ISSN 2463-4654 (Online)

ANNUAL REPORT 2016 | WEL NETWORKS LIMITED & SUBSIDIARIES

A FOCUS ON SAFETY

BEST IN SERVICE. BEST IN SAFETY.

wel.co.nz

This is the annual report of WEL Networks Limited

Dated this 26th day of May 2016
Signed for and on behalf of the Board of Directors

Margaret Devlin
Chairman

Paul McGilvary
Chairman Audit and Risk Committee

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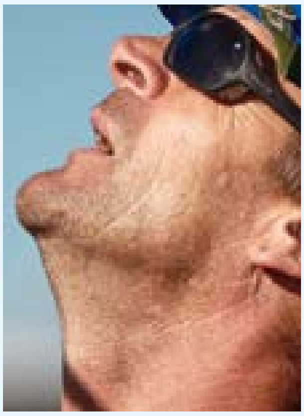
WEL Networks BEST IN SERVICE, BEST IN SAFETY

VISION

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

COMPANY PROFILE

WEL Networks Limited (WEL) is an innovative, regional infrastructure provider. We have a proud 100-year heritage serving the Waikato community with a focus on delivering better value and reliable service for our customers.



We value our role as a trusted community member. WEL's crews work around the clock to maintain our network. Our highest priority is always the safety of staff and our community; we are committed to getting everyone home safely, every day. To achieve this, WEL engages a dedicated, highly trained field services team. We also strive to ensure our equipment and practices are industry leading, and we work with key stakeholders to educate people on safety around power lines.

WEL is an employer of choice, with our local team numbering around 240 people of a diverse cultural make-up. We all work to a core set of values and share a drive to deliver the best in service.

Although our core business is to provide electricity distribution WEL takes a wider strategic approach. WEL plays an essential role in the region's economic and social development, so we identify and invest in new technologies that benefit our people, modernise our network and future-proof our region.

Our Smart Network project in the Waikato Region is now complete with 58,000 smart boxes installed. We have started to integrate the information received from the smart boxes into our asset management decision making processes. We are now developing a smart network that enables better customer quality and network utilisation.

WEL made the strategic decision to invest in ultra fast fibre technology, through our subsidiary Waikato Networks Limited, to bring fibre to the regions faster. Together with our partners, we have successfully delivered the UFB rollout – in Hamilton, Te Awamutu, Cambridge, Tauranga, Tokoroa, Whanganui, New Plymouth and Hawera – on time and to budget. The $300 million fibre network makes up around 13% of the Government's national UFB1 initiative and provides access to fibre for more than 183,000 end users.

WEL operates with strong commercial principles under an experienced Board of Directors chaired by Margaret Devlin. We are fully community-owned, with WEL Energy Trust as our sole shareholder. Hamilton City, Waikato and Waipa District Councils, and ultimately their respective communities, are our capital beneficiaries. Through WEL's annual discount programme, $273 million (including GST) has been distributed to customers since the programme's establishment in 2003.

QUICK FACTS

as at 31 March 2016

Staff numbers	240
Annual Revenue	$223 million *(before discount)*
Network Connections *(including embedded networks)*	
• *Residential*	87,492
• *Commercial/Industrial*	732
Maximum Demand	258 Megawatts
Volume Throughput (WEL traditional area after technical Loss Factors)	1,200 Gigawatt hours
Annual Investment in Capital Projects	$45 million

KILOMETRES OF LINES

CATEGORY	KM	%
Overhead Lines	3,463	53%
Underground	3,040	47%
Total	6,503	100%

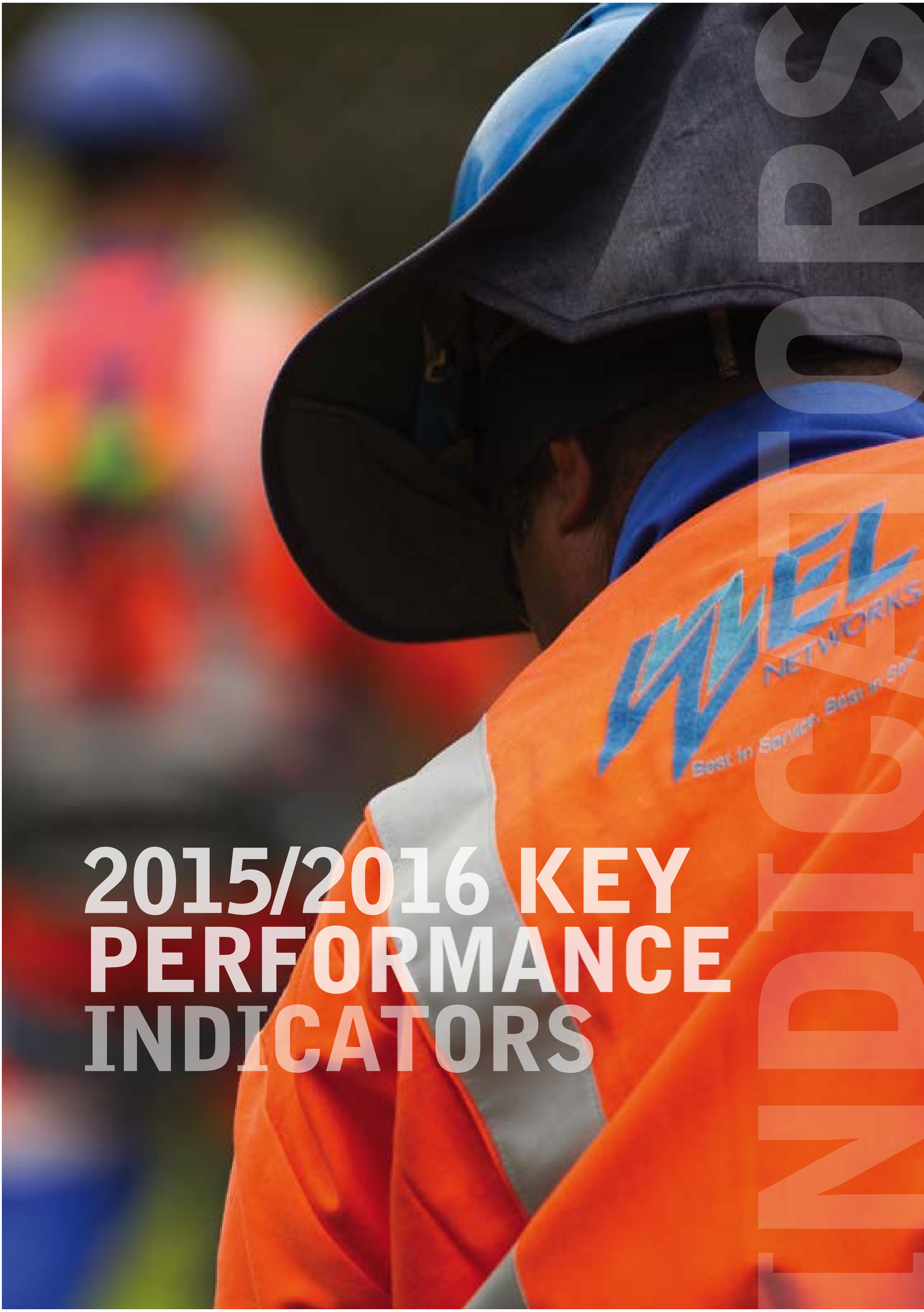
(Excl. street lighting pilots, fibre and communications lines)

OUTAGES

OUTAGE CAUSES	SAIDI* MINUTES	% OF SAIDI MINUTES
Equipment faults	15.44	15%
Adverse weather and other foreign interference	23.22	23%
Vehicle accidents	16.80	16%
Planned shutdowns	39.23	38%
Insulators and discs	3.08	3%
Tree contacts	5.39	5%
Total	103.16	100%
Total Regulatory SAIDI**	83.54	

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

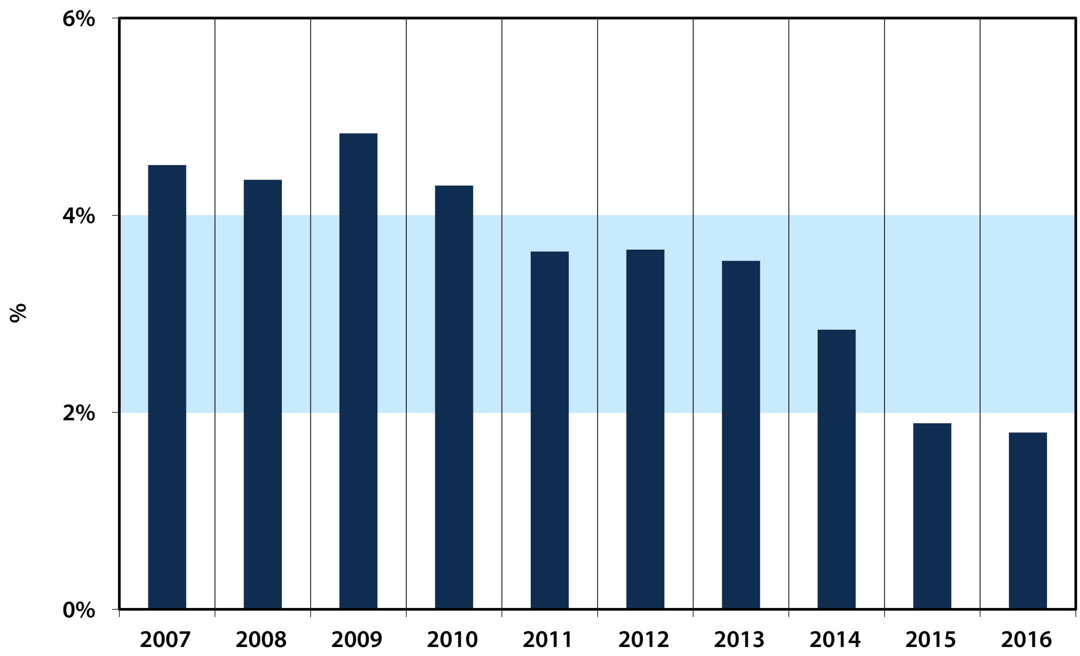
***Regulatory SAIDI = 50% * Planned SAIDI + Unplanned SAIDI (a Commerce Commission calculation)*



