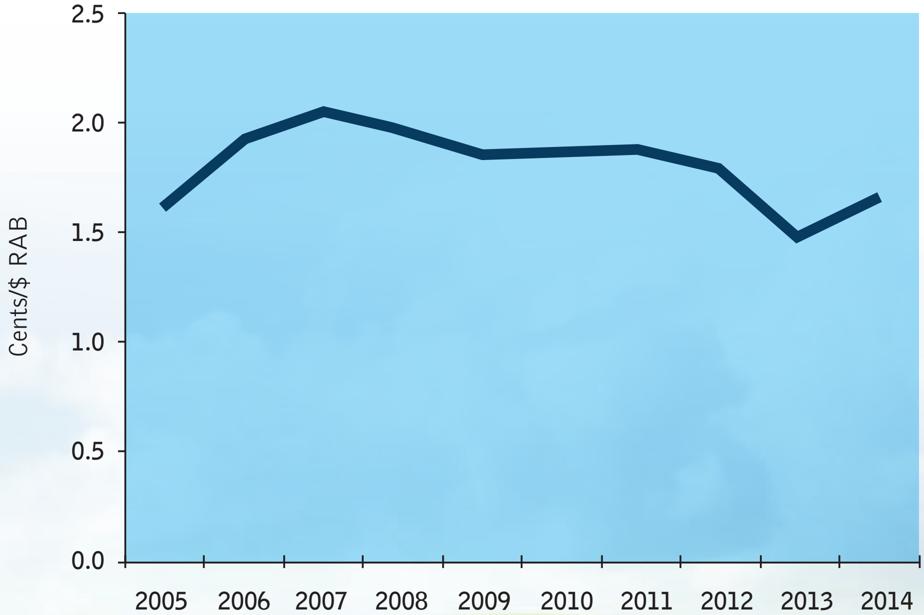
2013/2014 KEY PERFORMANCE INDICATORS

Low Voltage Complaints



WEL continues to focus on quality of supply to customers, which is reflected in the reducing long-term trend in low voltage complaints. The ongoing capital network investment, including the development of our Smart Box strategy is a key driver of this result.

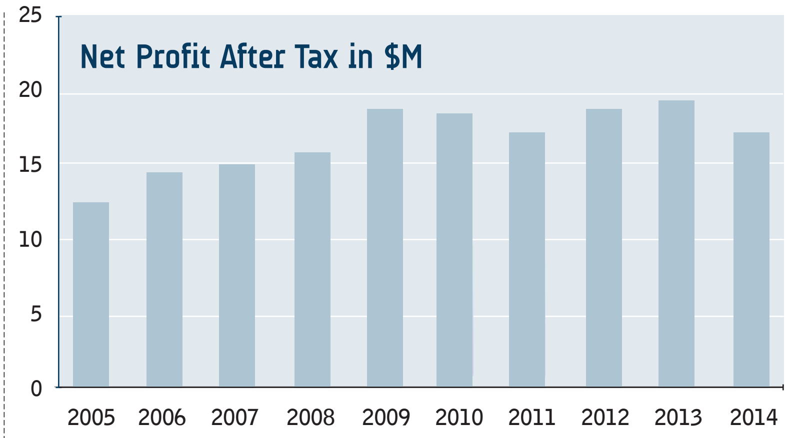
Maintenance Expenditure per $ of Regulatory Asset Base



The continuing industry trend of increasing costs impacts on the Company's maintenance expenditure. The increase in maintenance reflects the higher level of fault repairs and increased planned maintenance programmes for the year.

CHAIRMAN'S REPORT

JOHN L. SPENCER CNZM
Chairman



FINANCIAL RESULTS

The net profit after tax was $17.4 million which was an improvement on budget but is $2.2 million lower than the profit achieved in the 2012/2013 financial year of $19.6 million. The reduction in profit reflects the increasing interest costs associated with the fibre investment combined with the larger share of the joint venture company Ultrafast Fibre Limited's operating loss.

This net profit is the result of setting our prices which reflect our costs, our efficiency drivers, the regulatory framework and our commercial incentives. This outcome was pleasing given reduced energy consumption in the last quarter of the year during the drought and the successful management of the challenges brought about by our planned increase in activities during the year in both our fibre and smart network initiatives.

REGULATORY

The Commerce Commission's busy schedule of work means WEL has had a corresponding high volume of work to undertake in terms of understanding potential changes and making submissions. We are particularly interested in the outcome of proposed changes to the Model Use of System Agreement as the impacts from this could be significant for WEL.

Whilst WEL is exempt from pricing regulation and is only subject to information disclosure (due to being 100% trust owned), we remain committed to maintaining our price and quality performance in line with the regulated companies.

PRICING

This year WEL increased prices by 4.2%. The majority of this increase can be attributed to Transpower price increases (3.5%) and the balance to the impact of general inflation on our operating costs (0.7%). Contrary to the mis-information provided by the retailers around network and line charges, the facts are that WEL has once again been able to keep our price increase in line with inflation and below the average of other network companies. The resulting prices maintain WEL's commitment to its customers to keep prices fair and within regulated levels; albeit that WEL is exempt from this specific regulation.

DISCOUNTS

Discounts paid out to customers connected to our core network were maintained at the same level as the previous two years. A total of $22.3 million (including GST) was paid out to our customers in April 2014.

ULTRA FAST BROADBAND

WEL continued its five year fibre rollout which began in July 2011 as a result of winning the contract with Crown Fibre Holdings to install open access fibre across Hamilton, Te Awamutu, Cambridge, Tauranga, Tokoroa, New Plymouth, Hawera and Wanganui.

The build programme is nearly a year ahead of schedule at 58% complete and well on its way to 3,000 km of duct and fibre, passing 163,000 businesses and homes.

Our safety record continues to remain strong and community involvement in each of the eight centres is high with employment boosts in some areas as our contractors seek to employ local people to complete works.

WEL is working collaboratively with our partner, Crown Fibre Holdings, towards options for improving the commercial arrangements for the fibre investment for both parties. It is expected that agreement will be reached between both entities early in 2014-15.

SMART NETWORKS AND SMART BOXES

The Board has approved stage three of the smart box deployment. This will see a total of 60,000 installations completed by March 2015 and is a key milestone for WEL's Smart Grid strategy.

Rollout in WEL's rural northern and western areas has now been completed and installations continue at an average of 2,500 per month in the greater Hamilton area.

Our membership of SmartCo contributed to WEL winning the contract to install smart boxes in the Top Energy lines company network in the far north. The network infrastructure is in place and planning is underway for the commencement of the installation of the smart boxes themselves.

WEL ENERGY TRUST

The positive relationship between the Board and the Trust has continued to allow strong direction from our shareholder to the Company through the Trustees and Chairman Mark Ingle.

With Trust elections due to take place in June 2014 we will concentrate on ensuring this excellent working relationship continues.

DIRECTORS

On 30 September 2013 Margaret Devlin was reappointed for a further four year term and Tony Steele was reappointed for a further three year term.

I will be retiring as Chairman on 30 September 2014 and the WEL Energy Trust has appointed Margaret Devlin to take on the role of Chairman for WEL after my retirement.

CHIEF EXECUTIVE

After nearly seven years at WEL, Chief Executive Dr Julian Elder resigned in January. The Company has appointed Mr Garth Dibley to take up the role of Chief Executive from September 2014. In the interim Mr David Smith, General Manager Corporate Services has been Acting Chief Executive and the Board and I would like to thank him for his efforts during this period.

MANAGEMENT AND STAFF

Management and staff have a focus on both maintaining security of supply and on achieving the highest standards of health and safety for each other and the community. My thanks to all staff for their performance this year.

LOOKING FORWARD

The past 12 months continued to exhibit positive trends in the Waikato region. New connections to the WEL network and subdivision consents are again on the rise, and there is renewed interest from our commercial sector in growth. We expect this to continue and our Asset Management Plan demonstrates the focus on our core business in terms of quality and reliability of supply.

For our rural customers we will concentrate on the installation of Ground Fault Neutralisers and the replacement of 16mm² copper lines. An additional substation (Hoeka) is planned in our south eastern network to provide for projected growth and to enable faster supply restoration.

Across our network we will continue to modernise by installing smart boxes, and a number of previously manual high voltage switches in the field will be automated. Both initiatives mean we become aware of outages faster, and have increased ability to restore supply to more customers sooner.

WEL's Smart Grid and Ultra Fast Broadband initiatives have diversified our activities and earning streams, however our focus for the next 12 months is on the core electricity business and providing excellence in safety, reliability and in service to our customers.

CHIEF EXECUTIVE'S REPORT

DAVID SMITH
Acting Chief Executive

OPERATIONAL HIGHLIGHTS

The past 12 months have seen solid progress on two strategically important aspects of work for WEL.

With the addition of a second contractor our smart box installation programme began to ramp up and we are seeing the benefits of the Smart Grid as our network continues to modernise. Over 35,000 smart boxes have been installed and we aim to achieve a further 25,000 installs in the next 12 months.

The second initiative, our fibre rollout, continues in earnest and it is pleasing that we continue to demonstrate our expertise in infrastructure, with the build programme ahead of both time and budget. With 1,400 km of fibre installed we have made high-speed broadband available to around 86,000 customers.

It was pleasing to see great performance in terms of budget, delivery to standards and delivery on time on our new initiatives while growing our staff numbers by 25% as budgeted. This was an outstanding achievement by all staff.

In electricity network terms, the ESITO Line Mechanics Competition is the preeminent event in the industry calendar. The WEL team took out all contenders for an amazing third year in a row victory. I can't state emphatically enough how proud the organisation is of this result. 'WEL done' to the team and we look forward to defending the title in 2014.

HEALTH AND SAFETY

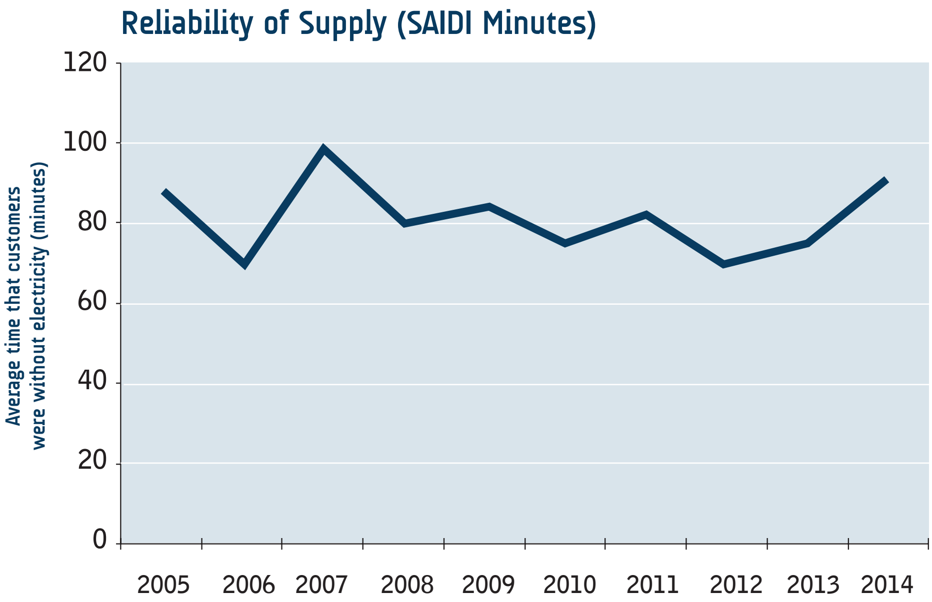
WEL worked hard to achieve both the highest level of accreditation from ACC and a positive audit result for our Public Safety Management System, processes and policies. Staff and public safety are unashamedly our number one priority and this is supported by WEL's vision strap line, 'Best in Safety'.

Our culture of continuous improvement is embedded in the organisation and one of our core values is 'Every day home safe'. Reporting of both near misses and injuries is actively encouraged as we seek to identify and improve on every aspect of the working environment.

STAFF PERFORMANCE

We continue to work hard to position WEL as an employer of choice so that we can attract high calibre staff, particularly in light of the demands for quality and experienced staff from Australia and other parts of New Zealand.

Our low staff turnover, employee wellness and safety initiatives, alongside our winning profile from the ESITO Line Mechanics Competition all demonstrate our strong brand. WEL continues to make direct investments in staff



training to ensure development at all levels across the business and plan for the future.

NETWORK DEVELOPMENT

Building consents, residential connections, large scale roading projects and subdivision development are all at levels close to those experienced prior to the global financial crisis.

Cabling infrastructure is in place and work will commence shortly on our newest substation, Hoeka, in Hamilton's south east.

We have successfully introduced Condition Based Risk Management (CBRM) processes, which provide clear direction on asset replacement and maintenance across a number of classes of equipment. An early benefit of CBRM was the identification of a potential saving of $1 million in ring main unit replacement over the next 10 years.

In 2014, at a national level, evidence revealed that 16mm² copper conductor only lasts about 35 years rather than the standard conductor life of 60 years. As our original asset replacement and spend profile was derived from this accepted life span, our replacement assumptions were no longer accurate. As a result of both the evidence of increased failure rates and our CBRM analysis we were able to respond quickly to the emerging issue and the proposed plan will see an additional $2.3 million per annum spent on 16mm² conductor replacement.

As a part of our continued commitment to rural reliability the Ground Fault Neutraliser (GFN) initiative will be rolled out across all of WEL's rural substations at a spend of $7.4 million in our asset management plan.

In light of an increased awareness of the potential for disasters to impact heavily on infrastructure, WEL commissioned the replacement of its existing disaster recovery site. We have taken the opportunity to significantly enhance the functions we would be able to undertake in the event of a disaster, and also applied the learnings from the experiences of our peers in Christchurch. Once complete, this new facility will provide a high level of resilience for our network and customers.

Total capital expenditure is estimated at an average of $39 million per annum over the next ten years as detailed in our asset management plan.

RELIABILITY

A number of significant storms, an increase in early failures of the 16mm² copper conductor, and a management decision to stop live line replacement of the 16mm² conductors for health and safety reasons led to a worse than target SAIDI result of 91 minutes. These issues are currently affecting almost all lines companies.

The good news from WEL's perspective is we have seen fewer outages related to falling trees this year, which supports the in-sourcing of our vegetation team a number of years ago. WEL has also stepped up its programme of copper conductor replacement as we endeavour to avoid continued outages due to 16mm² copper conductors.

CUSTOMER SERVICE

WEL is an essential infrastructure provider in the Waikato. Our vision strap line change two years ago to 'Best in Service, Best in Safety' reflects our desire to demonstrate excellence in both areas for our customers, our staff and the community we serve every day.

After a review of our customer-facing processes last year we are looking at continued centralisation of our request processing (systems and operations); soliciting more feedback across the services we provide and increased reporting on our service levels to ensure we meet and exceed our customers' expectations for delivery of service.

The Electricity and Gas Complaints Commissioner issued WEL with a 100% compliance rating for the way in which we handle complaints,

which is a fantastic result.
We will continue to ensure we set and achieve the highest standards of compliance as we get closer to our customers and demonstrate our 'Best in Service' approach.

SMART NETWORKS

The smart box continues to demonstrate its substantial benefits as a network tool. Not only are we able to receive immediate notification of power outages, but our network engineers can now utilise smart box readings to see real time voltages and supply quality when considering a configuration or system change.

The impact of this is improved service to customers in the form of faster decisions on customer driven project requests, and better outcomes of maintenance spend on network development.

ULTRA FAST BROADBAND

Our performance in the rollout of fibre across our coverage areas has been top quality. We have one of the fastest build programmes of all the Ultra Fast Fibre companies, at five years, with completion due by the end of June 2016. Despite this quick build programme, we are recognised as the leader in Health and Safety, quality and performance in this area in New Zealand.

Management and Directors continue to provide significant focus on our fibre investment and to the consideration of ensuring the value of the investment is appropriately noted in the financial statements.

The investment has proven challenging to date given the slow uptake of customers, however we were pleased to see the growth in customer numbers increasing during the second half of the year.

While uptake is slower than we originally hoped for due to the Retail Service Providers still developing their market offerings we are pleased to note that on a per premise passed basis our uptake is at the top of the table. We are receiving very positive feedback about the quality of our build and the performance of our contractors out in the field. We look forward to the major Retail Service Providers offering improved products to customers throughout our region in 2014-15.

LOOKING FORWARD

While it is still business as usual, the arrival of a new Chief Executive in September 2014 will bring with it new perspective and opportunity for WEL.

The next 12 months will therefore see a focus on efficient business through sound decisions, engaged staff and network development. We will meet our regulatory objectives as well as aiming to keep the lights on 24/7 for our customers.

Through this focus we will bring benefits to businesses and customers.