2015/2016 KEY PERFORMANCE INDICATORS

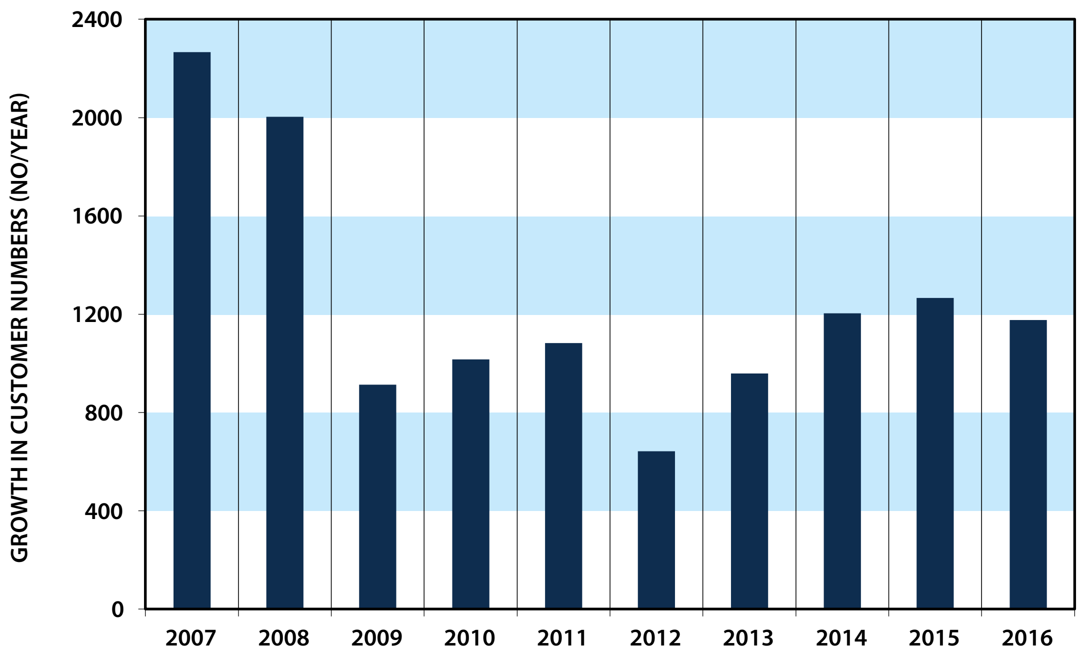
2015/2016 KEY PERFORMANCE INDICATORS

RETURN ON ASSETS



The lower Return on Assets is due to increased investment in our fibre assets.

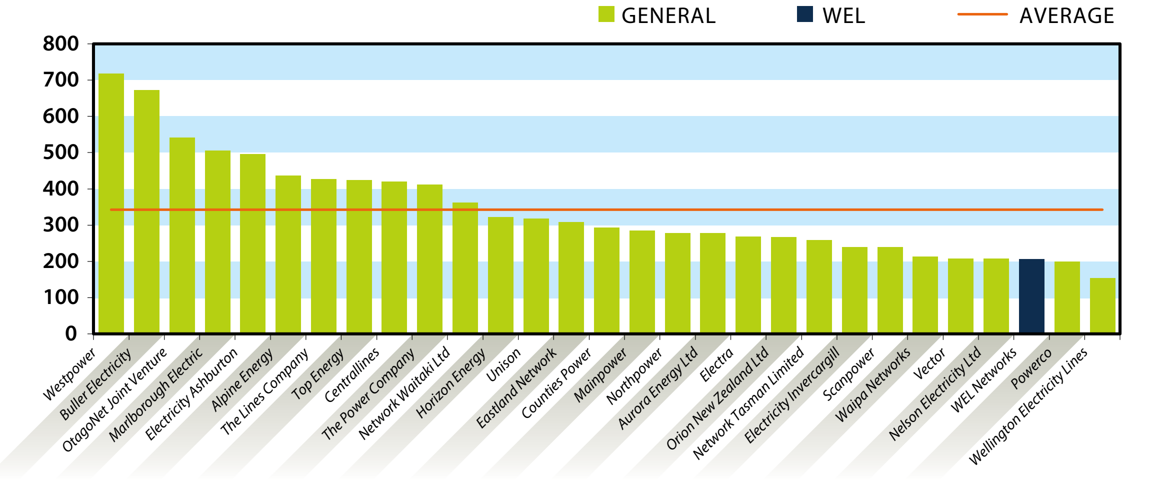
ANNUAL GROWTH IN CUSTOMER NUMBERS



WEL has maintained strong growth in customer numbers and the outlook in the building sector remains positive.

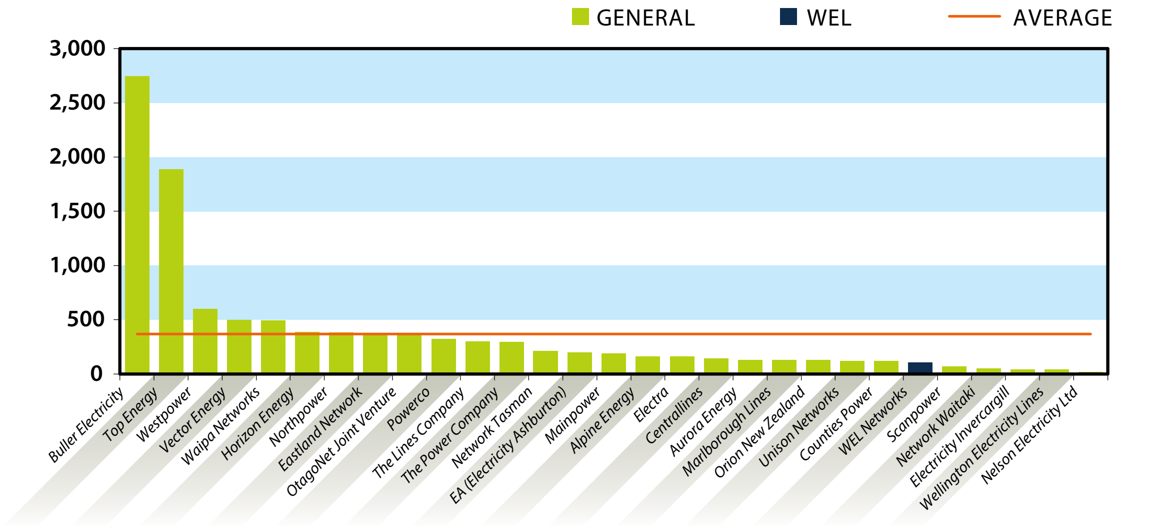
2015/2016 KEY PERFORMANCE INDICATORS (cont.)

COST PER CUSTOMER ($/CUSTOMER) YEAR ENDED 31 MARCH 2015



The timing of national benchmarking means that this graph relates to 2015.
WEL continues to perform well in terms of cost per customer compared with other lines companies.

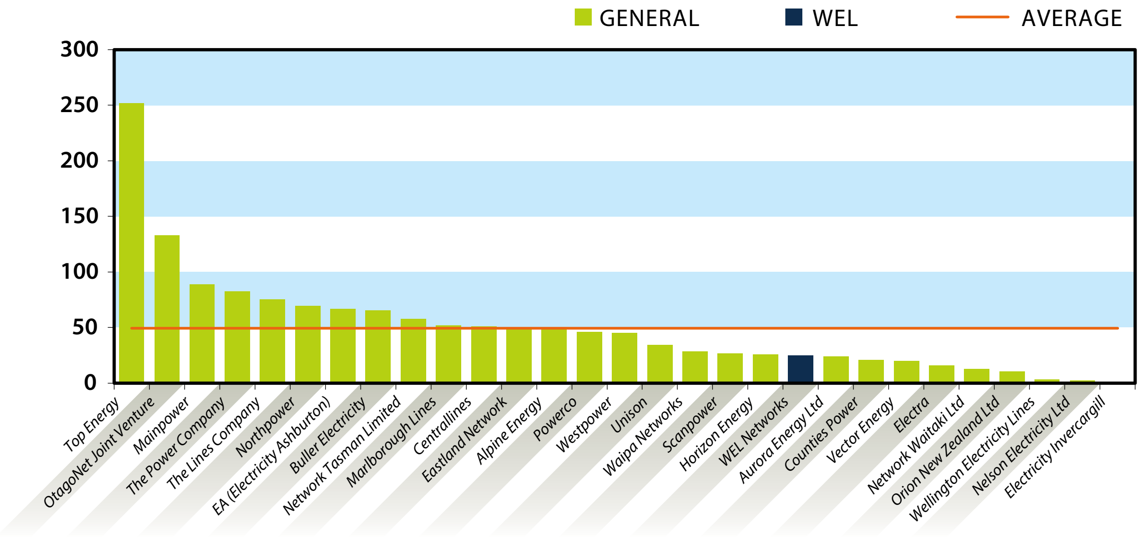
RELIABILITY OF SUPPLY (TOTAL SAIDI) YEAR ENDED 31 MARCH 2015 (AVERAGE NUMBER OF MINUTES THAT CUSTOMERS WERE WITHOUT ELECTRICITY)



A significant increase in vehicle accidents contributed to a worse than target result.
However we continue to perform much better than industry average.