WEL NETWORKS RETURNS $22.3 MILLION IN DISCOUNTS TO WAIKATO CUSTOMERS

WEL is a community-owned organisation and is committed to the region's growth. Once a year all of WEL's Waikato network customers receive the benefit of one of our major initiatives, the WEL Discount. In 2014 we are returning $22.3 million (including GST) to our customers. Over the past twelve years WEL has distributed $235 million (including GST) to the people and businesses throughout the Waikato.

SMART GRID

WEL has continued to lead the way in the industry with our multi-year Smart Network implementation programme.


Smart box installation

WEL's Smart Grid project continues to make solid progress with over 35,000 smart boxes now installed across the WEL network area: 24,000 in the 12 month period to 31 March 2014.

Smart boxes are now fully deployed in Raglan, Te Kauwhata, Huntly, Ngaruawahia and many parts of Hamilton. We are consistently rolling out between 2,000 to 2,500 smart boxes every month. The eastern side of Hamilton was completed at the end of 2013, with work now underway on the western side. When we reach 60,000 meters we will have Smart Network coverage to an average of 70 per cent of all customer premises. At this point we will have realised the added benefit of integrated outage reporting and network monitoring into our Network Management System across all network areas. The Company is on target to achieve this target by March 2015.

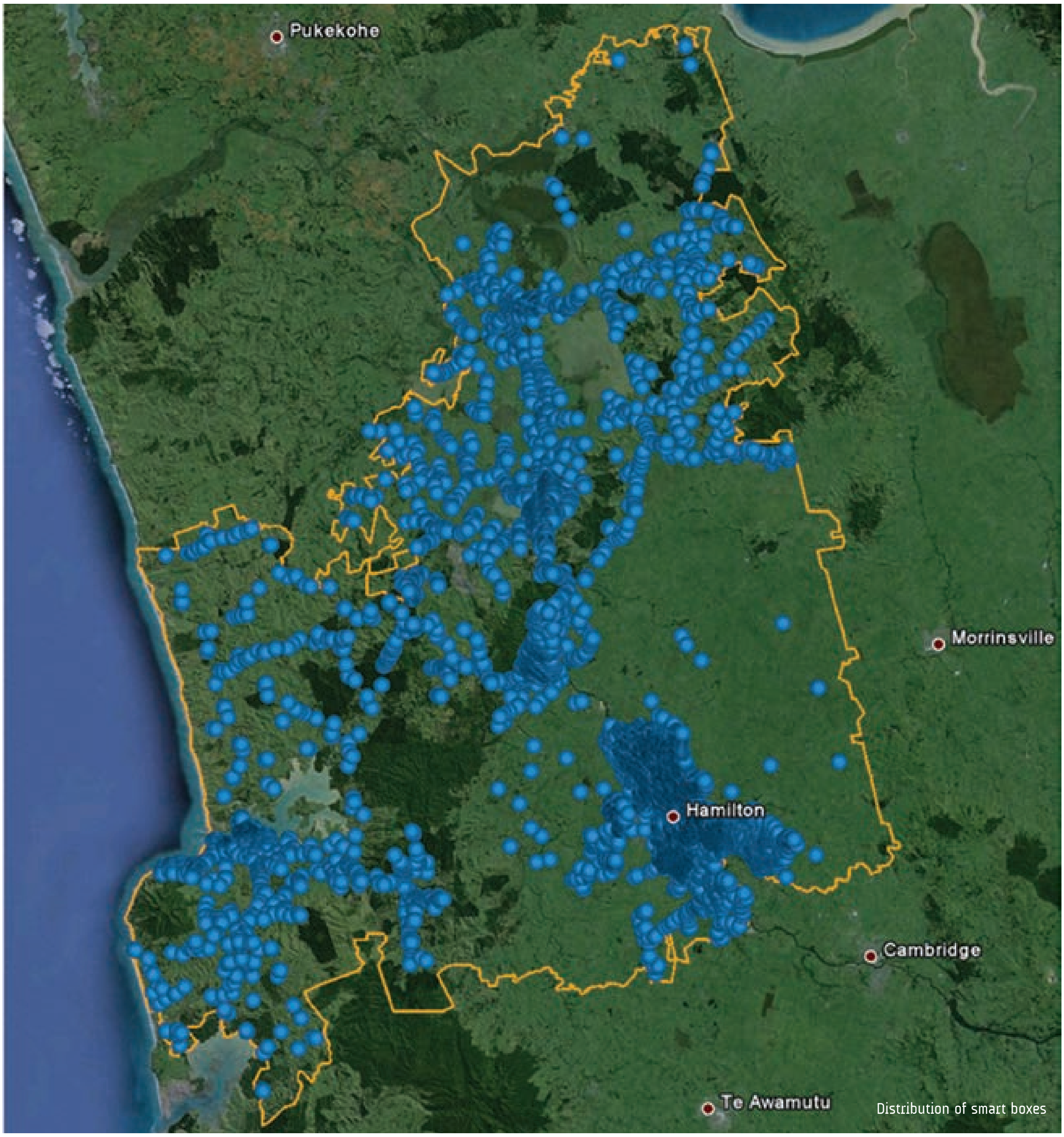
This is a significant network investment programme for WEL. For the first time WEL will have the technology to proactively monitor and manage low voltage network issues at a detailed level across the network; a significant advance on traditional network monitoring capabilities. As smart boxes are installed they are progressively being used for reporting power outages and confirming fault restoration down to the individual customer level. They are also being used to identify and investigate areas where voltage issues have existed. Together with other new technologies, such as Ground Fault Neutralisers, customers should continue to see benefits from fewer power outages and better power quality.

WEL has also used this rollout programme as an opportunity to replace ageing hot water load control equipment in the northern part of the network (from Huntly northwards) using technology compatible with the new ripple signal plant in Huntly. This work should be completed by December 2014.

As a result of introducing this new smart box technology WEL is now subject to a range of regulated requirements for metering owners and providers, so we are very pleased to have passed our initial Electricity Authority audit with no significant compliance issues identified.

WEL SIGNS SMART NETWORK DEAL WITH TOP ENERGY

In August 2013, WEL announced that we had entered into an agreement with Top Energy to roll out a smart network in the upper North Island. The rollout will span the 4,500 km network and will include the installation of 25,500 smart boxes in the homes and businesses of Top Energy customers. The Top Energy smart network, along with WEL's own network, will be one of the few smart networks in New Zealand to offer two-way real time monitoring and management along with advanced meter reading for automated billing. The meters will be owned by WEL, replacing meters currently owned by Contact Energy. Top Energy will be subcontracted by WEL to install the RF communication mesh, the framework of multiple radio links between devices on which smart meters communicate. SmartCo, a consortium of electricity lines



Distribution of smart boxes

companies comprised of Alpine Energy, Counties Power, Electricity Invercargill, Network Tasman, The Power Company and WEL Networks, will process the data for retailer revenue billing and network management purposes.

The Top Energy programme is also progressing well. Most of the radio mesh equipment has been installed and meters are on their way. Meter installation will commence when final details around integration with incumbent meter owners AMS and Contact Energy have been finalised. We expect this installation programme to commence around October 2014.

This off-network investment will allow us to deliver the benefits of the smart network to Top Energy's customers and provide a new revenue stream for WEL.

Top Energy Chief Executive Russell Shaw says the partnership with WEL came about because of the similarities in culture between the companies and the Smart Network expertise WEL brings to the table. "We see this partnership as a great opportunity to work with WEL, who like Top Energy, is a community owned organisation committed to keeping the lights on 24/7 and investing in our network to deliver better value to our customers," says Shaw.

Images to come

ULTRAFAST FIBRE PROJECT

It has been two and a half years since Ultrafast Fibre started construction of one of the largest and most complex network builds in 50 years and we are pleased to advise that this build project continues to be ahead of schedule and plan.

On behalf of Ultrafast Fibre (UFF), Waikato Networks Limited (WNL) is responsible for the building, operating, provisioning service and maintaining of the fibre network. WNL is owned 85% by WEL Networks Limited and 15% by Waipa Networks Limited.

When completed, this 3,000 km fibre network across the central North Island will enable New Zealand businesses and homes to connect to a new generation of ultra-fast broadband.

By December 2015 we will have passed 163,000 addresses in the urban areas of Hamilton, Tauranga, Wanganui, New Plymouth, Tokoroa, Hawera, Cambridge and Te Awamutu. In fact, we are carrying out one of the fastest builds of anyone in New Zealand, meaning that those in our regions will be amongst the first to connect to broadband at speeds that rival the best in the world. The build completion is six months ahead of schedule.

During the past year all of our eight city and town centres were made available to Retail Service Providers, meaning that customers in all of our centres are able to connect to our ultra-fast broadband network.

AS AT 31ST MARCH 2014 WE HAVE:

- 4,500 customer connections (including Velocity Networks' customers);
- laid 1,400 km of duct and fibre;
- passed 85,863 premises including schools, businesses, hospitals and households;
- completed 60% of the network build;
- driven connection and service efficiencies by bringing our Retail Service Provider desk in-house.

During this time we have also seen a significant growth in connection numbers. The total connection volume is made up of mostly local retailers (Trustpower, Lightwire and Orcon) however we expect national retailers (Telecom and Vodafone) to launch ultra-fast broadband services from July 2014. This will boost public awareness of the ultra-fast broadband initiative and lift our connection numbers significantly in the latter part of 2014.

Our communities are getting used to us working in their backyard and we have provided a much needed employment boost in the regions in which we operate. Over 350 contractors have been inducted to work on the construction project and our civil and provisioning partner Transfield Services Limited continues to recruit new personnel.

We have a proud health and safety record across the build and continue to work with our customers and communities to drive efficiencies in service delivery and network build.

RESILIENCE

WEL has embarked on a programme of works aimed at making sure our business will continue to operate as effectively as possible should disaster strike.

SUBSTATION SEISMIC STRENGTHENING


Peacockes Substation

During the 2011-12 year we undertook a review of the seismic strength of our zone substations and switching station buildings. Whilst these buildings all met seismic guidelines a decision was made to upgrade a number of sites to meet the highest possible seismic rating level, using the results to determine a prioritised approach to this work stream. Over the past few years we have upgraded the Peacockes and Bryce Street zone substations.

In 2013-14 our attention turned to Wallace Substation. Consulting Engineers Stiles and Hooker were contracted to assess the upgrade design. Their recommendation included piled foundations with columns, cast in situ walls, steel cross bracing and a cantilever footing. Site works are currently underway with an expected completion date of May 2014.

Detailed design has been completed for four switching stations at Massey Street, Killarney Road, Findlay Street and Peachgrove Road. Seismic strengthening work on the buildings will be completed in the 2014-15 year. Design work for Glasgow substation will be completed in the 2014-15 year with major building work planned to take place in 2015-16 year.

DISASTER RECOVERY CENTRE


Disaster recovery control desk

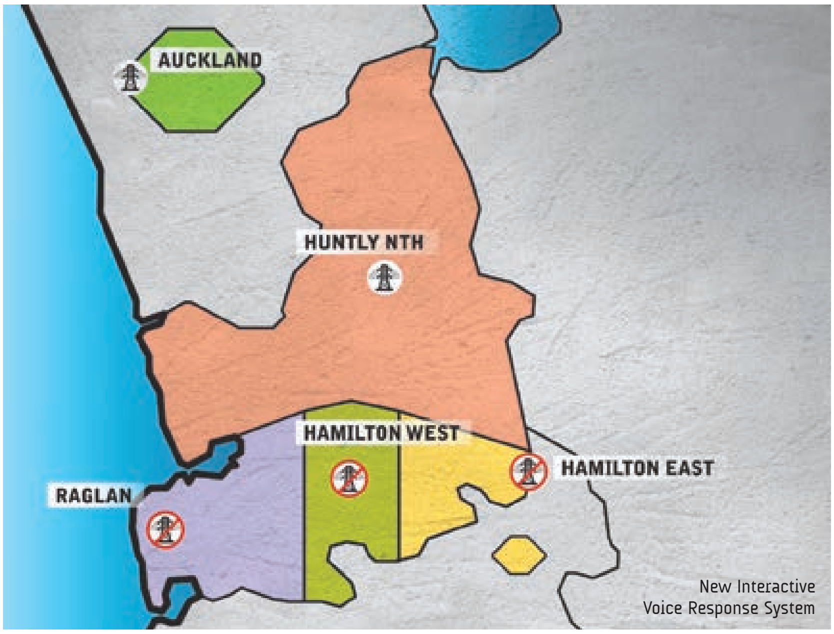
As a (Civil Defence) lifelines utility, WEL needs to ensure we can run our operations from an alternative site should our offices either be damaged or become inaccessible. Our current alternative site in London Street provides a back-up network control centre but limited space, and the possibility of limited access if a disaster was to occur in the Hamilton CBD, led us to consider alternative options. A decision was made in 2013 to significantly upgrade a disused building at our substation on Avalon Drive transforming this into a fully functioning Disaster Recovery site.

Work on this site has progressed well and has included seismic strengthening and a complete building renovation to incorporate a meeting space or 'war room' suitable for running a large scale operation. Additionally, there is sufficient seating and network connection ports to allow up to 20 staff to operate from the site. Back-up power supplies and full replication of key IT systems will mean that most network management and corporate activities will be able to be performed from this site should our premises be affected by a major event. This project is now well advanced and we expect to have our disaster recovery centre fully operational in the near future.

PLANNING AND PROCESS DEVELOPMENT


Substation switchboard

Alongside the physical works we have also undertaken a full review of our disaster recovery processes. A cross-company team has updated our documented business continuity plans. In conjunction with this we have worked with Civil Defence representatives to align WEL's in-house processes with the Co-ordinated Incident Management System (CIMS) model used to manage major disaster events. This allows us to utilise a modular approach to scale our resource and capability levels for targeted response to a variety of emergency situations.



New Interactive Voice Response System

CRITICAL NETWORK SPARES

Our Procurement team has established a supply of critical network spares dedicated to an emergency response situation. These items were identified as part of our contingency planning in the event of a major emergency which would likely require construction of a four kilometre overhead 33kV line, to restore power to Hamilton. In addition, having this supply of critical spares could prove invaluable in a disaster situation if our field staff were not able to access our own Distribution Centre. The critical network spares are being held in a leased secure warehouse facility separate to our existing premises.


High voltage cable drums

NEW INTERACTIVE VOICE RESPONSE SYSTEM

This year WEL replaced and upgraded its IVR to the most up to date technology. An IVR, or "Interactive Voice Response", is the system of pre-recorded messages you hear when you contact a call centre. WEL has had a faults response system to advise customers of a wide-area outage for more than 10 years. The new system, called Avalanche, replaces our existing functionality and, in line with today's technology, it also extends into a multiple communications platform. When a fault occurs WEL now has the option to update its phone message, website, text and even social media sites with one simple, quick and clear message for our customers as we continue to deliver on our 'Best In Service' vision strapline.

NETWORK UPDATES

CUSTOMER DRIVEN WORKS

WEL is experiencing strong growth in customer driven works. The commercial/industrial sector is rebounding from the economic recession with evidence of a much more positive outlook for the upcoming financial year. We are seeing an increase in businesses either looking to expand their operations or relocating to accommodate growth. Several very large commercial developments are underway in our area. This growth is being mirrored in the residential sector with a marked increase in subdivision development around the outskirts of Hamilton City over the past months.

GROUND FAULT NEUTRALISER (GFN) INSTALLATION TRIAL

With rural reliability as a focus we have also invested in a Ground Fault Neutraliser (GFN), which is technology new to our network.

One of the key issues for rural reliability is that the high voltage network consists largely of overhead power lines which are susceptible to faults caused by environmental factors such as wind, rain, vegetation or animals. Additionally, earth faults (where the current flows from one or more conductors to earth), are considered to comprise about 60% to 70% of all faults and therefore are the leading contributor to interruptions.

WEL staff studied various options for reducing the number of earth faults and decided to implement the Swedish Neutral Ground Fault Neutraliser (GFN) at our Weavers substation at Huntly.

The GFN has a fixed coil with variable step capacitance so as to tune to the capacitive reactance of the network.

The GFN has a feature not found in other resonant earthing systems: it has an RCC (Residual Current Compensator) which effectively neutralises the residual fault current. This means that earth faults are essentially counteracted when they occur.

The project for installation of the GFN commenced in April 2013 with the coil and its associated control commissioned in March 2014. The goal is to have the 11kV Weavers network resonantly earthed by the end of February 2015.