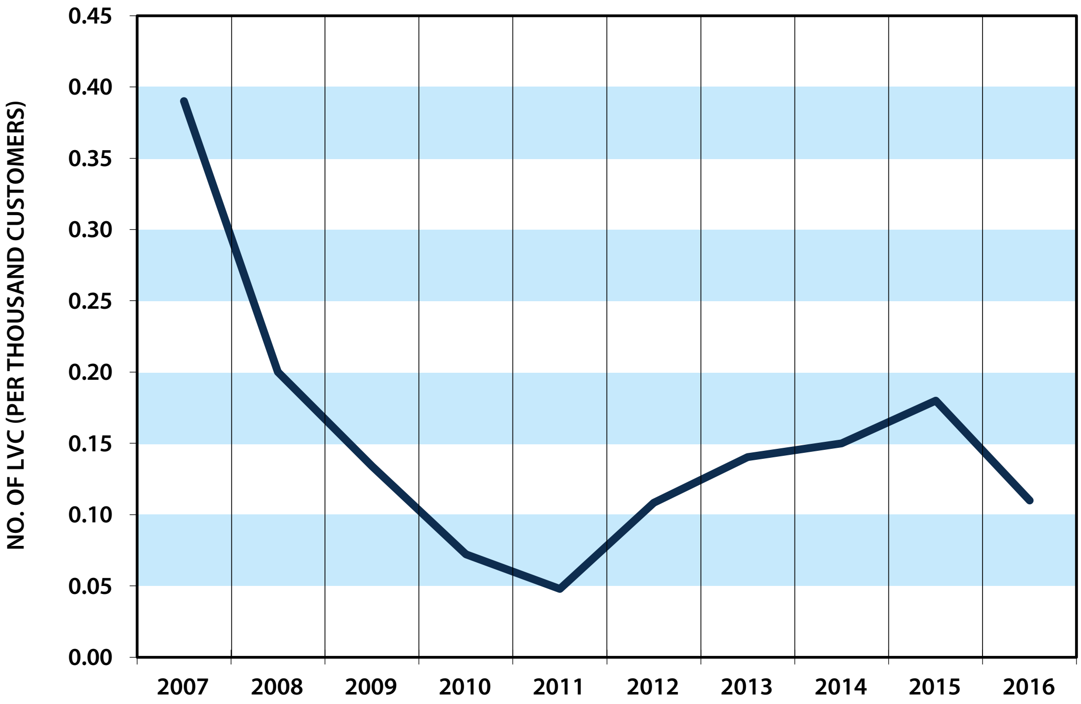
2015/2016 KEY PERFORMANCE INDICATORS (cont.)

PLANNED OUTAGES YEAR ENDED 31 MARCH 2015



Our planned outages were well managed and significantly better than budget for the year.

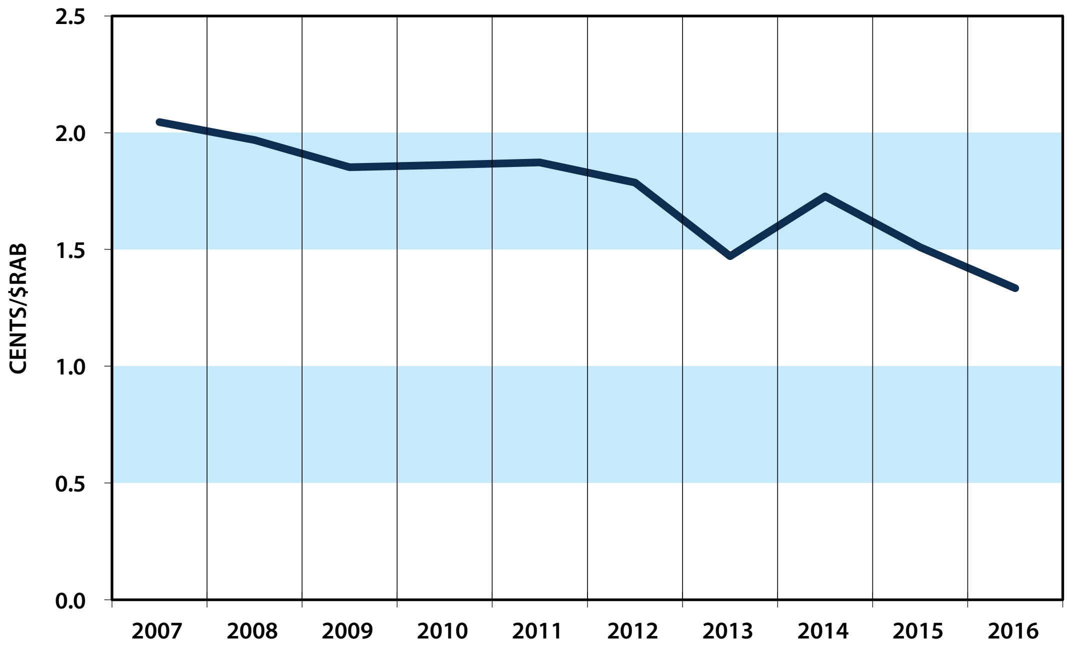
LOW VOLTAGE COMPLAINTS



Our investment in smart boxes has allowed us to obtain voltage information about the network which we use to proactively address LVCs. It is our expectation that the number of LVCs will reduce over time.

2015/2016 KEY PERFORMANCE INDICATORS (cont.)

MAINTENANCE EXPENDITURE PER $ OF REGULATORY ASSET BASE



WEL maintained similar levels of maintenance expenditure whilst the regulatory asset base grew.

EXECUTIVE REPORTS

CHAIRMAN'S REPORT

MARGARET DEVLIN
Chairman

The 2015-16 year saw the WEL Group successfully deliver key strategic initiatives that have strengthened our position as a future-focused, innovative regional infrastructure provider.

While maintaining strong delivery of our core service, the WEL Group is also focused on making strategic investments in new technologies, to take our business and our customers into the future. Our vision is to not only ensure that our network remains sustainable, but to enable WEL to continue to enhance the region's economic and social growth for generations to come.

I am pleased to report WEL is no longer simply a traditional lines company but becoming a more diversified multi-utility. In the 2015-16 year WEL, as a strategic shareholder of Ultrafast Fibre Limited (UFF), completed its rollout of Ultra-Fast Broadband (UFB) on budget and six months ahead of schedule. We also accomplished the delivery of our smart box project in the Waikato. We have continued to embrace and encourage the uptake of new technologies; recently we have installed the first of five electric vehicle fast chargers that will be placed at strategic locations across the Waikato.

This year, the WEL Group has delivered a strong result overall with Net Profit after Tax of $10.9M. The result was higher than budget of $7.1M due to operational savings, higher line revenues and continued benefit from decreases in floating interest rates as well as an improved contribution from UFF as a result of connections to the fibre network being ahead of plan.

CUSTOMERS

WEL consistently strives to find ways to reduce the cost of electricity to our customers. This year we have reapportioned fixed and variable costs across the mass market resulting in price movements for some customers, with an average overall increase of zero percent across our customer base.

In 2016 we returned $21.6M (incl. GST) to WEL customers through the WEL discount programme. This initiative provides customers with an annual discount as a share of our Company's success.

REGULATION

Although WEL is exempt from pricing regulation we are committed to maintaining our price and quality performance in line with the regulated companies. We continue to engage constructively with our regulators.

WEL and Ultrafast Fibre have actively engaged with regulators, in particular on the Telecommunications Review.

INVESTMENTS

Fibre Ultra-Fast Broadband

Fibre build connections of 42,075 achieved, which was over 2,000 ahead of target.

Fibre network build 100% complete

2015/16 saw the completion of the fibre network build. The $300M fibre network was built over a five-year period and finished ahead of time and to budget.

Making up around 13% of the Government's UFB1 initiative, the network covers eight urban centres in the Waikato, Bay of Plenty, Whanganui and Taranaki regions and provides access to fibre for more than 183,000 end users.

WEL has continued to increase its shareholding in Ultrafast Fibre Limited in advance of our business plan. Connection activity continued to trend strongly upwards during the year with a total of 42,075 active connections (as compared to a target of 39,676) on the UFF network at 31 March 2016.

Moving forward, as a strategic investor in Ultrafast Fibre through our subsidiary Waikato Networks Limited, WEL remains committed to supporting Ultrafast Fibre's activities as it moves into its new phase of managing the completed fibre network.

Smart Networks and Smart Boxes

The smart box programme for the Waikato Region saw 58,000 meters rolled out by WEL to form a Smart Network. This strategic initiative is already providing significant benefits for our customers through network management efficiencies and faster fault response.

The Top Energy smart meter investment project in Northland has progressed more slowly than anticipated due to installation issues and remains a focus for management.

MANAGEMENT AND STAFF

The last two years have seen significant changes within WEL's leadership; however 2015-16 has brought a renewed stabilisation and a reinvigorated focus.

Reflecting the requirements of WEL's strategic direction, two new members were appointed to the Executive Team this year; Bella Takiari-Brame as General Manager Finance and Richard Barnard, General Manager Commercial.
The recent recruitment of Sean Horgan, General Manager Technology, completes the Executive team composition.

My thanks to everyone across WEL for their support for the business throughout the year.

LOOKING FORWARD

WEL is committed to taking a progressive approach, remaining open to fresh opportunities that will benefit our business and our customers into the future. We look forward to continuing to work with our shareholders, our communities, partners, and the Government on new developments, particularly in regional infrastructure.

CHIEF EXECUTIVE'S REPORT

GARTH DIBLEY
Chief Executive

WEL plays an important role in enabling communities through our provision of essential infrastructure services.

Our work has continued to advance over the year, most recently through the completion of some of WEL's key technology projects, including ultra fast fibre and the development of advanced asset management tools utilising smart box data. We remain committed to continuous improvement initiatives, including maintaining and upgrading our infrastructure and enhancing reliability.

OUR ELECTRICAL NETWORK

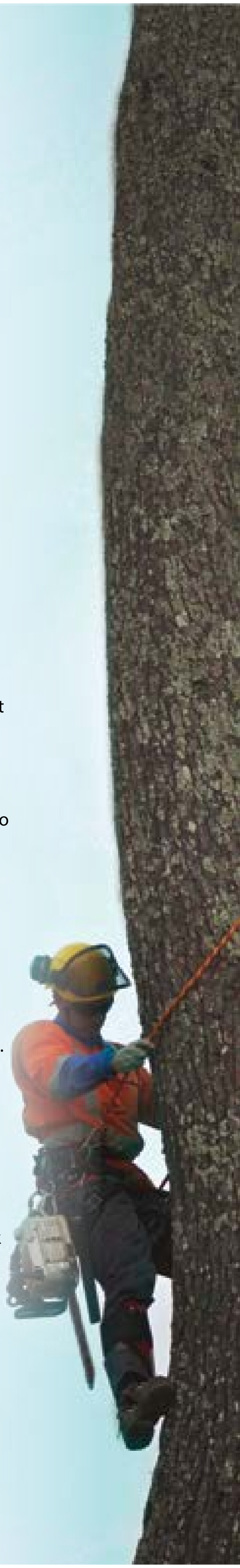
Economic and residential growth across our region has meant steadily increasing demand for new electrical connections and the physical expansion of WEL's network.

Our Asset Management Plan (AMP) for the 2015-16 year was substantially revised, providing greater confidence regarding both capital expenditure and forward work planning requirements. A review of our works delivery model and operating structure brought about the decision to create a wholly owned subsidiary for the field services division.

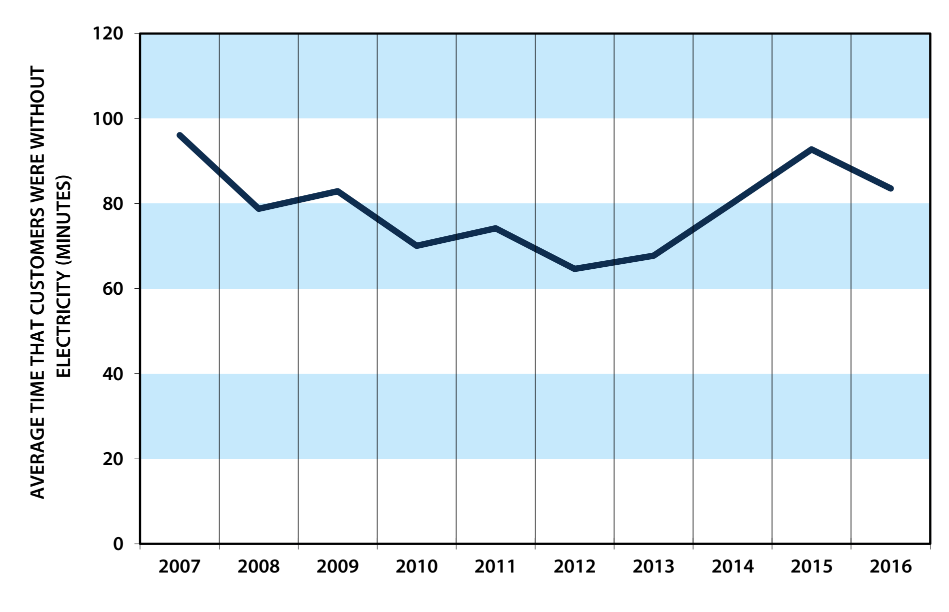
WEL Services Limited was launched 1 April 2016.

The use of the asset management modelling tool Condition Based Risk Management (CBRM) is helping us more accurately assess and manage the risk associated with our assets, prior to maintenance and renewal plans being developed. As an example the model allowed us to quantify the risk associated with the 16mm^2 conductor and adjust our renewal programme accordingly. The number of faults resulting from aged broken conductors since the implementation of the renewal programme has reduced.

We have a number of projects planned to address our rural network performance, including upgrades scheduled for the rural zone substations at Te Uku and Gordonton. Our Rural Development Plan also includes a number of distribution network improvements; for example the replacement of 16mm^2 conductor aimed at enhancing security, voltage levels and reducing interruptions due to avoidable circuit tripping.



RELIABILITY OF SUPPLY (REGULATORY SAIDI)



OUR CUSTOMERS

The safety of our customers is paramount to WEL. Our Public Safety Management System (PSMS) again received a successful audit result this year, based on our network assets being managed to minimise risk to the public.

> ***Positive customer relationships continue to be a key focus for WEL.***

The implementation of an online Customer Relationship Management system allows us to collect more in-depth and relevant data on WEL's interaction with customers, and will ultimately help to strengthen our existing long-term relationships. The way in which we handle complaints resulted in the achievement of a 100% compliance rating from the Electricity and Gas Complaints Commissioner at our last review.

The impact of our services on customers can be clearly seen when outages occur, regardless of whether they are planned or unplanned. WEL's regulated SAIDI result (which measures, in units of time, the average outage duration for each customer served) this year was 83.54 minutes against a target of 80.53; over target by 3.01 minutes. The largest contributor to this outcome was the significant number of car versus pole incidents in the Waikato over the year, which resulted in an extra 7.8 SAIDI minutes above forecast. In response to these incidents, WEL has looked at ways to reduce the risks to motorists and has implemented an education programme with Emergency Services on safety around power lines.

The planned SAIDI component was greater than the target, primarily due to re-conducting projects where temporary switches were installed to ensure work site safety and to limit the continuous duration that customers were without power.

OUR PEOPLE

WEL is committed to ensuring every one of our employees makes it home safely, every day. With a strong emphasis on 'Best in Safety', we continue to strengthen our internal Health and Safety programme, reinforcing the need for personal responsibility and taking care of our fellow team members.

An extensive awareness programme has been introduced to help our people understand the requirements of the new Health and Safety at Work Act. This covers office and field staff, Executive Managers and Directors, through to our contractors and suppliers. It is a substantial piece of work for all parts of the business and a new staff member has been employed in the Health and Safety team to support this effort.

The recruitment of the new General Manager Finance and General Manager Commercial roles this year has enhanced the capability of WEL's senior leadership team. These portfolios are newly defined and have contributed to the direction of the business and the achievement of the year end result.

WEL'S BUSINESS ACTIVITY

Our focus this year has been to build on progress made in key work programmes, designed to enhance our core business. The installation of Waikato's first electric vehicle fast charger at our Maui Street premises highlights our commitment to innovation. The high level of interest in this particular product has encouraged us to install an additional four fast chargers around the Waikato.

Our rollout of smart boxes is complete and we have approximately 58,000 installed across the Waikato. Further growth will happen organically, as we focus on having our smart boxes installed on new connections and existing sites of special interest, such as distributed generation.

Benefits of our smart network for customers and for WEL go beyond revenue metering. WEL has been able to significantly improve the service we provide to our customers, reduce our public safety risk, improve our asset management tools, and reduce our capital and operational expenditure. Smart boxes are proving to be one of our most useful asset management tools by ensuring that accurate information is the basis for our decision making processes.

WEL has developed a high level of expertise in the collection and use of smart meter data.

This has provided significant benefits to customers through fast detection and assessment of fault situations and to WEL through effective risk management, leading to the reduction in capital expenditure.

The deployment of smart meters via SmartCo in the Top Energy area is progressing more slowly than anticipated. At the time of this report, approximately 12,000 meters have been deployed in that area.