GFN commissioning


GFN project team

RURAL RELIABILITY PROJECT TAKES TO THE SKIES

As part of WEL's commitment to improve rural network reliability and deliver on its 'Best in Service' promise, WEL was required to replace approximately 10 km of existing 16mm copper overhead 11kV lines this financial year. On one project, instead of the traditional reconductoring methodology, we used a helicopter to make the process more time efficient. Part of this project took place in Ruawaro in Huntly. Initially this job had a two week completion timeframe, but the team successfully reconductored approximately 2.3 km of route length within just six hours in March 2014. Whilst this involved a lot of detailed planning, with more than 15 teams working together and significant traffic management, Project Manager Adip Desai noted that the new overhead conductor lines ensure fewer outages for our rural community.


Ruawaro 11kV replacement

ARC FLASH PROTECTION

Identification of hazards and their treatment forms an important part of WEL's Health and Safety management programme.

As a result of an Arc Flash study it was determined there is a potential risk when working near an arc source from certain equipment within substations. Such arcs can be generated when high voltage equipment develops a fault and this can be extremely hazardous to personnel present at that location. In simple terms, the study concluded that 21 of the 44 11kV switchgear sites in WEL's distribution network could result in arc flash hazard levels that exceed WEL's current Personal Protection Equipment (PPE) rating - the clothing and protective accessories worn by field staff.

Fitting of zone bus protection (Arc Flash) at our sites will detect the arcing event and quickly de-energise the equipment. This is a significant outcome given the other option is to greatly upscale personal protection suits that resemble those worn by bomb disposal teams.

A works programme is now underway to complete Arc Flash protection at the remaining identified locations with four of our substations already complete.

SUBSTATION SECURITY UPGRADE

The installation of a new security management system is underway on WEL substations to enhance site security and monitoring. Under this system authorised personnel are now issued 'access fobs' and the security management system logs door access. Intruder alarms and indoor cameras will be installed in strategic positions where switchgear and equipment can be monitored. These upgrades are part of our commitment to ensure we have a safe and secure electricity network so that we can work to keep the lights on 24/7. The first nine substation sites were completed in the 2013-14 year with the remaining substations scheduled to be completed progressively over the next four years.


New security access point

VEGETATION TEAM

WEL is a member of the New Zealand Arboricultural Association (NZ Arb). The goal of NZ Arb is to encourage, foster, improve and educate in all aspects of arboriculture throughout New Zealand.

The New Arborist of the Year Award is sponsored by WEL and the finals are held in conjunction with the NZ Arb conference and national tree climbing championships. It's not about just climbing a tree fast though. To qualify for the competition and award, arborists with less than three years experience are required to enter one of four regional competitions. Contestants must then undertake both practical and theory assessments and the winner of each regional event goes through to the national event.

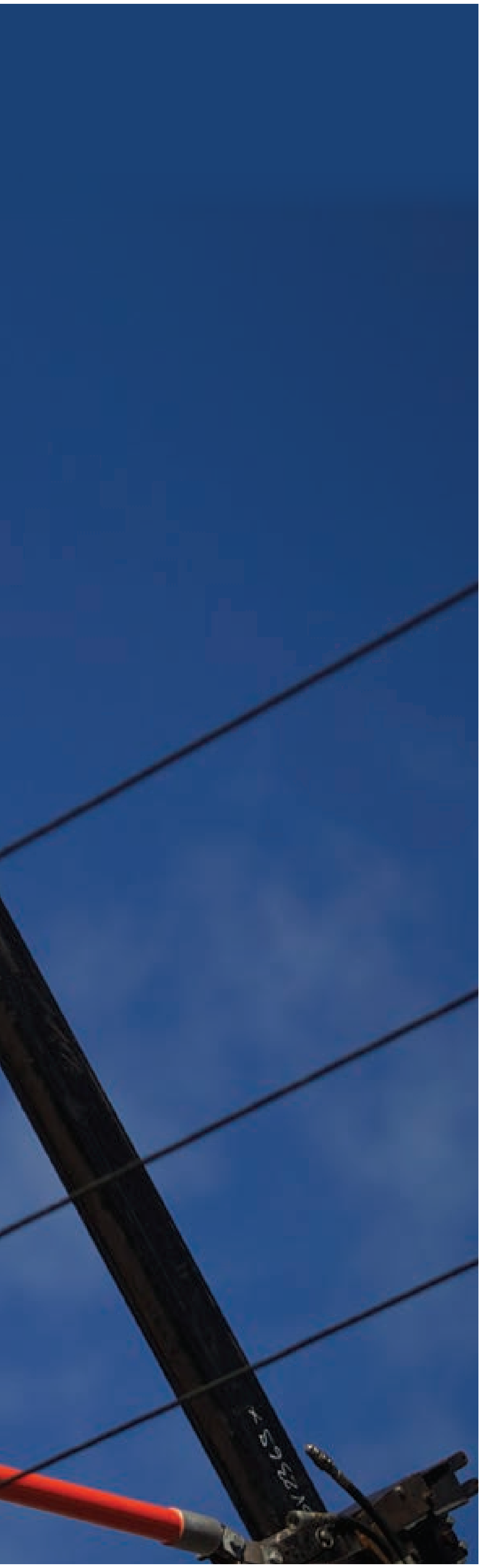
For two days new arborists undertake rigorous class and field testing including tree identification, knot tying, general knowledge and quick fire questions. Practical tests include the popular tree climbing, rescue, site set up and hazard identification competitions.

ROADING INFRASTRUCTURE

As a result of the large-scale roading projects in our area such as the Waikato Expressway and completion of Hamilton City Council's inner city ring road, our Field Services teams have been busy with relocation work and installation of essential lighting infrastructure.


New Waikato expressway

HUMAN RESOURCES
HEALTH AND SAFETY



PEOPLE

On 31 March 2014 WEL's actual staff complement was 281 which includes 33 staff in Waikato Networks Limited, the unit responsible for managing the fibre network build programme. Our staff originate from 27 different countries from around the world.

The recruitment of 70 replacement and additional staff during the year has had an impact on the demographic profile of our staff complement.

DEMOGRAPHIC PROFILE:

- With new starters, the average tenure reduced to 4.07 years
- However, the range of tenure is from 1 to 48 years, for our longest serving employee
- The median age is also lower at 42, with a range between 19 and 70 years of age
- Nineteen staff members are 60 years and older and of those, six are older than 65
- In 2010 the male to female ratio was 84%:16% - on 31 March 2014 it was 77%:23%

SAFETY

To be 'Best in Safety' is a mantra instilled and reinforced with every employee, every day. For us one tangible measure of our safety performance is the amount of discount ACC awards to us, based on our claims history. We encourage consistent reporting of all near misses and injury incidents.
The result is that the number of ACC incident reports is consistently high, but because of the early intervention, both claim cost and time off work is low. The low overall injury cost to ACC the past year has again resulted in WEL being awarded the maximum premium discount available.

PERFORMANCE

WEL's voluntary staff turnover is low at 9.6% for the year.

The company has invested a lot of effort in building our employer brand over the past few years and is consistently able to attract high calibre applicants for vacancies.

Employee wellness, in addition to safety, is an important element of our HR policies and practices. Annual health assessments, early intervention clinics and free flu vaccinations for staff and their partners, coupled with an enhanced sick leave scheme recognising responsible use of sick leave entitlements, have resulted in a steady decline in time lost due to sickness. This year, for the first time, it dropped to 2.48%, just below the 2.5% target first set in 2008.

Our direct investment in training and development for the year was 2.32% of payroll. Our biggest single investment is in training new Line Mechanics, Electricians and Cable Jointers with 15 individuals in training this year. One of the the benchmarks we use for testing our staff capabilities is the annual national competition for Line Mechanics and Cable Jointers organised by ESITO. After winning the top team prize for three years in a row our focus will now be on accelerating the training of less experienced staff to participate in the annual industry competition.

COPPER THEFT CRIMESTOPPERS

Field crew replacing a copper earth

Stealing copper earth wires and other conductors is more than simple theft – it is a serious crime.

WEL, like many other lines companies, has been hit hard by the theft of copper with over 750 instances of stolen earths recorded in a seven month period last year. This equated to over $800,000 of wasted time and material; a cost that is ultimately passed on to our customers.

Our network maintenance budget was impacted as we were forced to repair or replace stolen earths, this also meant our field and planning crews were put under needless pressure responding to these sites when they could have been undertaking other tasks. More significantly the health and safety risk of electric shock for our field staff and members of the public increases when the earth wires are stolen. There is also greater potential for damage to a customer's home and equipment as electricity tries to 'find its way' to earth when faults occur on the network.

WEL has therefore taken this issue very seriously, investing significant time and resource during the year to investigate instances of theft and report them to the Police in an attempt to curb what had become a problem of epidemic proportions. The Police were able to make good headway on the issue, apprehending one group of alleged perpetrators a number of whom have now been prosecuted.

WEL will continue to focus on this issue and were pleased to recently announce that we are taking part in a partnership between a number of North Island network companies, Police, Crimestoppers and AVI (Authentic Verification Identifiers) that is running a six month campaign aimed at stamping out metal theft.

WEL will be tagging its copper (and other) earths with a nanotag dot which is invisible to the human eye. Should an earth be stolen and an attempt made to sell the metal, it will immediately be identified. Results from a recent trial in Australia saw theft reduced by up to 70 per cent in some areas.

ESITO LINE MECHANIC COMPETITION 2013

WEL LINE MECHANICS WIN NATIONAL TITLE - THIRD YEAR RUNNING

WEL successfully defended its winning title at the 2013 Electricity Supply Industry Training Organisation (ESITO) Line Mechanic Competition – making it the third straight win for our experienced linesmen.

The 2013 winning team

The event, held over two days at the Wigram Air Museum in Christchurch, saw 12 teams competing operating cranes, installing poles, transformers and hardware and conducting pole-top rescues, safe electrical testing and first aid. Trainee linesman Toby O'Neill had a very solid performance against more experienced professionals, winning the Ross Archer Memorial Line Mechanic Safety Award - securing a third consecutive win for WEL in this category. The WEL team comprised of linesmen Dave Robertson as team leader, Niall Gavin and Jason Haugh, Toby O'Neill and Hamish Thomson as team manager. WEL Faults Supervisor Hamish Thomson noted that it was the team's unwavering commitment to a safety-first approach, combined with a high level of attention to detail, quick thinking and precision that secured it the top spot at the competition. "To win three years in a row, this time in unfamiliar territory in Christchurch, is a fantastic achievement for the team, and for WEL. Our team performed like a well-oiled machine and delivered an industry-leading performance."

The competition is also a great opportunity to showcase the talent coming up through the ranks, with our new team members clearly holding their own against the more experienced linesmen. Extremely proud of the win, the team credits great team-work and training and a high regard for Health and Safety for their success.

The competition is a fantastic opportunity to recognise the high level skill set of the company's linesmen. "Our field services teams strive to build the right skills to deliver the very 'Best in Service, Best in Safety'. In turn, we are committed to investing in the right training and resources to ensure that our teams keep our 5,200 km electricity network in top condition to deliver a reliable power supply to the people of the Waikato."
A special prize-giving ceremony was held at WEL to personally congratulate the winners and see them presented with their prizes by competition sponsor Electropar.

OUT AND ABOUT IN THE COMMUNITY

We have a 100 year heritage serving the city, towns and farming community of the Waikato and we are proud to support a number of local projects to help the community grow and prosper.

Simon Gault speaks at summit

Chief's Chairman
Dallas Fisher (left)
accepting the award

WEL CUSTOMER SUMMIT

November 2013 saw another successful WEL Customer and Partner Summit, an event which has been running since 1995. This year's theme was Home Grown, World Class and saw our biggest attendance to date. The summit is designed to enable community and business to come together for an update on WEL's activities, with guest speakers adding value by providing their thinking on topics of interest to the Waikato.

Chief Executive, Julian Elder provided an update on the community-owned company's operation over the past financial year, demonstrating WEL's own Home Grown World Class performance in the form of targets and regulated measures placing WEL in the upper quartile when compared to other lines companies.

Torpedo7 co-founder Guy Howard-Willis spoke to the crowd on the stunning success of his son's company from its humble beginnings, as a company that made just one mountain bike frame, to New Zealand's largest online retailer with an estimated 1.6 million orders delivered in the last year.

The Deputy Chair of WEL's Board, Margaret Devlin, presented in her capacity as a member of the National Infrastructure Advisory Board. In order to be Home Grown World Class Ms Devlin discussed the challenges ahead of the Waikato and the nation in terms of finding efficient infrastructure outcomes for the economy, in a sector that will spend $110 billion in the next nine years.

Finally, celebrity chef Simon Gault spoke of his beginnings as a trainee chef in the Waikato. He shared his Home Grown learnings from experience including the mistakes he made, and his appetite to take risks. All of which led on to his World Class international cooking success, his high profile role as a TV master chef and mentor, his successful chain of eight restaurants nationwide, as well as his numerous recipe books and an online ingredients store.

BUSINESS EXCELLENCE AWARDS

WEL Networks was a category sponsor of the Westpac Waikato Business Excellence Awards, supporting businesses employing 15-49 full time employees. This sponsorship was part of our commitment to support local projects to help our Waikato community grow and prosper. In 2013 the prize went to our very own rugby franchise The Chiefs Ltd, proving themselves as winners both on and off the pitch.

WEL SPONSORS JUNIOR RUGBY

WEL is extremely proud to be an official Waikato junior rugby partner, helping to promote the Waikato community and support the future of our region - building tomorrow's champions.

DIRECTORS' PROFILES

JOHN SPENCER CNZM (CHAIRMAN)

John is Chairman of Kiwirail, Ruakawa Iwi Development Limited and The Tertiary Education Commission. He is a Director of Tower Limited, Mitre 10 (New Zealand) Limited, Waikato Regional Airport Limited and RVNZ Investments Limited. He was the Chief Executive of New Zealand Dairy Group prior to the formation of Fonterra, and has held a number of senior management positions in New Zealand and overseas. He is a Fellow of the Institute of Chartered Accountants. John was appointed to the Board in 2005 and became Chairman in October 2009.

MARGARET DEVLIN (DEPUTY CHAIRMAN)

Margaret is a professional Director operating predominantly in the infrastructure and service sector. Her current governance portfolio is as follows: Chairman of Harrison Grierson; Director of City Care Limited, the Institute of Directors Accreditation Board, Waikato Regional Airport Limited, Titanium Park Limited and The Institute of Directors in New Zealand Limited. Margaret is also a Director of Ultrafast Fibre Limited. She is a member of the National Infrastructure Advisory Board and the University of Waikato Risk Management Committee. She also chairs the Audit and Risk Committee of the Waikato District Council. She is an accredited Fellow of the Institute of Directors, a member of the Institute's National Council and Chairs the Waikato branch. Margaret has had significant experience in both the retail and infrastructure sectors. Margaret was appointed to the Board in 2007.

HON RICHARD PREBBLE

Richard is well known for his active role in New Zealand politics, which has spanned several decades. He retired as the leader of the ACT Party in 2005. His time in Parliament included his role as Minister of State Owned Enterprises. Richard by profession is a lawyer. He is now a professional Director being a Director and shareholder of Mainfreight, Deputy Chairman of McConnell Limited, a Director of Hawkins Group Limited and Chairman and Director of a number of private and family companies. He is also a Director of Ultrafast Fibre Limited. Richard is a Fellow of the Chartered Institute of Transport. Richard was appointed to the Board in 2005.

MARK FRANKLIN

Mark is currently Chief Executive of the Stevenson Group based in Auckland. He is well known in New Zealand business and has previously held the roles of Chief Executive of Vector Limited and founding Chief Executive of TZ1, the global carbon registry. Mark is also a Director of Ultrafast Fibre Limited and a former Director of New Zealand Railways Corporation. Mark has been a member of the Prime Minister's Climate Change Leadership forum and the Australia New Zealand Joint Prime Ministers Leadership Forum. His other senior roles have included; Director of Operations for IBM Global Services Australia/New Zealand, Chief Executive of Interpath Australia and Executive Chairman of OSIX. Mark was appointed to the Board in October 2009.

PAUL MCGILVARY

Paul is the Chief Executive of Tatua Co-operative Dairy Company, based in Morrinsville. He has held this role since 2008. Tatua's focus is the manufacturing and marketing of complex value added products for the world's food industry. Prior to that he was the Chief Executive of HortResearch, the largest plant and fruit research organisation in the world. Paul's career to date has included business development and general management roles in a number of industries, including automotive, infrastructure and food, both in New Zealand and overseas. Paul was appointed to the Board in October 2009.