Overall, the 2015-16 year has been a very successful one for WEL, with exciting projects adding value to our customers and communities. I would like to thank our Board for its strong governance, our Executive team for their commitment and our staff members for their ongoing support of our business. I look forward to continuing to work with all of our team to enable WEL to fulfil its essential role in our region's economic and social development.

WEL NEWS

WEL NEWS

WEL Networks' core business is to deliver electricity to customers across the Waikato. However, it is also important to step away from our day to day activities and take a fresh look at how we can further add value to our business and communities.

GARTH DIBLEY | WEL Networks *Chief Executive*

"At WEL Networks, safety is our highest priority."

EVERY DAY, HOME SAFE

We're committed to getting everyone home safely, every day.

Our Health and Safety Strategy

We continue to refine and embed our five-year Health and Safety Strategy, with clear goals to focus our efforts on creating a high-performing safety culture. WEL's vision is to be the safest company within the New Zealand electricity industry.

Stop Work Authorisation

We believe that all staff, whether WEL employees or contractors, have the right to work in an environment where risks to their health and safety are eliminated or controlled. This is reinforced by the introduction of an 'Authorisation to Stop Work' card endorsed by Chief Executive Garth Dibley. Staff now have the confidence to stop any activity that cannot be undertaken safely and to actively participate in developing a safe solution.

Early Intervention

WEL staff members are encouraged to attend free early intervention clinics with medical professionals. These clinics are a means of supporting staff wellbeing by proactively addressing any health concerns before they become an issue.

WEL SERVICES:
FIT FOR PURPOSE

An improved service for customers and greater business efficiency, were key drivers behind a restructure of WEL Networks' operating model.

From 1 April 2016 WEL's field teams began operating as a wholly owned subsidiary – 'WEL Services'. The change provides a more transparent view of the costs and processes required to run the field operations.

The WEL Networks brand remains across all assets and all areas of the business. Many staff contributed to developing the final model and setting our new direction.

> "We're always looking for opportunities to future-proof our business through innovation."

INNOVATION
ON OUR ROADS...

With interest in electric vehicles growing, WEL Networks wanted to understand the effects that charging these vehicles will have on our network.

Our solution was to purchase a Nissan LEAF electric car to add to WEL's vehicle fleet and install Waikato's first fast-charger at our site.
Free for public use, the $50,000 cost was equally covered by WEL Networks and manufacturer, ABB.
The charger refuels an electric vehicle in 20 minutes, unlike other electric car charging stations that can take around four hours to fully charge a vehicle.
This charger is already a success and is routinely used by the public.
We have placed an order for 4 additional chargers to service other parts of WEL's network to ensure that the Waikato community are comfortable that the necessary infrastructure is in place if they were to invest in an Electric Vehicle.

QUICK FACTS ABOUT
ELECTRIC VEHICLES (EVs)

The LEAF achieves in excess of 100km per charge.

The cost to run an EV is around 10% of a standard vehicle.

Since 2014, electric and hybrid vehicle sales have increased 500% in New Zealand.

About 1,000 EVs and hybrids are currently on New Zealand roads.

... AND UNDER OUR ROADS

The Government has identified the Waikato Expressway – one of seven Roads of National Significance, as key to unlocking New Zealand's potential for economic growth.

When complete, the $2.1B transport link will; reduce travel time between Auckland and south of Cambridge by up to 35 minutes, improve connections for freight and business and significantly improve safety on this stretch of State Highway 1.

WEL has made a major contribution to this roading project (the largest in Waikato's history), however the extent of our work could go unnoticed, as electricity services are being relocated and placed underground.

This offers commuters a more scenic view, creates a safer driving environment and keeps this key part of our electricity network shielded from the elements.

FUTURE-PROOFING THE REGION'S INFRASTRUCTURE

The completion of Hamilton's UltraFast Broadband (UFB) network is a crucial step to support the city's future economic development.

As a strategic shareholder* of Ultrafast Fibre Limited, WEL's key objective was to bring UFB to the regions faster.

Now our investment in the $300M network provides access to fibre for more than 183,000 end users in eight urban North Island centres.

This successful project, completed ahead of time and to budget, will future-proof our communities, helping to advance their economic and social development.

* *WEL Networks partnered with Waipa Networks and Crown Fibre Holdings as shareholders of Ultrafast Fibre.*

DIRECTORS & EXECUTIVE MANAGEMENT

DIRECTORS' PROFILES

MARGARET DEVLIN

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, Chairman of the Waikato Spatial Plan Joint Committee, Director of City Care Limited, Indepen NZ Limited, Waikato Regional Airport Limited, Titanium Park Limited, Meteorological Services of New Zealand Limited and IT Partners Group Advisory Board. She is also a Member of the National Infrastructure Advisory Board, is Chair of the Waikato District Council Audit and Risk Committee and is a member of the University of Waikato Finance and Audit Committee. She is a Chartered Fellow of The Institute of Directors In New Zealand Limited, is Chair of the Professional Committee and Chair of the Waikato branch and is a member of the Institute's National Council and of the Human Resources Committee. Margaret has had significant experience in both the retail and infrastructure sectors. Margaret joined the Board in 2007 and was appointed Chair in 2014.

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.

BARRY HARRIS

Barry has extensive governance and executive experience. Barry has held a number of Chief Executive roles including Environment Waikato, Greater Wellington Regional Council and Hamilton City Council. He was also a senior executive with Fonterra for five years. Barry is currently Chairman of New Zealand Food Innovation (Waikato) Limited, Agricultural Services Limited and McFall Fuels Limited. He is Deputy Chair of AgResearch (a Crown Research Institute) and is also a Director of DairyNZ, Primary ITO and OSPRI (formerly Animal Health Board). Previous boards include CentrePort, RD1, International Nutritionals, Hamilton Riverside Hotels and Local Authority Shared Services. Barry was appointed to the Board in October 2014.

PAUL MCGILVARY

Paul has been the Chief Executive of Tatua Co-operative Dairy Company, based in Morrinsville, since 2008. He is also Chairman of the Japan, USA and Shanghai subsidiaries. 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 Maisey Group (formerly Forlong and Maisey) Limited since 2002. He also sits on the Boards of several subsidiaries of Maisey Group Limited in both New Zealand and Australia. Since retiring from KPMG, Tony has accepted appointments as an Independent Director of several local private companies including Innovation Waikato Limited and Waikato Innovation Park Limited. Tony is also a Director of Ultrafast Fibre Limited. He is also an independent member of the Audit and Risk Committee of Hamilton City Council. Tony was appointed to the Board in October 2010.

DAVID WRIGHT

David is a professional company director and business consultant. He has held Chief Executive and senior management positions in the primary production, transport and electricity industries across both the private and state sectors. Previous appointments include Director of the Land Transport Safety Authority, Chairman of Ports Authority Tonga; Chairman and Acting Chief Executive of Tonga Power Limited and Chief Executive of Dairy InSight Incorporated. David is currently Chairman of Northpower Western Australia Limited, West Coast Energy PTY Limited and Independent Chairman of the Air Rescue Group. He is Deputy Chairman of the New Zealand Blood Service Inc. and a Director of Wellington Water Limited and NZRS Limited. David was appointed to the Board in October 2014.

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 June 2014 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 has been introduced to assist in ascertaining 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 2015-16 year specific external reviews were undertaken in the areas of health and safety governance, IT security and financial budgeting and forecasting.

HEALTH AND SAFETY AND ENVIRONMENTAL ISSUES

The Board recognises the importance of health and safety and environmental 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 sign 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 2015 to 31 March 2016

Margaret Devlin (Chairman)
As Director of Meteorological Service of New Zealand Limited, IT Partners Group Advisory Board and as a member of University of Waikato Finance and Audit Committee.

Anthony (Tony) Steele
As Director of AVS Trustees Limited and Gindurra Pty Limited.

David Wright
As Director of Wellington Water Limited.

Barry Harris
As Director of Agricultural Services Limited and McFall Fuels Limited.

EXECUTIVE MANAGEMENT

As at 31 March 2016

GARTH DIBLEY

Chief Executive

Garth has extensive experience in the generation, retail, transmission, and distribution sectors of New Zealand's electricity industry. He took up the position of Chief Executive at WEL Networks in September 2014.

Garth has previously held leadership roles at both Transpower and Meridian Energy. Appointed as General Manager Grid Performance at Transpower in 2010, he led operations and asset maintenance functions of the national grid.

Prior to this, Garth was based at Meridian Energy, working as General Manager Markets and Production and then General Manager External Relations.

Garth has a Bachelor of Engineering (Mechanical) from the University of Canterbury and an MBA from Waikato University. He has completed executive training programmes at Kellogg and INSEAD business schools of management.

BELLA TAKIARI-BRAME

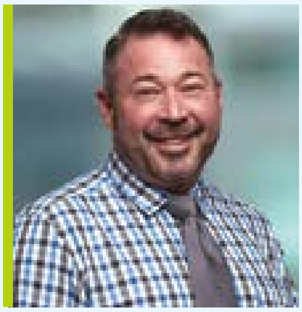
General Manager Finance

Bella is a Chartered Accountant with Global and Financial Controller proficiency. She joined WEL Networks in September 2015, having gained a range of international experience including leading global teams within the world's largest corporate treasury.

Bella is experienced in valuation of corporate financial derivatives, hedge accounting and global process standardisation. She has overseen entities in Europe, USA and Asia with a combined value of US$100B.

Before returning to New Zealand in 2013, Bella spent nine years in the United Kingdom working for Shell International. She was a Senior Manager for EY prior to taking up WEL's General Manager Finance role.

With a Masters in Management Studies from Waikato University, Bella is a member of CAANZ and the Association of Corporate Treasurers in the UK. She is a former Director of Portfolio Investments Limited for Te Ohu Kaimoana Group (The Māori Fisheries Trust) and has recently been elected as a Trustee for Maniapoto Māori Trust Board.



DAVID FULLER

General Manager
People and Performance

David is skilled in improving performance and capability through effective people, culture and leadership strategies. His broad knowledge of organisational and capability development means David is well-placed to lead the human resources, health and safety, organisational development and communication functions at WEL Networks.

His career spans the infrastructure, telecommunications, government, entertainment and health sectors. Prior to joining WEL in 2014, David held business transformation roles at Transpower, Vodafone and the New Zealand Treasury.

David completed the Institute for Strategic Leadership (ISL) MBA General Management Programme in 2011.

DAVID VAN DEVENTER

General Manager
WEL Services

Originally joining the WEL team in 2008, David previously held Human Resources Management positions with Umgeni Water in South Africa and Watercare Services Limited in Auckland.

David was initially WEL's Human Resources Manager and subsequently General Manager Operations, in charge of network operations and maintenance and capital project delivery. He also manages a field force responsible for construction and maintenance of overhead services, underground services and substations.

In April 2016, he was appointed General Manager of WEL Services; the services division of WEL Networks which now operates as a wholly owned subsidiary.

PAUL BLUE

General Manager
Asset Management

Paul brings strong technical and management skills to his role at WEL Networks, which he took up in January 2015.

He is responsible for leading WEL's Asset Management team, which oversees the functions of network planning and design, asset performance, quality and investment and system control.

Prior to joining WEL Networks, Paul spent 13 years at Transpower (New Zealand national grid operator) in roles that included project management for the North Island Grid Upgrade project and as Upper North Island Regional Manager.

Paul has an Honours degree in electrical engineering and has recently graduated with an MBA from Auckland University.

RICHARD BARNARD

General Manager
Commercial

Richard has led WEL Networks' Commercial arm, incorporating Regulatory Pricing, Procurement and Business Assurance, since he joined the team in August 2015. He also plays a key role in WEL's investor relations, particularly with regard to the implementation of the nationwide Ultra-Fast Broadband (UFB) project.

Richard has proven commercial acumen and skill in implementing business change initiatives. Prior to joining WEL, he provided professional consulting services through PwC and EY and spent seven years at Virgin Mobile and Virgin Media in the UK.

His experience in the electricity industry includes managing Transpower's Asset Management transformation programme, which achieved certification in PASS 55/ISO 55000. Richard also supported Meridian Energy to successfully establish and implement its retail electricity company, Powershop.

Richard holds a Bachelor of Arts and Master of Arts in Applied Research from Victoria University.

As at 31 March 2016

MARK BUNTING | DENISE HARDING | ROB HAMILL | MARK INGLE (CHAIR) | BRAD CHIBNALL | KATHRYN WILLIAMS | CHARLOTTE ISAAC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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

WEL Networks Limited

Statements of comprehensive income

For the year ended 31 March 2016

	Notes	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Revenue	4	**204,218**	196,182	**111,248**	108,882
Contracting cost of sales		**(97,159)**	(84,353)	**(407)**	(1,029)
Expenses, excluding finance costs	5	**(81,966)**	(83,733)	**(79,170)**	(78,907)
Finance costs - net	6	**(7,247)**	(4,182)	**(1,725)**	(1,694)
Total expense		**(186,372)**	(172,268)	**(81,302)**	(81,630)
Share of profit (loss) from joint venture	11	**(2,160)**	(5,179)	**-**	-
Profit before income tax		**15,686**	18,735	**29,946**	27,252
Income tax expense	7	**(4,807)**	(5,810)	**(8,177)**	(6,744)
Profit from continuing operations		**10,879**	12,925	**21,769**	20,508
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss:					
Gain/(loss) on revaluation of property, plant and equipment		**(1,987)**	(1,397)	**(1,987)**	(1,397)
Cash flow hedges (net of tax)	19	**(4,439)**	(933)	**(4,439)**	(933)
Other comprehensive income for the year, net of tax		**(6,426)**	(2,330)	**(6,426)**	(2,330)
Total comprehensive income for the year		**4,453**	10,595	**15,343**	18,178
Profit is attributable to:					
Owners of WEL Networks Limited		**12,513**	14,062		
Non-controlling interest		**(1,634)**	(1,137)		
		10,879	12,925		
Total comprehensive income for the year is attributable to:					
Owners of WEL Networks Limited		**6,087**	11,732		
Non-controlling interest		**(1,634)**	(1,137)		
		4,453	10,595		

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

WEL Networks Limited
Balance sheets
As at 31 March 2016

	Notes	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
ASSETS					
Current assets					
Cash and cash equivalents		**4,049**	(2,960)	**4,000**	(3,065)
Trade and other receivables	8	**24,029**	19,185	**10,736**	11,715
Current tax receivables	7	**540**	(529)	**540**	(529)
Construction work in progress	10	**32,062**	36,069	**-**	-
Total current assets		**60,680**	51,765	**15,276**	8,121
Non-current assets					
Property, plant and equipment	9	**578,068**	557,582	**576,654**	557,252
Intangible assets	12	**12,583**	11,634	**9,125**	10,180
Investments in joint venture	11	**134,455**	62,642	**-**	-
Investment in subsidiaries	23	**-**	-	**172,576**	96,753
Total non-current assets		**725,106**	631,858	**758,355**	664,185
Total assets		**785,786**	683,623	**773,631**	672,306
LIABILITIES					
Current liabilities					
Trade and other payables	13	**37,378**	22,392	**33,908**	16,636
Loan from non-controlling interest		**30,455**	17,074	**-**	-
Provisions	14	**2,282**	2,101	**2,282**	2,101
Customer discount payable		**18,836**	19,100	**18,836**	19,100
Total current liabilities		**88,951**	60,667	**55,026**	37,837
Non-current liabilities					
Interest bearing liabilities	16	**199,859**	137,266	**199,859**	137,266
Provisions	15	**567**	590	**567**	590
Deferred income		**1,167**	1,237	**1,003**	1,041
Derivative financial instruments	24	**7,972**	1,805	**7,972**	1,805
Deferred tax liabilities	17	**75,280**	74,474	**74,974**	74,833
Total non-current liabilities		**284,845**	215,372	**284,375**	215,535
Total liabilities		**373,796**	276,039	**339,401**	253,372
Net assets		**411,990**	407,584	**434,230**	418,934
EQUITY					
Contributed equity	18	**150,142**	150,142	**150,142**	150,142
Reserves	19	**152,256**	158,682	**152,256**	158,682
Retained earnings	19	**112,928**	100,462	**131,832**	110,110
		415,326	409,286	**434,230**	418,934
Non-controlling interest		**(3,336)**	(1,702)	**-**	-
Total equity		**411,990**	407,584	**434,230**	418,934

For and on behalf of the Board:

Margaret Devlin
Chairperson
26 May 2016

Paul McGilvary
Director
26 May 2016

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

WEL Networks Limited
Statements of changes in equity
For the year ended 31 March 2016

Group	Notes	Share Capital $'000	Convertible note $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non controlling interest $'000	Total equity $'000
Balance as at 1 April 2014		111,142	39,000	161,012	87,580	398,734	(565)	398,169
Comprehensive income								
Profit/(loss) for the year		-	-	-	14,062	14,062	(1,137)	12,925
Fair value gain on revaluation of the distribution network	19	-	-	(1,940)	1,940	-	-	-
Movement in deferred tax on revaluation	19	-	-	543	-	543	-	543
Cash flow hedges (net of tax)	19	-	-	(933)	-	(933)	-	(933)
Total comprehensive income		-	-	(2,330)	16,002	13,672	(1,137)	12,535
Transactions with owners								
Interest on convertible note	19	-	-	-	(3,120)	(3,120)	-	(3,120)
Dividends	19	-	-	-	-	-	-	-
Total transactions with owners		-	-	-	(3,120)	(3,120)	-	(3,120)
Balance as at 31 March 2015		111,142	39,000	158,682	100,462	409,286	(1,702)	407,584
Balance as at 1 April 2015		111,142	39,000	158,682	100,462	409,286	(1,702)	407,584
Comprehensive income								
Profit/(loss) for the year		-	-	-	12,513	12,513	(1,634)	10,879
Fair value gain on revaluation of the distribution network	19	-	-	(2,760)	2,760	-	-	-
Movement in deferred tax on revaluation	19	-	-	773	-	773	-	773
Cash flow hedges (net of tax)	19	-	-	(4,439)	-	(4,439)	-	(4,439)
Total comprehensive income		-	-	(6,426)	15,273	8,847	(1,634)	7,213
Transactions with owners								
Interest on convertible note	19	-	-	-	(2,456)	(2,456)	-	(2,456)
Dividends	19	-	-	-	(351)	(351)	-	(351)
Total transactions with owners		-	-	-	(2,807)	(2,807)	-	(2,807)
Balance as at 31 March 2016		111,142	39,000	152,256	112,928	415,326	(3,336)	411,990