ANTHONY (TONY) STEELE

Tony is a Chartered Accountant and has had a career in professional practice. He joined 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 Forlong and Maisey Limited since 2002. He also sits on the Boards of several subsidiaries of Forlong and Maisey Limited in both New Zealand and Australia. Since retiring from KPMG, Tony has accepted appointments as an Independent Director of several local private companies.
Tony was appointed to the Board in October 2010.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The Board is appointed by the shareholder and is responsible for setting and monitoring the direction of the Company.
It delegates day to day management of the Company to the Chief Executive. The Board operates in accordance with the WEL Networks Corporate Governance Charter, adopted in October 2005 and most recently amended in March 2012 after rigorous review by the Board to capture the current governance regime for the Company. Additionally, the Board endorses the principles set out in the Code of Proper Conduct for Directors approved and adopted by the Institute of Directors in New Zealand (Inc). The Board receives monthly reports from management and meets at least eight times during each financial year. The Constitution specifies that there shall be no less than four and no more than six Directors of the Company at any time.

The Board has two operating committees: (a) The Remuneration Committee; assists the Board to develop the Company's remuneration policy, sets the Chief Executive's and his direct reports' remuneration packages and all other matters relevant to ensuring a committed and competent workforce; and (b) The Audit and Risk Committee; oversees the Company's compliance with legal and regulatory requirements, financial statements, treasury policy, preparation of the annual report, liaises with the external auditors and reviews internal and external controls relevant to financial reporting, risk management and associated matters, operating under a charter approved by the Board.

RISK MANAGEMENT

The Audit and Risk Committee of the Board oversees the Company's risk management programme.
The Company has an Executive Risk Management Committee which ensures that appropriate risks are identified and mitigated where possible and that all policies and procedures consider risk when drafted. This committee is responsible for providing detailed risk reports to the Audit and Risk Committee of the Board on a six monthly basis, and a summarised report on risk to each full Board meeting. Reporting is immediate in the case of extreme residual risks. In addition to normal risk management practices, key controls are reviewed as part of the Company's internal audit programme to ensure they are effective in managing or mitigating known risks.

COMPLIANCE

The Company has a programme in place to review compliance on an ongoing basis across all aspects of its business. To enhance the existing programme ComplyWith compliance assessment was introduced during the year to ascertain the level of compliance with generic legal and regulatory requirements.
The findings from these assessments will aid in directing the future programme of internal audit.
The internal audit programme is currently being provided by KPMG

and our internal auditor. In the 2013/14 year specific external reviews were undertaken in the areas of; financial management controls, asset management planning and systems, the major Smart Grid project, IT security and Network Management System (NMS) controls.

ENVIRONMENTAL AND HEALTH AND SAFETY ISSUES

The Board recognises the importance of environmental and health and safety issues. It is committed to the highest levels of performance in all areas of the Company. Health and safety and environmental management programmes have been adopted by the Company. The Company also seeks to assess and improve its performance and standards in these areas, to use energy and other natural resources efficiently, and requires the adoption of similar standards by its suppliers and contractors.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

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

INFORMATION USED BY DIRECTORS

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

INTERESTS REGISTER

Directors must identify any potential conflict of interest they may have in dealing with the Company's affairs. Where a conflict arises, a Director may still attend a Directors' meeting, but may not be counted in the quorum, partake in the debate or vote on a resolution or affix the seal to any document in which they are interested. The Company maintains an interests register to record particulars of transactions or matters involving Directors. It is available for inspection at the Company's registered office.

Additionally, the Company has implemented an interests register for Executive Managers and other Senior Managers to record potential conflicts of interest.

DIRECTORS' DISCLOSURES OF INTEREST

NEW DIRECTORSHIPS FROM 1 APRIL 2013 TO 31 MARCH 2014

JOHN SPENCER CNZM

As Director of Waikato Regional Airport Limited, Titanium Park Limited, RVNZ Investments Limited, Tower Insurance Limited, Tower Life (N.Z.) Limited and Tower Financial Services Group Limited.

MARGARET DEVLIN

As Director of Waikato Regional Airport Limited, Titanium Park Limited and The Institute of Directors in New Zealand Limited.

MARK FRANKLIN

As Director of Stevenson Group Limited and subsidiary companies.

RICHARD PREBBLE

As Director of Hawkins Group Limited.

EXECUTIVE MANAGEMENT

As at 31 March 2014

DAVID SMITH
ACTING CHIEF EXECUTIVE

PREVIOUS ROLE:
GENERAL MANAGER
CORPORATE SERVICES

David is a Chartered Accountant who joined WEL Networks in July 2007 as Chief Financial Officer. He has been in the role of General Manager Corporate Services since 2008. David was appointed to the role of Acting Chief Executive in January 2014.

Prior to his time at WEL he was based in Auckland for 11 years as Financial Controller with Watercare Services Limited. During his time at Watercare he was involved in all financial and treasury aspects for the business including a number of significant capital expenditure projects. Prior to his time with Watercare David held a number of senior finance roles within the Fletcher Challenge Forests group of companies.

WILLIAM HAMILTON
ACTING CHIEF EXECUTIVE OF FIBRECO

PREVIOUS ROLE:
GENERAL MANAGER
OPERATIONS AND FIBRE

William leads WEL's internal Field Services group of over 100 staff who complete maintenance and capital works on WEL's network as well as providing services to other asset owners. In addition to this he is the General Manager of the subsidiary company that is managing the programme of works for the ultrafast broadband rollout, Waikato Networks Limited.

Prior to joining WEL William was Director of Sales and Marketing for a major New Zealand cable manufacturing company. Before this William was a major shareholder and Director of one of New Zealand's larger commercial electrical companies, which still operates in both the commercial and industrial markets. On selling his interests William has been involved in project management, facility management, civil and co-generation projects.

William completed an MBA through Massey University

TAS SCOTT
GENERAL MANAGER ASSET MANAGEMENT

Tas is an Electrical Engineer who completed his Masters degree in Power System Earthing. Tas leads WEL's Asset Management team which incorporates the areas of network design and development, asset performance and investment, system control and oversight of the Smart Box Project rollout. Prior to joining WEL Tas has had an extensive career in the distribution sector in Canterbury holding executive positions of Chief Engineer for Christchurch MED, General Manager Network Services for Southpower Limited, and more recently General Manager Network Development for Orion NZ Limited and Director of Connetics Limited. He has also been closely involved with the governance of two industry-wide forums, being a current member of the Electricity Engineers Association Board and a trustee of the Power Engineering Excellence Trust. During the past 20 years Tas has been responsible for a range of network management initiatives including contracting out of services, developing engineering and operating standards, establishing network security standards and introducing new condition monitoring techniques and new earth fault protection technology (resonant earthing) into New Zealand and Australia.

DAVID VAN DEVENTER
ACTING GENERAL MANAGER OPERATIONS

PREVIOUS ROLE: HR MANAGER

David has had an extensive career in human resources management in the utility sector including water, wastewater and distribution sector. Prior to joining WEL in 2008 David held HR Management positions with Watercare Services Limited in Auckland and Umgeni Water in South Africa. He was responsible for the establishment of the first regional training centre for the water industry in southern Africa. The centre also provided HR consulting services in support of water and wastewater development projects in a range of African countries.

At WEL David is responsible for the full range of HR services including health and safety, HR planning and recruitment, Organisation Development, remuneration and employment relations.

He is currently also performing the role of GM Operations and Customer Delivery in an acting capacity, as cover for the incumbent who has been seconded to the Fibre Project.

MICHELLE CLARK
ACTING GENERAL MANAGER CORPORATE SERVICES

PREVIOUS ROLE: FINANCIAL CONTROLLER

Michelle is an Associate Chartered Accountant who joined WEL Networks in April 1995. Michelle's responsibilities as Acting General Manager Corporate Services include the management and control of the finance, administration, information technology, risk and assurance, procurement, legal pricing and regulatory teams. She also has responsibility for the property and insurance aspects of the business. Michelle has been part of the finance team at WEL Networks for nearly 19 years, holding a number of positions.

DAVID KNEEBONE

ROB HAMILL

DENISE HARDING
(Deputy Chair)

MARK INGLE
(Chair)

KATHRYN
WILLIAMS

MARK BUNTING

BRAD CHIBNALL

2013/14 FINANCIAL REPORT CONTENT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the year ended 31 March 2014

	Note	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Revenue	4	**165,890**	157,553	**103,873**	97,489
Other net gains	5	**31**	44	**31**	44
Contracting cost of sales	6	**(61,611)**	(60,990)	**(1,106)**	(1,365)
Other operating expenses	6	**(75,911)**	(69,057)	**(72,573)**	(67,811)
Net operating profit		**28,399**	27,550	**30,225**	28,357
Finance costs	7	**(2,137)**	(1,181)	**(2,943)**	(1,778)
(Loss) / gain on deemed disposal of share in joint venture	13	**(1,139)**	194	**-**	-
Share of loss of joint venture	13	**(1,398)**	(534)	**-**	-
Net profit before income tax		**23,725**	26,029	**27,282**	26,579
Income tax expense	8	**(6,346)**	(6,469)	**(6,632)**	(6,580)
Net profit for the year		**17,379**	19,560	**20,650**	19,999
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gain / (loss) on revaluation of property, plant and equipment, net of deferred tax		**598**	(937)	**598**	(937)
Cash flow hedge (net of tax)		**(237)**	(130)	**(237)**	(130)
Total items that may be reclassified subsequently to profit or loss		**361**	(1,067)	**361**	(1,067)
Other comprehensive income / (expense) for the period, net of tax		**361**	(1,067)	**361**	(1,067)
Total comprehensive income for the year		**17,740**	18,493	**21,011**	18,932
Total net profit attributable to:					
Owners of the parent		**17,871**	19,625	**20,650**	19,999
Non-controlling interest		**(492)**	(65)	**-**	-
		17,379	19,560	**20,650**	19,999
Total comprehensive income attributable to:					
Owners of the parent		**18,232**	18,558	**21,011**	18,932
Non-controlling interest		**(492)**	(65)	**-**	-
		17,740	18,493	**21,011**	18,932

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

Balance Sheet

As at 31 March 2014

	Note	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
ASSETS					
Non-current assets					
Property, plant and equipment	9	**525,344**	500,635	**524,931**	500,249
Intangible assets	10	**13,075**	10,290	**9,327**	9,772
Trade and other receivables	11	**329**	201	**329**	201
Investment in joint venture	13	**28,381**	6,563	**-**	-
Investment in subsidiaries	27	**-**	-	**49,694**	25,340
		567,129	517,689	**584,281**	535,562
Current assets					
Cash and cash equivalents	15	**1,883**	1,281	**1,704**	905
Trade and other receivables	11	**12,626**	12,362	**10,469**	10,397
Loan to subsidiary company	28	**-**	-	**8,554**	-
Construction work in progress	12	**31,014**	21,525	**-**	-
		45,523	35,168	**20,727**	11,302
TOTAL ASSETS		**612,652**	552,857	**605,008**	546,864
EQUITY					
Capital and reserves					
Share capital	16	**111,142**	111,142	**111,142**	111,142
Convertible notes	17	**39,000**	39,000	**39,000**	39,000
Other reserves	31	**161,012**	162,787	**158,904**	160,679
Retained earnings		**87,579**	70,692	**92,889**	73,223
		398,733	383,621	**401,935**	384,044
Non-controlling interests		**(565)**	(73)	**-**	-
TOTAL EQUITY		**398,168**	383,548	**401,935**	384,044
LIABILITIES					
Non-current liabilities					
Borrowings	18	**-**	42,000	**-**	42,000
Deferred income tax liabilities	19	**73,821**	73,033	**74,167**	72,990
Deferred income	20	**1,323**	1,400	**1,072**	1,103
Provisions	22	**668**	951	**668**	951
		75,812	117,384	**75,907**	117,044
Current liabilities					
Trade and other payables	21	**18,922**	17,801	**16,186**	12,378
Derivative financial instruments	14	**367**	130	**367**	130
Provisions	22	**143**	-	**143**	-
Provision for dividend	29	**-**	10,000	**-**	10,000
Current income tax payable		**1,305**	522	**1,305**	624
Loan from subsidiary company	28	**-**	-	**-**	3,644
Loan from non-controlling interest	28	**8,770**	4,472	**-**	-
Customer discount payable		**19,365**	19,000	**19,365**	19,000
Borrowings	18	**89,800**	-	**89,800**	-
		138,672	51,925	**127,166**	45,776
TOTAL LIABILITIES		**214,484**	169,309	**203,073**	162,820
TOTAL EQUITY AND LIABILITIES		**612,652**	552,857	**605,008**	546,864

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

JOHN SPENCER, CHAIRMAN
29 MAY 2014

MARGARET DEVLIN, DEPUTY CHAIRMAN
29 MAY 2014

Statement of Changes in Equity

For the year ended 31 March 2014

	Note	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY						
		Contributed equity ($000)	Convertible notes ($000)	Reserves ($000)	Retained earnings ($000)	Total ($000)	Non-controlling interest ($000)	Total equity ($000)
Group								
Balance at 1 April 2012		111,142	39,000	165,100	63,191	378,433	(8)	378,425
Comprehensive income								
Net profit for the year		-	-	-	19,625	19,625	(65)	19,560
Other comprehensive income								
Cash flow hedge (net of tax)		-	-	(130)	-	(130)	-	(130)
Fair value gains:								
- distribution network		-	-	(3,102)	1,246	(1,856)	-	(1,856)
Movement in deferred tax on revaluation	19	-	-	919	-	919	-	919
Net income recognised directly in equity		-	-	(2,313)	1,246	(1,067)	-	(1,067)
Total comprehensive income for 2012/2013		-	-	(2,313)	20,871	18,558	(65)	18,493
Transactions with owners								
Interest on convertible note	17	-	-	-	(3,120)	(3,120)	-	(3,120)
Dividends paid / accrued	30	-	-	-	(10,250)	(10,250)	-	(10,250)
Total transactions with owners		-	-	-	(13,370)	(13,370)	-	(13,370)
Balance at 31 March 2013		111,142	39,000	162,787	70,692	383,621	(73)	383,548
Balance at 1 April 2013		111,142	39,000	162,787	70,692	383,621	(73)	383,548
Comprehensive income								
Net profit for the year		-	-	-	17,871	17,871	(492)	17,379
Other comprehensive income								
Cash flow hedge (net of tax)		-	-	(237)	-	(237)	-	(237)
Fair value gains:								
- distribution network		-	-	(2,136)	2,136	-	-	-
Movement in deferred tax on revaluation	19	-	-	598	-	598	-	598
Net income recognised directly in equity		-	-	(1,775)	2,136	361	-	361
Total comprehensive income for 2013/2014		-	-	(1,775)	20,007	18,232	(492)	17,740
Transactions with owners								
Interest on convertible note	17	-	-	-	(3,120)	(3,120)	-	(3,120)
Total transactions with owners		-	-	-	(3,120)	(3,120)	-	(3,120)
Balance at 31 March 2014		**111,142**	**39,000**	**161,012**	**87,579**	**398,733**	**(565)**	**398,168**

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

Statement of Changes in Equity *(continued)*

For the year ended 31 March 2014

	Note	ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY				
		Contributed equity ($000)	Convertible notes ($000)	Reserves ($000)	Retained earnings ($000)	Total equity ($000)
Parent						
Balance at 1 April 2012		111,142	39,000	162,992	65,348	378,482
Comprehensive income						
Net profit for the year					19,999	19,999
Other comprehensive income						
Cash flow hedge (net of tax)		-	-	(130)	-	(130)
Fair value gains:						
- distribution network		-	-	(3,102)	1,246	(1,856)
Movement in deferred tax on revaluation	19	-	-	919	-	919
Net income recognised directly in equity		-	-	(2,313)	1,246	(1,067)
Total comprehensive income for 2012/2013		-	-	(2,313)	21,245	18,932
Transactions with owners						
Interest on convertible note	17	-	-	-	(3,120)	(3,120)
Dividends paid / accrued	30	-	-	-	(10,250)	(10,250)
Total Transactions with owners		-	-	-	(13,370)	(13,370)
Balance at 31 March 2013		111,142	39,000	160,679	73,223	384,044
Balance at 1 April 2013		111,142	39,000	160,679	73,223	384,044
Comprehensive income						
Net profit for the year					20,650	20,650
Other comprehensive income						
Cash flow hedge (net of tax)		-	-	(237)	-	(237)
Fair value gains:						
- distribution network		-	-	(2,136)	2,136	-
Movement in deferred tax on revaluation	19	-	-	598	-	598
Net income recognised directly in equity		-	-	(1,775)	2,136	361
Total comprehensive income for 2013/2014		-	-	(1,775)	22,786	21,011
Transactions with owners						
Interest on convertible note	17	-	-	-	(3,120)	(3,120)
Total Transactions with owners		-	-	-	(3,120)	(3,120)
Balance at 31 March 2014		**111,142**	**39,000**	**158,904**	**92,889**	**401,935**