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

WEL Networks Limited

Statements of changes in equity

For the year ended 31 March 2016 (continued)

Parent	**Notes**	**Share Capital $'000**	**Convertible note $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance as at 1 April 2014		111,142	39,000	161,012	90,782	401,936
Comprehensive income						
Profit/(loss) for the year		-	-	-	20,508	20,508
Fair value gain on revaluation of the distribution network	19	-	-	(1,940)	1,940	-
Movement in deferred tax on revaluation	19	-	-	543	-	543
Cash flow hedges (net of tax)	19	-	-	(933)	-	(933)
Total comprehensive income		-	-	(2,330)	22,448	20,118
Transactions with owners						
Interest on convertible note	19	-	-	-	(3,120)	(3,120)
Dividends	19	-	-	-	-	-
Total transactions with owners		-	-	-	(3,120)	(3,120)
Balance as at 31 March 2015		111,142	39,000	158,682	110,110	418,934
Balance as at 1 April 2015		111,142	39,000	158,682	110,110	418,934
Comprehensive income						
Profit/(loss) for the year		-	-	-	21,769	21,769
Fair value gain on revaluation of the distribution network	19	-	-	(2,760)	2,760	-
Movement in deferred tax on revaluation	19	-	-	773	-	773
Cash flow hedges (net of tax)	19	-	-	(4,439)	-	(4,439)
Total comprehensive income		-	-	(6,426)	24,529	18,103
Transactions with owners						
Interest on convertible note	19	-	-	-	(2,456)	(2,456)
Dividends	19	-	-	-	(351)	(351)
Total transactions with owners		-	-	-	(2,807)	(2,807)
Balance as at 31 March 2016		111,142	39,000	152,256	131,832	434,230

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

WEL Networks Limited
Statements of cash flows
For the year ended 31 March 2016

	Notes	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Cash flows from operating activities					
Receipts from customers		**203,550**	188,570	**115,141**	104,109
Payments to employees and suppliers		**(137,738)**	(136,367)	**(65,739)**	(47,425)
Interest received		**-**	-	**6,306**	3,709
Interest paid		**(8,739)**	(3,541)	**(8,739)**	(7,562)
Income taxes paid		**(2,498)**	(5,391)	**(2,570)**	(6,311)
Net cash inflow / (outflow) from operating activities	27	**54,575**	43,271	**44,399**	46,520
Cash flows from investing activities					
Purchases of property, plant and equipment		**(42,646)**	(58,186)	**(42,575)**	(58,098)
Proceeds from sale of property, plant and equipment		**-**	877	**-**	820
Purchases of intangible assets		**(2,588)**	(3,377)	**(1,628)**	(2,820)
Purchase of investments		**(74,418)**	(39,439)	**(75,822)**	(44,900)
Net cash inflow / (outflow) from investing activities		**(119,652)**	(100,125)	**(120,025)**	(104,998)
Cash flows from financing activities					
Proceeds from borrowings		**74,893**	55,131	**74,893**	47,466
Repayments of intercompany loans		**-**	-	**10,605**	9,363
Interest on convertible notes		**(2,456)**	(3,120)	**(2,456)**	(3,120)
Dividends paid		**(351)**	-	**(351)**	-
Net cash inflow / (outflow) from financing activities		**72,086**	52,011	**82,691**	53,709
Net increase (decrease) in cash and cash equivalents		**7,009**	(4,843)	**7,065**	(4,769)
Cash and cash equivalents at the beginning of the financial year		**(2,960)**	1,883	**(3,065)**	1,704
Cash and cash equivalents at end of year		**4,049**	(2,960)	**4,000**	(3,065)

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

1. General information

These financial statements are for WEL Networks Limited ('the company') and its subsidiaries (together, the Group'). The Group is an electricity networks business delivering energy to customers in the Waikato Region and 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 and domiciled 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 26 May 2016. Once issued the entity's owners do not have power to amend these financial statements.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for WEL Networks Limited as an individual entity and the consolidated entity consisting of WEL Networks Limited and its subsidiaries.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit oriented entities.

Statutory base

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

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993.

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

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 April 2015, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- **NZ IFRS 9, 'Financial instruments', (**Effective date: periods beginning on or after 1 January 2018) NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.
- **NZ IFRS 15: 'Revenue from contracts with customers',** (Effective date: periods beginning on or after 1 January 2018)NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact.

- **NZ IFRS 16: 'Leases',** (Effective date: periods beginning on or after 1 January 2019)NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. Included is an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. The group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.

There are no other NZ IFRSs or NZ IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company and Group.

Critical accounting estimates

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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

(i) 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.

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.

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

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

(iii) Joint arrangements

Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. WEL Networks Limited 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.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and GST. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Line revenue

The Group invoices its customers (predominately electricity retailers) monthly for 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 statement of comprehensive income.

(ii) 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.

(iii) 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.

(iv) Operating lease revenue

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

(v) Interest income

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

(vi) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for a deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(e) Cash and cash equivalents

In the consolidated statements of cash flows, 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. In the consolidated balance sheets, bank overdrafts are shown within borrowings in current liabilities.

(f) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade 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 the 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 original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the statements of comprehensive income within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the profit and loss component of the statements of comprehensive income.

(g) Impairment of non financial assets

Assets that have an indefinite useful life - for example, goodwill or intangible assets not ready to use - are not subject to amortisation and are tested annually for impairment. 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 other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost is determined on a first in, first out basis and in the case of manufactured goods, includes direct materials, labour and production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Property, plant and equipment

Land and buildings are shown at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The electricity distribution network is also measured at fair value on the basis of an independent valuation prepared by expert valuers using a discounted cash flow method on at least a triennial period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self constructed assets includes the cost of materials and direct labour and an allowance for overheads. Borrowing costs are capitalised in respect of qualifying assets valued at $500,000 or more and which take more than three months to construct.

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Distribution network	6 - 70 years
Computer hardware	4 years
Plant and equipment	3 - 20 years
Motor vehicles	6 - 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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(g)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains - net' in the profit and loss component of the statements of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

(j) Intangible assets

(i) Computer software

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

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

(ii) Easements

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

(iii) 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 on a straight line basis.

(k) Investments and other financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non current.

(ii) 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 end of the reporting period. These are classified as non current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheets (notes 2(e) and (f)).

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss component of the statements of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss component of the statements of comprehensive income within 'other (losses)/gains - net' in the period in which they arise.

Changes in the fair value of monetary and non monetary securities classified as available for sale are recognised in other comprehensive income.

Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of comprehensive income.

(l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(m) Trade and other payables

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

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

(n) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulated sick leave expected to be settled within 12 months of the reporting date are recognised in '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.

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.

Employee benefits

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.

(o) Interest bearing liabilities

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

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

(p) Borrowing costs

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

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

(q) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re measured at 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);
2. hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
3. hedges of a net investment in a foreign operation (net investment hedge).

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 24. Movements on the hedging reserve in other comprehensive income are shown in note 19. The full fair value of a hedging derivative is classified as a non current 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.

(i) 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 the ineffective portion is recognised immediately in the profit and loss component of the statements of comprehensive income within 'other gains/(losses) - net'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss component of the statements of comprehensive income within 'finance income/cost'. However, when the forecast transaction that is hedged results in the recognition of a non financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, 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 income statement. 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 within 'other gains/(losses) - net'.

(r) Contributed Equity

Ordinary shares are classified as equity.

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

(s) Investments in subsidiaries and associates

Investments in subsidiaries and associates in Parent financial statements are stated at cost less impairment.

(t) Contract work in progress

Contract work in progress is stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general overhead expenses incurred by the Group's contract operations.

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.

(u) Dividend distribution

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

(v) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(w) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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.

(x) 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 was fixed at 8% until 31 March 2015. The convertible notes have been extended until 31 March 2020. The interest rate from 1 April 2015 is 6.28%.

(y) Goods and Services Tax (GST)

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

(z) 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 profit and loss component of the statements of comprehensive income on a straight line basis over the period of the lease.

(aa) Changes in accounting policies

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

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.

(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 accounting policy 2 (i). 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 (note 9).

(d) Construction contract revenue and profitability

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 and acceptance by Crown Fibre Holdings Ltd (CFH).

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.

The subsidiary company Waikato Networks Limited (WNL) is currently contracted to the joint venture Ultrafast Fibre Limited (UFF) to build the ultra fast fibre network. Under the terms of the contractual arrangements WNL may apply for additional compensation for any overspend associated with the communal layer 1 construction. This may amount up to $19.88 million that will be determined after the completion of the contract expected by June 2016. In determining the forecast outcome of the contract, for the purposes of determining whether an expense is required to be recognised in the financial statements, WNL have assumed the additional compensation of $19.88 million will be received.

Included in Construction Work in Progress are further amounts of approximately $12 million which represent the cost of elements of the contract to construct connections on the Ultra Fast Fibre network which have yet to be fully agreed with and billed to Ultrafast Fibre Limited and require contractual amendments to enable their full recovery. The finalisation of the billing of these costs is the subject of commercial negotiation.