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

Statement of Cash Flows

For the year ended 31 March 2014

	Note	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Cash flows from operating activities					
Receipts from customers		**167,895**	157,148	**103,478**	95,449
Payments to employees and suppliers		**(122,907)**	(101,368)	**(46,262)**	(39,804)
Interest received		**-**	80	**1,622**	847
Interest paid		**(1,840)**	(1,817)	**(4,347)**	(1,779)
Income tax paid		**(4,175)**	(5,292)	**(4,175)**	(5,335)
Net cash from operating activities		**38,973**	48,751	**50,316**	49,378
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**4,202**	784	**4,173**	784
Purchases of property, plant and equipment		**(51,652)**	(53,294)	**(51,475)**	(53,217)
Purchases of intangible assets		**(5,167)**	(2,064)	**(1,619)**	(1,655)
Purchase of investments		**(24,484)**	(5,600)	**(23,079)**	(11,620)
Net cash used in investing activities		**(77,101)**	(60,174)	**(72,000)**	(65,708)
Cash flows from financing activities					
Proceeds from borrowings	18	**51,850**	14,446	**47,800**	12,500
Proceeds from intercompany loan	28	**-**	-	**-**	6,663
Repayment of intercompany loan	28	**-**	-	**(12,197)**	-
Interest on convertible notes	17	**(3,120)**	(3,120)	**(3,120)**	(3,120)
Dividend paid	29	**(10,000)**	(250)	**(10,000)**	(250)
Net cash used in financing activities		**38,730**	11,076	**22,483**	15,793
Net increase / (decrease) in cash and cash equivalents		**602**	(347)	**799**	(537)
Cash and cash equivalents at the beginning of the year		**1,281**	1,628	**905**	1,442
Cash and cash equivalents at the end of the year		**1,883**	1,281	**1,704**	905
Comprises of the following:					
Cash and deposits		**1,883**	1,281	**1,704**	905
		1,883	1,281	**1,704**	905
Reconciliation of net profit after tax to net cash flows operating activities					
Net profit after tax		**17,379**	19,560	**20,650**	19,999
Adjustments for items not involving cash flows:					
Depreciation		**21,079**	18,752	**20,958**	18,626
Amortisation		**2,381**	2,185	**2,062**	2,099
Impairment		**-**	347	**-**	347
Loss on sale of property, plant and equipment		**2,789**	2,044	**2,789**	2,032
Net movements in provision for liabilities and charges		**171**	(286)	**(31)**	(356)
Deferred tax asset		**1,386**	2,363	**1,775**	2,424
Loss / (gain) on disposal of share in joint venture		**1,139**	(194)	**-**	-
Share of loss of joint venture		**1,398**	534	**-**	-
Net movements in derivatives		**-**	(13)	**-**	(13)
Changes in working capital:					
Trade and other receivables		**101**	(183)	**(1,109)**	(308)
Construction work in progress		**(9,488)**	(5,040)	**-**	-
Trade and other payables		**(147)**	9,867	**2,540**	5,706
Current income tax liabilities		**785**	(1,185)	**682**	(1,178)
Net cash inflow from operating activities		**38,973**	48,751	**50,316**	49,378

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

Notes to the consolidated financial statements

For the year ended 31 March 2014

1. General information

WEL Networks Limited is a profit-oriented company incorporated in New Zealand under the Companies Act 1993. The Group consists of WEL Networks Limited ('the Company' or 'Parent') and its subsidiaries (together 'the Group'). The Group is an electricity network business, delivering energy to customers in the Waikato Region and is the contracting company associated with the construction of the Government Ultrafast Fibre roll out programme in the Waikato, Tauranga and Taranaki areas.

The Company is a limited liability company incorporated in New Zealand. The address of its registered office is 114 Maui Street, Hamilton. These consolidated financial statements have been approved for issue by the Board of Directors on 29 May 2014. Once issued the entity's owners do not have the power to amend these financial statements.

The structure of the Group consists of:		Interest	
Operating subsidiaries	**Activity**	**2014**	2013
WEL Networks Limited			
Waikato Networks Limited	Construction of fibre network	**85%**	85%

Non-operating entities

WEL Electricity Limited
WEL Energy Group Limited
Waikato Electricity Limited
WEL Power Limited
WEL Generation Limited

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The following new standards and amendments to standards were applied during the period:

NZ IAS 1 Amendments: Presentation of Items of Other Comprehensive Income

The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This has not affected the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

NZ IFRS 10 Consolidated Financial Statements

NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and Separate Financial Statements, and NZ SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The new standard has not had any impact on the composition of the Group.

IFRS 11 Joint arrangements

IFRS 11 Joint arrangements focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. There is no impact on the Group as the equity method is still applied.

IFRS 12 Disclosures of interests in other entities

IFRS 12 Disclosures of interests in other entities includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. There is minimal impact on disclosures in Note 13.

NZ IFRS 13 Fair Value Measurement

NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Adoption of NZ IFRS 13 has resulted in changes to the valuation methodology of the Group's financial instruments. The changes have had an immaterial impact on the financial statements.

The Group has adopted these new standards and amendments from 1 April 2013. There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods but which the Group has not early adopted and is not expected to result in a material impact on the Group's or Company's financial statements. The following new standards are applicable to the Group:

NZ IFRS 9: Financial Instruments (effective for annual periods beginning on or after 1 January 2015). The standard partly replaces NZ IAS 39 and introduces requirements for classifying and measuring financial assets and liabilities.

2.1 Basis of preparation

(a) Basis of preparation

The consolidated financial statements of WEL Networks Limited have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The separate and consolidated financial statements of WEL Networks Limited also comply with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land, buildings and distribution network as disclosed in the specific accounting policies below. The group has adopted External Reporting Board Standard A1 'Accounting Standards Framework (For-profit Entities Update)' ('XRB A1') in the current period.

(b) Estimates and judgement

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities where these are not readily apparent from other sources. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(c) Consolidation

Subsidiaries

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

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and eviously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

Joint arrangements

Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. IFRS GAAP plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the group.

(d) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposal to non-controlling interests are also recorded in equity.

(e) Joint venture

The interest in Ultrafast Fibre Limited is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of profits or losses of the joint venture is recognised in the Statement of Comprehensive Income, and the share of movements in reserves is recognised in reserves in the Balance Sheet.

Ultrafast Fibre Limited has a reporting date of 30 June 2014.

(f) Entities reporting

The financial statements of the 'Parent' or 'Company' are for WEL Networks Limited as a separate legal entity. The consolidated financial statements of the 'Consolidated' or 'Group' entity are for the economic entity comprising WEL Networks Limited and its subsidiaries. The Parent and the consolidated entity are designated as profit oriented entities for financial reporting purposes.

(g) Statutory base

WEL Networks Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

2.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and Parent financial statements are presented in New Zealand dollars, rounded to the nearest $1,000, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss component of the statements of comprehensive income, except when deferred in equity as qualifying cash flow hedges in which case, they are recognised in other comprehensive income.

2.3 Property, plant and equipment
Land and buildings comprise mainly the corporate office, warehouse and substation land, while the electricity distribution network comprises mainly cables, poles and transformers.

Land and buildings are valued at fair value. Fair value is determined by a periodic independent valuation prepared by external valuers on the basis of market value for highest and best use. The valuations are performed on at least a triennial period. The fair values are recognised in the financial statements, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

The electricity distribution network is measured at fair value. Fair value has previously been determined on the basis of an independent valuation prepared by external valuers, based on a depreciated replacement cost methodology. The fair values have been recognised in the financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the electricity distribution network is not materially different from fair value. Consideration has been given as to whether the electricity distribution network is impaired as detailed in note 2.6. From 31 March 2013 onwards fair value has been determined on the basis of an independent valuation prepared by expert valuers using a discounted cash flow methodology (DCF).

Any revaluation increase arising on revaluation of land and buildings and the distribution network is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the income statement, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged.
A decrease in carrying amount arising on the revaluation of land and buildings and the distribution system is charged as an expense in the income statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land.

Depreciation on revalued buildings and the distribution network is charged to the income statement. On subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings. Other plant and equipment and leasehold improvements are carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads. Borrowing costs are capitalised in respect of qualifying assets valued at $500,000 or more and which take three months or more to construct.

Depreciation on buildings and the distribution network is calculated using the straight-line method with other assets depreciated using the diminishing value basis, to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	2014	2013
Buildings	3%	3%
Distribution network	1.3% - 16.7%	1.3% - 16.7%
Computer equipment	35%	35%
Furniture, plant and equipment	20% - 50%	20% - 50%
Vehicles	25%	25%
Generation assets	20%	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.6).

2.4 Fair value estimation
Financial instruments that are measured in the balance sheet at fair value are disclosed by level under the following fair value measurement hierarchy :

Level 1 - quoted prices (unadjusted) in active markets for the identical asset or liability.

Level 2 - inputs other than quoted prices that are observable for the asset or liability, either directly or derived from level 1 prices.

Level 3 – inputs for the asset or liability that are not based on observable market data.

The Group enters into forward exchange contracts to reduce exposure to foreign exchange movements. These are not traded in an active market and are measured at their fair value on balance date using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Therefore these derivatives are classified as Level 2 instruments.

2.5 Intangible assets

(a) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (two to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (two to five years).

Indefeasible right to use is recognised as an asset and is amortised over the term of the contract of 20 years.

(b) Easements
Acquired easement rights are capitalised on the basis of the costs incurred. These costs are amortised over their estimated useful lives (33 years).

(c) Leasehold Interest
Long term leasehold interest in substation land has been recorded at fair value. The assets will be amortised over the period of the leases.

2.6 Impairment of non-financial assets
Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets
The Group classifies its financial assets as assets at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' and cash and cash equivalents' in the balance sheet (Note 2.9 and 2.12 respectively).

(b) Assets at fair value through profit or loss
Derivative assets that do not meet the criteria for hedge accounting are recorded at fair value through profit or loss.

2.8 Financial liabilities
The Group classifies its financial liabilities as other financial liabilities at amortised cost or liabilities at fair value through profit or loss. The classification depends on the purpose for which the financial liability arose. Management determines the classification of its financial liabilities at initial recognition and re-evaluates this designation at every reporting date.

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

(b) Liabilities at fair value through profit or loss
Derivative liabilities that do not meet the criteria for hedge accounting are recorded at fair value through profit or loss.

2.9 Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impaired receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Comprehensive Income.

2.10 Derivatives
Forward exchange contracts are used to reduce the Company's exposure to foreign exchange movements on transactions denominated in foreign currencies.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either;
(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
(2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of various derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve in shareholders' equity are shown in the Statement of changes in equity. The full fair value of a hedging derivative is classified as a noncurrent asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the profit and loss component of the statements of comprehensive income.

Amounts accumulated in equity are reclassified to the profit and loss component of the statements of comprehensive income in the periods when the hedged item affects the profit and loss component of the statements of comprehensive income (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss component of the statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss component of the statements of comprehensive income.

2.11 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Contributed equity

Ordinary shares are classified as equity.

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

2.14 Convertible notes

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

Interest payments on convertible notes are recorded as a distribution through the statement of movements in equity. Interest rate is fixed at 8%.

2.15 Income tax

The income tax expense or revenue for the period is the total of the current period's taxable income based on the national income tax rate, plus/minus movements in the deferred tax balance except where the movement in deferred tax is attributable to a movement in reserves.

Movements in deferred tax are attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements and any unused tax losses or credits. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or loss or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

The income tax expense or revenue attributable to amounts recognised directly in equity are also recognised directly in equity. The associated current or deferred tax balances are recognised in these accounts as usual.

Current and deferred tax assets and liabilities of individual entities are reported separately in the consolidated financial statements unless the entities have a legally enforceable right to make or receive a single net payment of tax and the entities intend to make or receive such a net payment or to recover the current tax asset or settle the current tax liability simultaneously.

2.16 Goods and Services Tax (GST)

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

2.17 Employee benefits

(a) Wages and salaries, annual leave and sick leave

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

(b) Termination benefits

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

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Long term incentive scheme

The company operates long term incentive schemes for key management personnel. This scheme is detailed in note 28.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of GST, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Line revenue

The Company invoices its customers (predominantly electricity retailers) monthly for the electricity delivery services across the region's lines network. The reported net line revenue includes the provision for the annual customer discounts that are accrued on a monthly basis but only paid to customers once a year. Unclaimed discounts are released against the discount expense.

(b) Sales of services, contracting sales and third party contributions

Sales of services, contracting sales and third party contributions are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Construction contract revenue

Refer to policy 2.23 construction contracts.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.19 Revenue recognition (continued)

(e) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income and are credited to the statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

(f) Operating lease revenue

Operating lease revenue is recognised when the services have been performed under the terms of the contracts.

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Lease incentives are included in deferred income and released over the period of the lease.

2.21 Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

2.22 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

2.23 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contract revenue is calculated on an average cost per premise passed and is recognised when the network has been accepted by Ultrafast Fibre Limited. The contract average cost per premise passed is determined by the Network Infrastructure Project Agreement and recognises a difference between priority and non priority premises. A priority premise is determined as a premise for business, health and education purposes whereas a non priority premise is mainly a residential connection. The approved network deployment plan determines the order of premises to be constructed and whether this is determined as a priority or non priority premise.

On the balance sheet, the group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.24 Investments

Investments are valued at historical cost. Impairments in the value of investments are written off to earnings as they arise.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

(a) Revenue recognition for line revenue
Line revenue discounts are paid to customers once a year. A provision for line revenue discounts is recorded on a monthly basis. The discounts are agreed between the directors and shareholders on an annual basis having regard to the forecast level of company earnings and estimated future capital expenditure programmes.

(b) Revenue recognition for sale of services
The Group uses the percentage-of-completion method in accounting for its sales of services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

(c) Estimated fair value and useful lives of distribution network assets, substation land and buildings
The Group estimates the fair value of the distribution network, substation land and buildings by using independent valuers in accordance with the accounting policy stated in note 2.3. The fair value is based on a discounted cash flow methodology for distribution network assets and buildings. The fair value for land is based on market value for highest and best use. The useful lives of the components of the distribution network are estimated based on their respective tenure period. These calculations require the use of estimates. Changes of the underlying assumptions of the valuation in the future could have a material effect on the carrying amount of distribution network (see note 9).

(d) Construction contract revenue
A construction contract is defined by NZ IAS 11, "Construction Contracts", as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to premises passed.

On the Balance Sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

(e) Discounted cash flows
Management assesses whether individual assets or a grouping of related assets (which generate cash flows independently) are impaired by estimating the future cash flows that those assets are expected to generate. Assumptions such as rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for discounting future cash flow are required.

(f) Determining the nature of the investment in joint venture
The nature of Waikato Networks Limited's (WNL) investment in Ultrafast Fibre Limited (UFF) is not readily apparent, and requires significant judgement. On balance the Directors consider that UFF is jointly controlled by WNL and Crown Fibre Holdings Ltd (CFH) for the following reasons: each shareholder shares in the risks and returns of the arrangement and neither party has the power to affect those benefits or returns; During the concession period neither WNL or CFH have the unilateral right to make decisions regarding UFF activities; WNL and CFH both have the right to appoint three of the seven directors each on the UFF Board and neither is able to control the majority of votes of the Board.

(g) Assessment of any impairment in the carrying value of the investment in Ultrafast Fibre Limited
In order to assess whether there is any impairment in the carrying value of the investment in Ultrafast Fibre Limited, a fair value must be estimated. Determination of the fair value requires significant judgement regarding the key assumptions used in a value-in-use methodology. A key assumption in the valuation is the forecast rate of uptake of customers connecting to the fibre broadband network, this forecast rate of customer uptake is highly subjective given the business is only in its second year of operation. A sensitivity analysis is presented in note 13 (c). The Directors have considered the above and have concluded that no impairment is required at this time.

(h) Assessment of impairment in the carrying value of the investment in Waikato Networks Limited (parent only)
The fair value of the investment in Waikato Networks Limited requires significant judgement and is dependent on the valuation assessment of Waikato Networks Limited's investment in Ultrafast Fibre Limited. Refer to note 13 (c) for the sensitivity analysis of the investment in Ultrafast Fibre Limited.

	Note	**Group 2014 ($000)**	Group 2013 ($000)	**Parent 2014 ($000)**	Parent 2013 ($000)
4. Revenue					
Gross line revenues		**109,115**	101,952	**109,115**	101,952
Discount		**(19,317)**	(18,943)	**(19,317)**	(18,943)
Net line revenues		**89,798**	83,009	**89,798**	83,009
Third party contributions		**6,478**	6,073	**6,478**	6,073
Contracting revenue		**63,638**	62,287	**1,149**	1,457
Operating lease revenue		**2,717**	3,091	**2,717**	3,091
Interest on investments		**49**	80	**1,622**	846
Other income		**3,210**	3,013	**2,109**	3,013
Total revenue		**165,890**	157,553	**103,873**	97,489

Operating lease revenue is recognised in relation to a lease agreement with an electricity generation company. The agreement has been deemed an operating lease and all revenue under the contract is accounted for as lease revenue. The contract expires on November 2035. The future minimum payments under the term of the contract are variable in nature and therefore not able to be quantified.

5. Other net gains/(losses)

	Note	**Group 2014 ($000)**	Group 2013 ($000)	**Parent 2014 ($000)**	Parent 2013 ($000)
Amortisation of deferred income on Government grants		**31**	31	**31**	31
Fair value movements in derivatives	14	**-**	13	**-**	13
		31	44	**31**	44

6. Operating expenses	Note	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Transmission costs		**27,166**	25,153	**27,166**	25,153
Wages and salaries		**9,726**	7,676	**7,581**	6,993
Materials and services		**8,218**	6,770	**8,218**	6,770
Contracting cost of sales		**61,611**	60,990	**1,106**	1,365
Depreciation of property, plant and equipment					
Buildings		**148**	74	**148**	74
Plant and equipment		**2,970**	2,155	**2,849**	2,030
Distribution network		**17,961**	16,490	**17,961**	16,489
Land fill generation		**-**	33	**-**	33
Total depreciation		**21,079**	18,752	**20,958**	18,626
Amortisation expense		**2,381**	2,185	**2,062**	2,099
Directors' fees		**291**	286	**291**	286
Net loss on disposal of property, plant and equipment		**2,789**	2,032	**2,789**	2,032
Impairment on property, plant and equipment	9	**-**	347	**-**	347
Research and development		**98**	174	**98**	174
Bad debts written off		**64**	230	**64**	230
Change in provision for impaired receivables		**32**	(74)	**32**	(74)
Rental and operating lease payments		**219**	410	**219**	549
Other expenses		**3,539**	4,908	**2,896**	4,462
Remuneration of Auditors					
Auditing the financial statements		**143**	137	**106**	103
Half year review		**22**	20	**22**	20
Assurance procedures on disclosure information		**49**	21	**49**	21
Total audit and review services		**214**	178	**177**	144
Tax advice		**10**	25	**10**	15
Other advisory services		**85**	5	**12**	5
Total other services		**95**	30	**22**	20
Total Remuneration		**309**	208	**199**	164

PricewaterhouseCoopers were the only auditors employed during the year.
Other advisory services comprise advice on funding options and review of models to support the ultrafast broadband project.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Total operating expenses	**137,522**	130,047	**73,679**	69,176
Wages and salaries capitalised to property, plant and equipment	**8,597**	7,122	**8,597**	7,122

7. Finance costs

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Interest expense				
Bank borrowings	**3,334**	2,102	**3,116**	1,958
Less capitalised on construction of property, plant and equipment	**(169)**	(176)	**(169)**	(176)
Less capitalised on construction contracts	**(1,024)**	(741)	**-**	-
Less capitalised on construction of intangible assets	**(4)**	(4)	**(4)**	(4)
	2,137	1,181	**2,943**	1,778

	Note	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Group 2013 ($000)
8. Income tax expense					
Current tax		**4,960**	4,085	**4,857**	4,181
Deferred tax		**1,386**	2,384	**1,775**	2,399
		6,346	6,469	**6,632**	6,580

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Group 2013 ($000)
Net profit before tax	**23,725**	26,029	**27,282**	26,579
Tax calculated at 28%	**6,643**	7,288	**7,639**	7,441
Tax effects of:				
Income not subject to tax	**(8)**	(8)	**(8)**	(8)
Expenses not deductible for tax purposes	**89**	17	**89**	17
Convertible note interest	**(874)**	(874)	**(874)**	(874)
Share of loss of joint venture	**710**	95	**-**	-
Adjustments in respect of prior years	**(214)**	(49)	**(214)**	4
Income tax expense	**6,346**	6,469	**6,632**	6,580

The weighted average effective tax rate was 27% (2013: 25%).

9. Property, plant and equipment	**Land and buildings ($000)**	**Distribution network ($000)**	**Plant and equipment ($000)**	**Generation assets ($000)**	**Total ($000)**
Group					
Year ended 31 March 2013					
Opening net book amount	12,154	452,324	9,813	367	474,658
Revaluation surplus/(deficit)	181	(2,031)	-	-	(1,850)
Transfer between classes	(8,290)	8,290	-	-	-
Additions	8,198	36,412	10,590	-	55,200
Work in progress	-	(6,043)	(25)	-	(6,068)
Disposals	-	(2,025)	(181)	-	(2,206)
Impairment	(14)	-	-	(333)	(347)
Depreciation charge	(74)	(16,490)	(2,155)	(33)	(18,752)
Closing net book amount	**12,155**	**470,437**	**18,042**	**1**	**500,635**
At 31 March 2013					
Cost or valuation	12,229	470,437	25,010	1,250	508,926
Accumulated depreciation	(74)	-	(6,968)	(1,249)	(8,291)
Net book amount	12,155	470,437	18,042	1	500,635
Capital work in progress included in cost and net book amount	-	19,637	3	-	19,640

9. Property, plant and equipment (continued)

	Land and buildings ($000)	Distribution network ($000)	Plant and equipment ($000)	Generation assets ($000)	Total ($000)
Year ended 31 March 2014					
Opening net book amount	12,155	470,437	18,042	1	500,635
Revaluation surplus/(deficit)	-	-	-	-	-
Transfer between classes	-	-	-	-	-
Additions	2	35,895	11,787	-	47,684
Work in progress	-	4,215	68	-	4,283
Disposals	-	(5,687)	(491)	(1)	(6,179)
Depreciation charge	(148)	(17,960)	(2,971)	-	(21,079)
Closing net book amount	**12,009**	**486,900**	**26,435**	**-**	**525,344**
At 31 March 2014					
Cost or valuation	12,231	504,684	35,812	-	552,727
Accumulated depreciation	(222)	(17,784)	(9,377)	-	(27,383)
Net book amount	**12,009**	**486,900**	**26,435**	**-**	**525,344**
Capital work in progress included in cost and net book amount	**-**	**24,796**	**71**	**-**	**24,867**

Additions of distribution system cost includes $169,000 (2013: $290,000) of interest capitalised at an average borrowing rate of 4.05%.

Revaluations and impairment review

Land was revalued to market value for highest and best use on 31 March 2013 by independent valuers, Telfer Young (Waikato) Ltd Registered Valuers. Buildings are recorded at purchase price following the acquisition in October 2012.

In 2013 substation buildings have been reclassified from land and buildings to distribution system as they are an integral part of the distribution system and should be valued on the same basis as the distribution system.

The company's electricity distribution network was revalued as at 31 March 2013 to fair value by Deloitte. The fair values were established in accordance with NZ IAS 16 - Property, Plant and Equipment. The valuation was prepared using discounted cash flow methodology. This valuation was reviewed by Deloitte at 31 March 2014 to ensure it still represented fair value.

The key assumptions used in the valuation as at 31 March 2013 include forecasts of future demand for electricity distribution services, electricity distribution prices, operating and capital expenditure associated with existing assets, and the discount rate.

Assumptions	Valuation assumptions adopted	Low	High	Valuation Impact ($000)
Domestic Load Growth	0.5%	0.0%	1.0%	- $44m + $46m
Capital expenditure	$189m	90.0%	110.0%	-/+ $40m
WACC (with CPI inflation 2.25%)	7.08%	6.62%	7.54%	+$53m - $45m
CPI Inflation (with WACC 7.08%)	2.25%	1.75%	2.75%	+$23m - $21m
Terminal growth	2.00%	1.75%	2.25%	+$37m - $31m

9. Property, plant and equipment (continued)

If property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	Land and buildings ($000)	Distribution network ($000)	Plant and equipment ($000)	Generation assets ($000)	Total ($000)
Cost	10,012	406,224	25,010	1,250	442,496
Accumulated depreciation	(74)	(151,724)	(6,968)	(1,249)	(160,015)
Net book amount at 31 March 2013	9,938	254,500	18,042	1	282,481
Cost	10,013	439,625	35,812	-	485,450
Accumulated depreciation	(222)	(156,668)	(9,377)	-	(166,267)
Net book amount at 31 March 2014	**9,791**	**282,957**	**26,435**	**-**	**319,183**

Parent

	Land and buildings ($000)	Distribution network ($000)	Plant and equipment ($000)	Generation assets ($000)	Total ($000)
Year ended 31 March 2013					
Opening net book amount	12,154	452,324	9,386	367	474,231
Revaluation surplus/(deficit)	181	(2,031)	-	-	(1,850)
Transfer between classes	(8,290)	8,290	-	-	-
Additions	8,198	36,412	10,474	-	55,084
Work in progress	-	(6,043)	(25)	-	(6,068)
Disposals	-	(2,025)	(150)	-	(2,175)
Impairment	(14)	-	-	(333)	(347)
Depreciation charge	(74)	(16,489)	(2,030)	(33)	(18,626)
Closing net book amount	12,155	470,438	17,655	1	500,249
At 31 March 2013					
Cost or valuation	12,229	470,438	24,443	1,250	508,360
Accumulated depreciation	(74)	-	(6,788)	(1,249)	(8,111)
Net book amount	12,155	470,438	17,655	1	500,249
Capital work in progress included in cost and net book amount	-	19,637	3	-	19,640
Year ended 31 March 2014					
Opening net book amount	12,155	470,438	17,655	1	500,249
Additions	2	35,895	11,604	-	47,501
Work in progress	-	4,215	68	-	4,283
Disposals	-	(5,687)	(456)	(1)	(6,144)
Impairment	-	-	-	-	-
Depreciation charge	(148)	(17,961)	(2,849)	-	(20,958)
Closing net book amount	**12,009**	**486,900**	**26,022**	**-**	**524,931**
At 31 March 2014					
Cost or valuation	12,231	504,684	35,139	-	552,054
Accumulated depreciation	(222)	(17,784)	(9,117)	-	(27,123)
Net book amount	**12,009**	**486,900**	**26,022**	**-**	**524,931**
Capital work in progress included in cost and net book amount	**-**	**24,796**	**71**	**-**	**24,867**

9. Property, plant and equipment (continued)

If property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	Land and buildings ($000)	Distribution network ($000)	Plant and equipment ($000)	Generation assets ($000)	Total ($000)
Cost	10,012	406,224	24,443	1,250	441,929
Accumulated depreciation	(74)	(151,724)	(6,788)	(1,249)	(159,835)
Net book amount at 31 March 2013	9,938	254,500	17,655	1	282,094
Cost	10,013	439,625	35,139	-	484,777
Accumulated depreciation	(222)	(156,668)	(9,117)	-	(166,007)
Net book amount at 31 March 2014	**9,791**	**282,957**	**26,022**	**-**	**318,770**

Fair value measurement
The following table analyses the non-financial assets carried at fair value, by valuation method

	Fair value measurements at 31 March 2013 using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Recurring fair value measurements			
Land and buildings	4,705	7,303	
Distribution network			470,438

Valuations are performed on at least a triennial period. There was no valuation performed at March 2014.

10. Intangible assets

	Licenses ($000)	Software ($000)	Easements & Consents ($000)	Leasehold interest ($000)	Total ($000)
Group					
Year ended 31 March 2013					
Opening net book amount	19	5,884	4,422	113	10,438
Revaluation deficit	-	-	-	(6)	(6)
Additions	-	1,311	613	-	1,924
Work in progress	-	139	-	-	139
Disposals	(19)	(1)	-	-	(20)
Amortisation expense	-	(1,791)	(394)	-	(2,185)
Closing net book amount	**-**	**5,542**	**4,641**	**107**	**10,290**
At 31 March 2013					
Cost or valuation	-	15,015	6,312	107	21,434
Accumulated amortisation	-	(9,473)	(1,671)	-	(11,144)
Net book amount	-	5,542	4,641	107	10,290
Capital work in progress included in cost and net book amount	-	361	14	-	375

10. Intangible assets (continued)

	Licenses ($000)	Software ($000)	Easements & Consents ($000)	Leasehold interest ($000)	Total ($000)
Year ended 31 March 2014					
Opening net book amount	-	5,542	4,641	107	10,290
Additions	-	2,598	397	-	2,995
Work in progress	-	2,120	51	-	2,171
Amortisation expense	-	(2,151)	(230)	-	(2,381)
Closing net book amount	**-**	**8,109**	**4,859**	**107**	**13,075**
At 31 March 2014					
Cost or valuation	-	19,734	6,760	107	26,601
Accumulated amortisation	-	(11,625)	(1,901)	-	(13,526)
Net book amount	**-**	**8,109**	**4,859**	**107**	**13,075**
Capital work in progress included in cost and net book amount	**-**	**2,481**	**55**	**-**	**2,536**

	Software ($000)	Easements & Consents ($000)	Leasehold interest ($000)	Total ($000)
Parent				
Year ended 31 March 2013				
Opening net book amount	5,688	4,422	113	10,223
Revaluation deficit	-	-	(6)	(6)
Additions	789	613	-	1,402
Work in progress	253	-	-	253
Disposals	(1)	-	-	(1)
Amortisation expense	(1,705)	(394)	-	(2,099)
Closing net book amount	5,024	4,641	107	9,772
At 31 March 2013				
Cost or valuation	14,345	6,311	107	20,763
Accumulated amortisation	(9,321)	(1,670)	-	(10,991)
Net book amount	5,024	4,641	107	9,772
Capital work in progress included in cost and net book amount	361	14	-	375
Year ended 31 March 2014				
Opening net book amount	5,024	4,641	107	9,772
Additions	966	397	-	1,363
Work in progress	203	51	-	254
Amortisation expense	(1,832)	(230)	-	(2,062)
Closing net book amount	**4,361**	**4,859**	**107**	**9,327**
At 31 March 2014				
Cost or valuation	15,514	6,760	107	22,381
Accumulated amortisation	(11,153)	(1,901)	-	(13,054)
Net book amount	**4,361**	**4,859**	**107**	**9,327**
Capital work in progress included in cost and net book amount	**564**	**55**	**-**	**619**

Leasehold Interest was revalued to market value on 31 March 2013 by independent valuers, Telfer Young (Waikato) Ltd Registered Valuers.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
11. Trade and other receivables				
Trade receivables	**9,700**	9,905	**9,751**	9,463
Trade receivables - related parties	**2,007**	1,444	**141**	48
Less: provision for impairment of receivables	**(335)**	(303)	**(335)**	(303)
Trade receivables - net	**11,372**	11,046	**9,557**	9,208
Amounts due from customer for contract work	**641**	814	**350**	751
Prepayments	**942**	703	**891**	639
	12,955	12,563	**10,798**	10,598
Current	**12,626**	12,362	**10,469**	10,397
Non current	**329**	201	**329**	201
	12,955	12,563	**10,798**	10,598

(a) Impaired receivables

As at 31 March 2014 trade receivables of $1.0 million (2013: $1.0 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Less than three months	**296**	423	**296**	423
Three to six months	**408**	193	**408**	193
Over six months	**310**	341	**310**	341
	1,014	957	**1,014**	957

As at 31 March 2014 trade receivables of $335,000 were impaired and provided for (2013: $303,000). The individually impaired receivables mainly relate to damage to the network caused by third parties. The impairment includes $210,000 (2013: $236,000) in relation to discounting future cash flows of these receivables. The aging analysis of these trade receivables is as follows:

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Less than three months	**32**	8	**32**	8
Three to six months	**175**	83	**175**	83
Over six months	**128**	212	**128**	212
	335	303	**335**	303
Movements in the provision for impairment of receivables are				
Opening balance 1 April 2013	**303**	377	**303**	377
Movement in provision for impairment recognised during the year	**96**	121	**96**	121
Receivables written off during the year as uncollectible	**(64)**	(195)	**(64)**	(195)
Closing balance 31 March 2014	**335**	303	**335**	303

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the provision for impairment of receivables account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

11. Trade and other receivables (continued)

(b) Foreign exchange and interest rate risk

The Group is not exposed to foreign currency risk or interest rate risk in relation to trade and other receivables. A summarised analysis of the sensitivity of trade and other receivables to foreign exchange and interest rate risk can be found in note 31.

(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 31 – Financial risk management for more information on the risk management policy of the Group.

12. Construction work in progress	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Work in progress for external work	**31,014**	21,525	**-**	-
	31,014	21,525	**-**	-

13. Investment in joint venture

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Opening carrying value	**6,563**	1,303	**-**	-
Acquisition of shares at cost	**24,355**	5,600	**-**	-
	30,918	6,903	**-**	**-**
Adjustment to carrying value on deemed disposal of investment				
Derecognition of carrying value proportionate to % reduced	**36,456**	(335)	**-**	-
Proceeds in the form of additional investment	**6,667**	5,920	**-**	-
	43,123	5,585		
Negative goodwill arising on acquisition of investment	**(44,262)**	(5,391)	**-**	-
(Loss) / gain on deemed disposal of share in joint venture	**(1,139)**	194	**-**	-
Share of loss in joint venture	**(1,398)**	(534)	**-**	-
Closing carrying value	**28,381**	6,563	**-**	-

The share of the results of its joint ventures, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

Nature of investment in joint venture 2014 and 2013

Name of entity	Place of Business / Country of Incorporation	% Ownership Interest	Nature of Relationship	Measurement Method
Ultrafast Fibre Limited	New Zealand	23.8%	Ultrafast Broadband wholesaler	Equity

Ultrafast Fibre Limited	2014 ($000)	2013 ($000)
Current assets	**2,445**	2,226
Non-current assets	**119,894**	65,170
Total assets	**122,339**	67,396
Current liabilities	**1,949**	1,949
Total liabilities	**1,949**	1,949
Revenue	**3,172**	1,522
Expenses	**(14,628)**	(8,150)
Profit/(Loss)	**(8,263)**	(4,761)
% Interest Held	**24%**	10%

13. Investment in joint venture (continued)

(b) Reconciliation of summarised information

Ultrafast Fibre Limited	2014 ($000)	2013 ($000)
Opening net assets at 1 April	**65,447**	6,656
Loss for the period	**(8,263)**	(4,761)
Shares issued during the year	**63,100**	63,552
Closing net assets at 31 March	**120,284**	65,447
Interest in joint venture (23.8%; 10%)	**28,382**	6,561
Carrying value	**28,382**	6,561

(c) Sensitivity analysis of the fair value estimation of investment in Ultrafast Fibre Limited

The level of uptake of end customers connecting to the ultrafast fibre broadband network (expressed as 'penetration' in the table below) is the key determinant in value and is subjective given that this is only the second year of operating the business.

The table below shows the sensitivity analysis of assumed uptake in the year 2020 and the effect on the enterprise value of the business.

2020 Penetration (EU/P)	Enterprise Value $m	Carrying Value $m	Variance
44%	$111m	$120m	($9m) / (8%)
45%	$118m	$120m	($2m) / (2%)
46%	$126M	$120m	$6m / 5%
47%	$135m	$120m	$15m / 11%
48%	$142m	$120m	$22m / 15%

(EU/P) - number of end users divided by the total number of premises able to receive a service
Enterprise value was determined by using a WACC rate of 8.5%

The table shows that the carrying value as at 31 March 2014 ($120 million) can be supported by penetration rates by the year 2020 of approximately 45%. Given that Ultrafast Fibre Limited has limited competition in its coverage regions a market share of 45% can be considered reasonable as it is in the range with the IDC (International Data Corporation) customer uptake assumptions of 44% to 52%. Ultrafast Fibre Ltd penetration to 31 March 2014 is tracking in line with the IDC customer update base case curve and is expected to improve over the next 18 months as the network build is completed. There are a number of assumptions used to estimate fair value. The assumptions are sensitive to changes and should actual results be worse than forecast, then this could result in a material adjustment to the carrying amount of the investment.

Ultrafast Fibre Limited is incorporated in New Zealand, and has a financial year end of June.

A Shares in Ultrafast Fibre Limited are issued to Crown Fibre Holdings Limited as payment for each premise passed. When the premise connects to the fibre network Waikato Networks Limited is required to purchase the A shares from Crown Fibre Holdings Limited. The cost of connecting a premise to the fibre network is incurred by Waikato Networks Limited, who then sell the assets to Ultrafast Fibre Limited, in return for B shares or cash in accordance with the contract. In addition Waikato Networks Limited also receive B shares in Ultrafast Fibre Limited as consideration for working capital and for expenditure on communal fibre optic network infrastructure (Layer 2). The value of the consideration for A shares and B shares (with the exception of working capital) is determined by the Shareholders' Agreement, Schedule 2. The percentage interest held is determined by the number of shares, divided by the total number of all classes of shares issued.

Due to the frequent share issues as noted above this causes changes in the percentage of ownership held in Ultrafast Fibre Limited. These changes are accounted for as acquisitions of shares and deemed disposals of investment.

14. Derivative financial instruments

The company and group have forward foreign exchange contracts at year end as follows.

	Average Exchange rate	Foreign currency ($000)	Contract value ($000)	Carrying amount and fair value ($000)
Group and Parent				
As at 31 March 2014				
USD foreign exchange contracts	0.7834	4,617	5,884	367
Total forward foreign exchange contracts		**4,617**	**5,884**	**367**
As at 31 March 2013				
USD foreign exchange contracts	0.8135	4,928	6,088	130
Total forward foreign exchange contracts		4,928	6,088	130

As foreign exchange rates change these derivative financial instruments are revalued to fair value and the change in value recorded in the statement of changes in equity. Fair value is determined in accordance with the Group policy in 2.4.

15. Cash and cash equivalents

(a) Cash on hand and bank deposit balances at call

There were no deposits during the year.

(b) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

	No. of Shares	**Group 2014 ($000)**	Group 2013 ($000)	**Parent 2014 ($000)**	Parent 2013 ($000)
16. Share capital	**No. of Shares**				
Authorised issued and fully paid ordinary shares. The shares have no par value.					
Balance at 1 April	**8,153,000**	**111,142**	111,142	**111,142**	111,142
Shares issued during the year	**-**	**-**	-	**-**	-
Closing balance at 31 March	**8,153,000**	**111,142**	111,142	**111,142**	111,142
All ordinary shares carry equal voting rights.					
17. Convertible notes					
Convertible notes		**39,000**	39,000	**39,000**	39,000
Total Convertible notes		**39,000**	39,000	**39,000**	39,000

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
18. Borrowings				
Current				
Bank borrowings	**89,800**	-	**89,800**	-
Non-current				
Bank borrowings	**-**	42,000	**-**	42,000
Total borrowings	**89,800**	42,000	**89,800**	42,000

Borrowings relate to a revolving cash advance facility with a final maturity date 30 March 2015. A facility fee rate is charged and the drawn balance is charged interest at a variable interest rate from 3.5% to 3.75% (2013: 3.5%). The Group was in compliance with covenants in the year.

19. Deferred income tax

	Accelerated tax depreciation ($000)	Revaluation of property, plant and equipment ($000)	Provisions ($000)	Total ($000)
Group				
Deferred tax liabilities				
At 1 April 2012	5,716	64,032	1,740	71,488
Charged to the income statement	1,743	-	721	2,464
Charged to equity - revaluation	-	(919)	-	(919)
At 31 March 2013	7,459	63,113	2,461	73,033
Charged to the income statement	1,311	-	75	1,386
Charged to equity - revaluation	-	(598)	-	(598)
At 31 March 2014	**8,770**	**62,515**	**2,536**	**73,821**

	Accelerated tax depreciation ($000)	Revaluation of property, plant and equipment ($000)	Provisions ($000)	Total ($000)
Parent				
Deferred tax liabilities				
At 1 April 2012	5,713	64,032	1,740	71,485
Charged to the income statement	1,703	-	721	2,424
Charged to equity - revaluation	-	(919)	-	(919)
At 31 March 2013	7,416	63,113	2,461	72,990
Charged to the income statement	1,700	-	75	1,775
Charged to equity - revaluation	-	(598)	-	(598)
At 31 March 2014	**9,116**	**62,515**	**2,536**	**74,167**

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
20. Deferred income				
Deferred income on government grants	**1,072**	1,103	**1,072**	1,103
Receipts in advance	**251**	297	**-**	-
	1,323	1,400	**1,072**	1,103
21. Trade and other payables				
Trade creditors and accruals	**15,927**	15,377	**13,486**	10,405
Trade creditors and accruals - related parties	**200**	375	**4**	-
Advances received for contract work	**1,369**	723	**1,369**	723
Other accruals	**1,426**	1,326	**1,327**	1,250
Balance at 31 March	**18,922**	17,801	**16,186**	12,378

22. Provisions

	Retirement provision ($000)	Other provisions ($000)
Carrying amount at 1 April 2012	558	29
Charged to the income statement	57	406
Amounts used	(69)	(29)
At 31 March 2013	546	406
Charged to the income statement	54	(195)
Amounts used	-	-
Carrying amount at 31 March 2014	**600**	**211**

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Current	**143**	-	**143**	-
Non-current	**668**	951	**668**	951
	811	951	**811**	951

The retirement provision relates to contracted gratuity payments for employees with employment contracts established before 1996. The gratuity payments become payable when the employee retires.

	Parent 2014 ($000)	Parent 2013 ($000)
23. Imputation credit memorandum account		
Balance at the end of the year	**21,218**	21,329

24. Contingencies

There are no contingent liabilities as at 31 March 2014 (2013 Nil).

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)

25. Commitments

Capital expenditure

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Property, plant and equipment	**9,946**	6,457	**9,946**	6,457
Intangible assets	**36**	-	**36**	-
	9,982	6,457	**9,982**	6,457

Operating lease commitments

The Group leases land, premises and vehicles. Operating leases held over properties give the Group the right to renew the lease subject to a predetermination of the lease rental by the lessor. There are no options to purchase in respect of land and premises held under operating leases.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
No later than one year	**2,065**	1,603	**1,012**	1,148
Later than one year and no later than two years	**2,169**	1,640	**741**	924
Later than two, not later than five years	**2,642**	2,117	**514**	825
Later than five years	**4,573**	629	**707**	629
	11,449	5,989	**2,974**	3,526

26. Interest in joint venture

The Company had a 99.9% interest in a land fill gas generation venture called Horotiu Landfill Gas Project. The venture was formed to operate the landfill gas generation plant owned by the Company. The venture commenced operation in November 2004.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Assets:				
Trade receivables	**-**	-	**-**	-
Net assets	**-**	-	**-**	-
Income	**-**	-	**-**	-
Expenses	**-**	(9)	**-**	(9)
Impairment	**-**	(333)	**-**	(333)
Net profit before income tax	**-**	(342)	**-**	(342)

Assets in the joint venture have been sold. The joint venture was terminated in January 2013.

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

27. Investments in subsidiaries

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Shares at Cost	-	-	-	-
Net Advances to Subsidiaries	-	-	49,694	25,340
	-	-	49,694	25,340

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

Operating Subsidiaries	Activity	Interest 2014	Interest 2013
Waikato Networks Limited (formerly Ultrafast Fibre Limited).	Construction of fibre network	85%	85%

Non Operating Subsidiaries
WEL Electricity Limited
WEL Power Limited
WEL Energy Group Limited (formerly WEL Networks Limited)
Waikato Electricity Limited
WEL Generation Limited

All subsidiaries have balance dates of 31 March and are incorporated in New Zealand. The parent company has a 100% direct interest in all subsidiaries except as noted above.

28. Related-party transactions

(a) Directors
The names of persons who were directors of the company at any time during the financial year are as follows: J L Spencer, M P Devlin, Hon R W Prebble, M X Franklin, P D McGilvary and A V Steele.
All of these persons were also directors during the year ended 31 March 2013.

(b) Compensation of directors and key management and personnel
The directors and key management personnel compensation for the years ended 31 March 2014 and 31 March 2013 is set out below. The directors and the five executives profiled in this report have the greatest authority for the strategic direction and management of the company.

	Short-term benefits ($000)	Post-employment benefits ($000)	Other long-term benefits ($000)	Termination benefits ($000)	Total ($000)
Year ended 31 March 2014	**2,492**	**57**	**(194)**	**35**	**2,390**
Year ended 31 March 2013	2,140	21	405	-	2,566

(c) Other transactions with directors and key management personnel or entities related to them
The company undertakes transactions with entities in which directors have disclosed an interest in the normal course of business. The following represents the major on-going transaction types but should not be taken as a complete list: lease, consent, easement, construction and advisory services.

(d) Subsidiaries
Interests in subsidiaries are set out in note 27.

(e) Transactions with related parties
The ultimate parent of WEL Networks Limited is the WEL Energy Trust which owns 100% of its shares.

All members of the Group are considered related parties of WEL Networks Limited. This includes the subsidiaries and associated companies listed in note 27.

Other than the payment of directors fees (refer note 6) the Group has not entered into any transactions with Directors.

No related party debts were forgiven or written off during 2014 or 2013.

28. Related-party transactions (continued)

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Related party transactions with WEL Energy Trust				
Third party contributions	-	250	-	250
Other income	178	130	178	130
Sales to related parties	178	380	178	380
Convertible notes - equity (note 17)	39,000	39,000	39,000	39,000
Interest on convertible note	(3,120)	(3,120)	(3,120)	(3,120)

Dividends of $10.0 million have been paid during the year (2013: $0.25 million).

Related party transactions with Ultrafast Fibre Ltd

Waikato Networks Limited is a construction company that is building a fibre network for Ultrafast Fibre Limited. Waikato Networks Limited owns 24% (2013:10%) of Ultrafast Fibre Limited shares.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Sale of fibre Assets	55,761	56,069	-	-
Huawei Layer 2 Services and Service Desk	4,491	2,652	-	-
Support services	1,959	382	-	-
Management fees	966	739	-	-
Fibre access services on Velocity network	994	940	-	-
Sales to related parties	64,171	60,782	-	-
Fibre access services	60	71	-	-
Fibre access services on Velocity network	1,246	1,175	-	-
Payments to related parties	1,306	1,246	-	-
Trade receivables	1,867	1,444	-	-
Trade payables	196	375	-	-

No dividends were paid 2014 (2013: Nil)

Related party transactions with Waikato Networks Ltd

The ultimate parent of Waikato Networks Limited is WEL Networks Limited which owns 85% of its shares.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Management Fee	-	-	2,616	2,301
Compliance work	-	-	134	136
Pole make ready and lease costs	-	-	189	-
Interest	-	-	1,573	594
Income from related parties	-	-	4,512	3,031
Trade receivables	-	-	-	48
Net advances to subsidiaries	-	-	49,694	25,340
Intercompany current account			(8,554)	(3,644)

Net advances to subsidiares are loans that are interest bearing repayable on call. The loans are used to fund the investment in Ultrafast Fibre Limited.

Related party transactions with Waipa Networks Limited

Waipa Networks Limited owns 15% of Waikato Networks Limited shares.

	Group 2014 ($000)	Group 2013 ($000)	Parent 2014 ($000)	Parent 2013 ($000)
Interest expense	248	14	-	-
Pole make ready and lease costs	65	-	-	-
Payments to related parties	313	14	-	-
Loan from non-controlling interest	8,770	4,472	-	-
Trade receivables	12	11	12	11
Trade payables	4	-	4	-

28. Related-party transactions (continued)

Related party transactions with Smartco Limited

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

	Group 2014 ($000)	Group 2013 ($000)	**Parent 2014 ($000)**	Parent 2013 ($000)
Other expenses	**32**	-	**32**	-
Payments to related parties	**32**	-	**-**	-
Purchase of plant and equipment	**258**	-	**258**	-
Trade receivables	**129**	-	**129**	-

Long Term Incentive Scheme

A long term incentive scheme (LTI) for key management personnel has been established, this is a cash-settled equity based scheme covering the three year period to 31 March 2014. The participants of the scheme are the Chief Executive, General Manager Corporate Services and General Manager Operations and Fibre.

The participants are eligible to receive a bonus payment in May 2014, the quantum of which is determined by three prescribed performance conditions measured over the three years to 31 March 2014. The maximum LTI payment for the achievement of all performance measures is $500,000. During the year the Chief Executive resigned reducing the maximum LTI payment to $200,000.

The first 'gate' measure provides that the increase in the Company's value over the three years to 31 March 2014 needs to at least equal the Company's cost of equity (calculated on a cumulative basis and adjusted for dividends), this requires an increase in shareholders equity of at least $46,000,000. If the increase in Company value is not achieved then no LTI payment will be made. Fifty percent of the maximum LTI payment is tied to the performance of this 'gate' measure. The second and third measures, which each account for twenty five percent of the LTI payment, relate to the delivery of the fibre installation contract and the performance of the fibre business for the three years ending 31 March 2014.

A second long term incentive scheme (LTI) for key management personnel was implemented on 1 August 2012. This is a cash-settled equity-based scheme covering the three year period to 31 March 2015. The participants of the scheme are the Chief Executive, General Manager Corporate Services, General Manager Operations and Fibre, General Manager Asset Management and General Manager Commercial.

The participants are eligible to receive a bonus payment in May 2015, the quantum of which is determined by three prescribed performance conditions measured over the three years to 31 March 2015. The maximum LTI payment for the achievement of all performance measures is $400,000. During the year the Chief Executive and General Manager Commercial resigned reducing the maximum LTI payment to $160,000.

The first 'gate' measure provides that the increase in the Company's value over the three years to 31 March 2015 needs to at least equal the Company's cost of equity (calculated on a cumulative basis and adjusted for dividends), this requires an increase in shareholders equity of at least $48,000,000. If the increase in Company value is not achieved then no LTI payment will be made. Fifty percent of the maximum LTI payment is tied to the performance of this 'gate' measure. The second measure, which accounts for twenty five percent of the LTI payment, relates to the delivery of additional earnings from new business and the third measure, which also accounts for twenty five percent of the LTI payment, relates to the delivery of the fibre installation contract and the performance of the fibre business for the three years ending 31 March 2015.

For the year ended 31 March 2014 a total amount of ($194,000) (2013: $400,000) has been recognised in the income statement in respect of both LTI schemes. A liability of $211,000 has been recognised in current liabilities at 31 March 2014 (2013: $400,000).

29. Dividends on ordinary shares

Group and Parent

	2014 Cents per share	2013 Cents per share	**2014 ($000)**	2013 ($000)
Dividend provided for	**-**	1.23	**-**	10,000
Dividend paid	**1.23**	0.03	**10,000**	250
	1.23	1.26	**10,000**	10,250

30. Reserves

	Revaluation reserve ($000)	Cash flow hedge reserve ($000)	Total Reserves ($000)
Group			
Balance at 1 April 2012	165,100	-	165,100
Cash flow hedge (net of tax)	-	(130)	(130)
Fair value gains:			
- distribution network	(3,102)	-	(3,102)
Movement in deferred tax on revaluation	919	-	919
Balance at 31 March 2013	162,917	(130)	162,787
Balance at 1 April 2013	162,917	(130)	162,787
Cash flow hedge (net of tax)	-	(237)	(237)
Fair value gains:			
- distribution network	(2,136)	-	(2,136)
Movement in deferred tax on revaluation	598	-	598
Balance at 31 March 2014	**161,379**	**(367)**	**161,012**

	Revaluation reserve ($000)	Cash flow hedge reserve ($000)	Total Reserves ($000)
Parent			
Balance at 1 April 2012	162,992	-	162,992
Cash flow hedge (net of tax)	-	(130)	(130)
Fair value gains:			
- distribution network	(3,102)	-	(3,102)
Movement in deferred tax on revaluation	919	-	919
Balance at 31 March 2013	160,809	(130)	160,679
Balance at 1 April 2013	160,809	(130)	160,679
Cash flow hedge (net of tax)	-	(237)	(237)
Fair value gains:			
- distribution network	(2,136)	-	(2,136)
Movement in deferred tax on revaluation	598	-	598
Balance at 31 March 2014	**159,271**	**(367)**	**158,904**

31. Financial and regulatory risk management

31.1 Financial risk factors

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

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

(a) Market Risk

(i) Foreign Exchange Risk

From time to time, the company is exposed to foreign currency risk on transactions denominated in foreign currencies. This is predominantly for the purchase of network equipment in foreign currency.

Exchange rate sensitivity

At year end the Group and Parent have foreign currency exposures relating to external creditors.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at year end. At 31 March, had the New Zealand dollar exchange rate changed, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/ (Lower) ($000)	Equity Higher/ (Lower) ($000)
Group and Parent		
Sensitivity to reasonable movements		
Change in United States dollar exchange rate		
As at 31 March 2014		
USD hedged currency for capital purchases	**5,884**	**5,884**
10% increase	-	(535)
10% decrease	-	654
As at 31 March 2013		
USD hedged currency for capital purchases	6,088	6,088
10% increase	-	(553)
10% decrease	-	676

(ii) Interest Rate Risk

The Group's exposure to the risk of changes in the market interest risk relates primarily to the Group's short-term debt obligations with floating interest rates and the Group's short-term investment rates.

The Group's policy to manage interest rate risk is to fund ongoing activities with short-term borrowings funded at floating interest rates. Borrowings are drawn to fund ongoing operations and capital expenditure programmes.

The other financial instruments of the Group are not subject to interest rate risk.

Financial risk management (continued)

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

		Interest rate risk	
		+ 1%	- 1 %
	Carrying amounts ($000)	Effect on profit before tax and equity ($000)	Effect on profit before tax and equity ($000)
Group			
As at 31 March 2014			
Financial assets			
Trade and other receivables	**12,013**	**-**	**-**
Cash and cash equivalents	**1,883**	**19**	**(19)**
Financial liabilities			
Borrowings	**89,800**	**(898)**	**898**
Trade and other payables	**17,553**	**-**	**-**
Customer discount payable	**19,365**	**-**	**-**
Derivative financial instruments	**367**	**-**	**-**
Loan from non-controlling interest	**8,770**	**(88)**	**88**
Provisions	**668**	**-**	**-**
Total (decrease) / increase		**(967)**	**967**
As at 31 March 2013			
Financial assets			
Trade and other receivables	11,860	-	-
Cash and cash equivalents	1,281	13	(13)
Financial liabilities			
Borrowings	42,000	(420)	420
Trade and other payables	17,078	-	-
Customer discount payable	19,000	-	-
Derivative financial instruments	130	-	-
Loan from non-controlling interest	4,472	(45)	45
Provisions	10,951	-	-
Total (decrease) / increase		**(452)**	**452**

Financial risk management (continued)

	Carrying amounts ($000)	Interest rate risk: + 1% Effect on profit before tax and equity ($000)	Interest rate risk: - 1 % Effect on profit before tax and equity ($000)
Parent			
As at 31 March 2014			
Financial assets			
Trade and other receivables	**9,907**	**-**	**-**
Cash and cash equivalents	**1,704**	**17**	**(17)**
Financial liabilities			
Borrowings	**89,800**	**(898)**	**898**
Trade and other payables	**14,816**	**-**	**-**
Customer discount payable	**19,365**	**-**	**-**
Derivative financial instruments	**367**	**-**	**-**
Provisions	**668**	**-**	**-**
Total increase / (decrease)		**(881)**	**881**
As at 31 March 2013			
Financial assets			
Trade and other receivables	9,959	-	-
Cash and cash equivalents	905	9	(9)
Financial liabilities			
Borrowings	42,000	(420)	420
Trade and other payables	15,299	-	-
Customer discount payable	19,000	-	-
Derivative financial instruments	130	-	-
Provisions	10,951	-	-
Total (decrease) / increase		(411)	411

(b) Credit Risk

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

In the normal course of its business, the Group incurs credit risk from trade receivables from energy customers and transactions with financial institutions. A provision has been set up for trade receivables which are unlikely to be collected.

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

The Group has in excess of 38% (2013: 41%) of its trade debtors owing from the incumbent retailer, Genesis Energy Limited. This debt is subject to a written agreement that requires an investment grade credit rating to be maintained. If the credit rating falls below investment grade then a bond will be required as collateral.

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

Financial risk management (continued)

(b) Credit Risk continued

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

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

(c) 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 table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year ($000)	**Between 1 and 5 years ($000)**	**Unspecified term ($000)**
Group			
At 31 March 2014			
Borrowings	**89,800**	**-**	**-**
Trade and other payables	**17,553**	**-**	**-**
Customer discount payable	**19,365**	**-**	**-**
Loan from non-controlling interest	**8,770**	**-**	**-**
Provisions	**668**	**-**	**-**
	136,156	**-**	**-**
At 31 March 2013			
Borrowings	-	42,000	-
Trade and other payables	17,078	-	-
Customer discount payable	19,000	-	-
Loan from non-controlling interest	4,472	-	-
Provisions	10,951	-	-
	51,501	42,000	-
Parent			
At 31 March 2014			
Borrowings	**89,800**	**-**	**-**
Trade and other payables	**14,816**	**-**	**-**
Customer discount payable	**19,365**	**-**	**-**
Provisions	**668**		
	124,649	**-**	**-**
At 31 March 2013			
Borrowings	-	42,000	-
Trade and other payables	15,299	-	-
Customer discount payable	19,000	-	-
Provisions	10,951		
	45,250	42,000	-

Financial risk management (continued)

31.2 Regulatory risk factors
The Group operates in a regulated environment in respect of both electricity distribution network pricing and fibre broadband pricing. There is an inherent risk that regulatory intervention may significantly alter the structure of these markets.

The likelihood and potential impact of any such change is unknown. The Group regularly reviews the relevant risk management policies and assesses whether there are any indicators of impairment as a result of actual or proposed regulatory change.

31.3 Capital Risk Management
The primary objective of the Group's capital management is to ensure that it maintains appropriate capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, borrowings and term liabilities less cash and cash equivalents. Total capital includes equity attributable to the equity holders of the Parent.

The gearing ratios are as follows:	**Group 2014 ($000)**	Group 2013 ($000)
Borrowings	**89,800**	42,000
Less: cash and cash equivalents	**(1,883)**	(1,281)
Net debt/(cash and cash equivalents)	**87,917**	40,719
Equity	**398,168**	383,548
Capital and net debt	**486,086**	424,267
Gearing ratio	**18%**	10%

31.4 Fair Values

NZ IFRS 13 Fair value measurement
Valuation techniques used to derive Level 2 fair values
Level 2 trading and hedging derivatives comprise forward foreign exchange contracts.
These forward foreign exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

The following table presents the group's financial liabilities that are measured at fair value at 31 March 2014.

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	-	367	-	367
Total liabilities	**-**	**367**	**-**	**367**

The following table presents the group's financial liabilities that are measured at fair value at 31 March 2013.

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss				
Trading derivatives				
- Foreign exchange contracts	-	130	-	130
Total liabilities	**-**	**130**	**-**	**130**

Financial risk management (continued)
31.4 Fair Values (continued)

The Directors estimate that the carrying amounts of financial instruments in the consolidated balance sheet equal their fair values:

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Customer discount payable
- Derivative financial instruments
- Borrowings
- Provisions
- Loan from non-controlling interest

31.5 Financial Instruments by category	Loans and Receivables ($000)	Assets at fair value through profit or loss ($000)	Total ($000)
Group			
At 31 March 2014			
Assets			
Cash and cash equivalents	**1,883**	**-**	**1,883**
Trade and other receivables	**12,013**	**-**	**12,013**
			13,895
At 31 March 2013			
Assets			
Cash and cash equivalents	1,281	-	1,281
Trade and other receivables	11,860	-	11,860
			13,141

	Hedged derivatives ($000)	Other Financial Liabilities at amortised cost ($000)	Liabilities at fair value through profit or loss ($000)	Total ($000)
At 31 March 2014				
Liabilities				
Trade and other payables	**-**	**17,553**	**-**	**17,553**
Customer discount payable	**-**	**19,365**	**-**	**19,365**
Derivative financial instruments	**367**	**-**	**-**	**367**
Borrowings	**-**	**89,800**	**-**	**89,800**
Provisions	**-**	**668**	**-**	**668**
Loan from non-controlling interest	**-**	**8,770**	**-**	**8,770**
				136,523
At 31 March 2013				
Liabilities				
Trade and other payables	-	17,078	-	17,078
Customer discount payable	-	19,000	-	19,000
Derivative financial instruments	130	-	-	130
Borrowings	-	42,000	-	42,000
Provisions	-	10,951	-	10,951
Loan from non-controlling interest	-	4,472	-	4,472
				93,631

Financial risk management (continued)
31.5 Financial Instruments by category (continued)

	Hedged derivatives ($000)	Other Financial Liabilities at amortised cost ($000)	Liabilities at fair value through profit or loss ($000)	Total ($000)
Parent				
At 31 March 2014				
Assets				
Cash and cash equivalents		**1,704**	**-**	**1,704**
Trade and other receivables		**9,907**	**-**	**9,907**
				11,611
At 31 March 2013				
Assets				
Cash and cash equivalents		905	-	905
Trade and other receivables		9,959	-	9,959
				10,864

	Hedged derivatives ($000)	Other Financial Liabilities at amortised cost ($000)	Liabilities at fair value through profit or loss ($000)	Total ($000)
At 31 March 2014				
Liabilities				
Trade and other payables	**-**	**16,186**	**-**	**16,186**
Customer discount payable	**-**	**19,365**	**-**	**19,365**
Derivative financial instruments	**367**	**-**	**-**	**367**
Borrowings	**-**	**89,800**	**-**	**89,800**
Provisions	**-**	**811**	**-**	**811**
Loan from non-controlling interest	**-**	**-**	**-**	**-**
				126,529
At 31 March 2013				
Liabilities				
Trade and other payables	-	12,378	-	12,378
Customer discount payable	-	19,000	-	19,000
Derivative financial instruments	130	-	-	130
Borrowings	-	42,000	-	42,000
Provisions	-	10,951	-	10,951
Loan from non-controlling interest	-	-	-	-
				84,459

32. Events subsequent to balance date

During April and May 2014, Ultrafast Fibre Limited issued shares to Crown Fibre Holdings and Waikato Networks Limited under the terms of the construction contract (refer note 13), as a result Waikato Networks Limited shareholding has not changed from 24%.

On 1 April 2014 under the terms of the contract (refer note 13) Waikato Networks Limited was required to purchase 1.7 million A shares at a value of $1.6 million from Crown Fibre Holdings Limited for connections between 1 January 2014 and 31 March 2014. At the date of signing the financial statements the transaction has not occurred.

Independent Auditors' Report

to the shareholders of WEL Networks Limited

Report on the Financial Statements

We have audited the financial statements of WEL Networks Limited ("the Company") on pages 38 to 77, which comprise the balance sheets as at 31 March 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2014 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, WEL Networks Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance, taxation and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

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Independent Auditors' Report

WEL Networks Limited

Opinion

In our opinion, the financial statements on pages 38 to 77:

(i) comply with generally accepted accounting practice in New Zealand; and

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2014, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
29 May 2014

Auckland

Directors' Report / Statutory Information

1. Directors' Remuneration

Directors' fees and other remuneration paid during the year were:

	YEAR ENDED 31 MARCH 2014 $	YEAR ENDED 31 MARCH 2013 $
J L Spencer	78,000	76,625
M P Devlin	48,000	47,875
M X Franklin	40,000	39,375
P D McGilvary	42,500	41,250
R W Prebble	40,000	39,375
A V Steele	42,500	41,250
	291,000	**285,750**

2. Donations

There were no donations made by the Company during the year.

3. Directors' Indemnities and Insurance

The Deeds of Indemnity given by the Company in favour of those Directors who held office at the beginning of the financial year to which this report relates, and to Directors appointed since the beginning of the financial year and who still hold office as Directors of the Company, remain in full force and effect on the same terms and conditions under which they were given.

As permitted by, and to the extent permitted by, the Company's Constitution, the Company has effected insurance for Directors and officers which, together with the Deeds of Indemnity, generally ensures that the Directors will not incur any monetary loss as a result of actions undertaken by them as Directors. The Directors and officers insurance comprises a primary layer of $20 million and an excess layer of $15 million. Statutory liability insurance with a limit of $500,000 per claim and in the aggregate has also been effected.

4. Directors' Transactions

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

5. Employees Remuneration

In accordance with the Companies Act 1993 the Shareholder has decided that the disclosure of the Employee remuneration is not required this year.

6. Shareholders

As at 31 March 2014, the Company's shareholder was:

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

Directory

AS AT 31 MARCH 2014

REGISTERED OFFICE	
	114 Maui Street Te Rapa Hamilton 3240 New Zealand Telephone 64-7-850 3100 Facsimile 64-7-850 3210 Website www.wel.co.nz Email connect@wel.co.nz
DIRECTORS HOLDING OFFICE	
	DIRECTORS IN OFFICE **John L Spencer** CNZM- Chairman **Margaret P Devlin -** Deputy Chairman **Mark X Franklin** **Paul D McGilvary** **Hon Richard W Prebble** **Anthony (Tony) V Steele**
COMPANY MANAGEMENT	
Chief Executive (Acting)	**David E Smith** BMS, CA
EXECUTIVE OFFICERS	
Chief Executive, Fibre Co (Acting)	**William J Hamilton** MBA
General Manager Asset Management	**Tas L Scott** BE (Hons), ME (Elect), FIPENZ, MIoD
General Manager Corporate Services (Acting)	**Michelle J Clark** BBus, ACA
General Manager Operations (Acting)	**David J van Deventer**
AUDITORS	PricewaterhouseCoopers, Auckland
SOLICITORS	Tompkins Wake, Hamilton
INSURANCE BROKERS	JLT New Zealand, Auckland

WEL Networks