The Directors consider that no additional provision is required to recognise any significant difference which may arise between the cost of the work in progress incurred but not billed at balance date less provision made to recognise an estimate of non recoverable costs and the amount which will ultimately be received.

(e) Determining the nature of the investment in joint venture

The nature of Waikato Networks Limited's (WNL) investment in Ultrafast Fibre Limited (UFF) 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 nor 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 on the UFF Board and neither is able to control the majority of votes of the Board; and appointment of the independent chairman is a joint decision between both parties.

4. Revenue	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Sales revenue				
Gross line revenue	**117,677**	114,525	**117,677**	114,525
Discount	**(18,590)**	(18,945)	**(18,590)**	(18,945)
Net line revenue	**99,087**	95,580	**99,087**	95,580
Other revenue				
Third party contributions	**5,096**	4,984	**5,096**	4,984
Contracting revenue	**94,021**	88,333	**530**	1,323
Operating lease revenue	**2,803**	2,743	**2,803**	2,743
Other income	**3,211**	4,542	**3,732**	4,252
	105,131	100,602	**12,161**	13,302
	204,218	196,182	**111,248**	108,882
5. Expenses				
Classification of other expenses				
Transmission costs	**28,601**	31,297	**28,601**	31,297
Employee benefits	**27,022**	28,491	**25,736**	24,562
Capitalised labour	**(20,403)**	(22,573)	**(19,308)**	(20,774)
Directors fees	**297**	299	**297**	299
Materials and services	**6,716**	7,352	**6,716**	7,352
Net loss on disposal of property, plant and equipment	**2,629**	3,638	**2,643**	2,662
Bad debts written off	**523**	5	**523**	5
Operating leases	**257**	268	**223**	238
Change in provision for impaired receivables	**(138)**	112	**(138)**	112
Other expenses	**11,764**	10,426	**10,600**	9,774
Depreciation and amortisation expense	**24,698**	24,418	**23,277**	23,380
	81,966	83,733	**79,170**	78,907
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**148**	148	**148**	148
Plant and equipment	**3,818**	2,409	**2,675**	2,393
Motor vehicles	**847**	775	**800**	710
Distribution network	**16,597**	17,853	**16,597**	17,853
Computer hardware	**387**	332	**373**	307
Total depreciation	**21,797**	21,517	**20,593**	21,411

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Amortisation				
Computer software	**2,780**	2,737	**2,563**	1,805
Easements and consents	**121**	164	**121**	164
Total amortisation	**2,901**	2,901	**2,684**	1,969
Total depreciation and amortisation	**24,698**	24,418	**23,277**	23,380
Auditors' fees				
(a) Remuneration of auditors				
Auditing financial statements - PwC	**147**	124	**109**	91
Half year review - PwC	**22**	21	**22**	21
Assurance procedures on disclosure information - PwC	**37**	33	**37**	33
Other reviews - PwC	**8**	-	**8**	-
Total remuneration for assurance services	**214**	178	**176**	145
(b) Taxation services				
Tax advice - PwC	**49**	95	**49**	59
Total remuneration for taxation services	**49**	95	**49**	59
(c) Other services				
Provision of license for financial reporting software - PwC	**14**	-	**7**	-
Other advisory services - PwC	**58**	-	**58**	-
Total remuneration for advisory services	**72**	-	**65**	-
	335	273	**290**	204

6. Finance income and expenses

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Finance costs				
Interest and finance charges paid/payable	**9,654**	6,697	**8,983**	6,057
Capitalised interest	**(2,293)**	(2,429)	**(952)**	(655)
Total finance costs	**7,361**	4,268	**8,031**	5,402
Finance income				
Intercompany funding charge	**-**	-	**(6,192)**	(3,622)
Short term bank deposits	**(114)**	(86)	**(114)**	(86)
Total finance income	**(114)**	(86)	**(6,306)**	(3,708)
Net finance costs	**7,247**	4,182	**1,725**	1,694

7. Income tax	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
(a) Income tax expense				
Current tax:				
Current tax on profits for the year	**2,915**	2,696	**5,537**	4,110
Deferred tax	**1,892**	3,114	**2,640**	2,634
Total current tax	**4,807**	5,810	**8,177**	6,744
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	**15,686**	18,735	**29,946**	27,252
Income tax @ 28%	**4,392**	5,246	**8,385**	7,631
Non assessable income	**-**	-	**-**	(4)
Non deductible expenses	**2**	70	**2**	73
Convertible note interest	**(686)**	(874)	**(686)**	(874)
Prior period deferred tax adjustment	**494**	(82)	**476**	(82)
Share of loss of joint venture	**605**	1,450	**-**	-
Income tax expense	**4,807**	5,810	**8,177**	6,744
(c) Imputation credits				
Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2015: 28%)	**30,389**	27,026	**30,389**	27,026
	30,389	27,026	**30,389**	27,026
(d) Tax receivable/(payable)				
Opening balance	**884**	(35)	**(529)**	866
Current tax on profits for the year	**(2,915)**	(2,696)	**(5,537)**	(4,110)
Taxation paid	**2,571**	3,575	**2,570**	2,715
Loss transfer	**-**	-	**4,036**	-
Closing balance	**540**	844	**540**	(529)
8. Current assets - Trade and other receivables				
Net trade receivables				
Trade receivables	**10,144**	11,375	**9,907**	11,066
Amounts due from customer for contract work	**194**	198	**194**	198
Provision for doubtful receivables	**(308)**	(447)	**(308)**	(447)
	10,030	11,126	**9,793**	10,817
Related party receivable	**13,219**	7,199	**220**	141
Prepayments	**780**	860	**723**	757
	24,029	19,185	**10,736**	11,715

8. Current assets - Trade and other receivables (continued)

(a) Impaired receivables

As of 31 March 2016, trade receivables for the Group of $0.7 million (2015: $1.3 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 ageing analysis of these trade receivables is as follows:

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Current	**9,338**	9,850	**9,101**	9,541
Less than one to three months	**73**	457	**73**	457
Three to six months	**2**	81	**2**	81
Over six months	**617**	738	**617**	738
	10,030	11,126	**9,793**	10,817

As of 31 March 2016, trade receivables of $0.3 million (2015: $0.4 million) were impaired. The amount of the provision was $0.3 million as of 31 March 2016 (2015: $0.4 million). The individually impaired receivables mainly relate to car versus pole. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

Less than three months	**-**	1	**-**	1
Three to six months	**-**	125	**-**	125
Over six months	**308**	321	**308**	321
	308	447	**308**	447

Movements on the group provision for impairment of trade receivables are as follows:

Opening balance	**447**	335	**447**	335
Provision for impairment recognised during the year	**384**	117	**384**	117
Receivables written off during the year as uncollectible	**(523)**	(5)	**(523)**	(5)
Closing balance	**308**	447	**308**	447

The creation and release of provision for impaired receivables have been included in 'expenses' in the profit and loss component of the statements of comprehensive income (note 5). Amounts charged to the provision for impairment of receivables are generally written off when there is no expectation of recovering additional cash.

(b) 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 25 for more information on the risk management policy of the Group.

9. Non-current assets - Property, plant and equipment

Group	Distribution network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Assets under construction $'000	Total $'000
Year ended 31 March 2015							
Opening net book amount	494,118	12,014	23,925	4,002	621	1,034	535,714
Additions	30,699	-	4,788	1,585	826	6,693	44,591
Disposals	(688	-	(11)	(454)	(53)	-	(1,206)
Depreciation charge (note 5)	(17,853	(148)	(2,409)	(775)	(332)	-	(21,517)
Closing net book amount	506,276	11,866	26,293	4,358	1,062	7,727	557,582
At 31 March 2015							
Cost	439,757	10,020	35,178	6,370	2,370	7,727	501,422
Valuation	188,911	2,216	-	-	-	-	191,127
Accumulated depreciation	(122,392)	(370)	(8,885)	(2,012)	(1,308)	-	(134,967)
Net book amount	506,276	11,866	26,293	4,358	1,062	7,727	557,582
Year ended 31 March 2016							
Opening net book amount	506,276	11,866	26,293	4,358	1,062	7,727	557,582
Additions	35,875	-	7,681	1,044	165	1,333	46,098
Disposals	(3,294)	-	(170)	(273)	(78)	-	(3,815)
Depreciation charge (note 5)	(16,597)	(148)	(3,818)	(847)	(387)	-	(21,797)
Closing net book amount	522,260	11,718	29,986	4,282	762	9,060	578,068
At 31 March 2016							
Cost	471,677	10,020	42,550	6,762	2,235	9,060	542,304
Valuation	188,911	2,216	-	-	-	-	191,127
Accumulated depreciation	(138,328)	(518)	(12,564)	(2,480)	(1,473)	-	(155,363)
Net book amount	522,260	11,718	29,986	4,282	762	9,060	578,068
Parent							
Year ended 31 March 2015							
Opening net book amount	494,118	12,014	23,854	3,727	554	1,034	535,301
Additions	30,699	-	4,756	1,553	800	6,693	44,501
Disposals	(688)	-	(11)	(388)	(52)	-	(1,139)
Depreciation charge (note 5)	(17,853)	(148)	(2,393)	(710)	(307)	-	(21,411)
Closing net book amount	506,276	11,866	26,206	4,182	995	7,727	557,252
At 31 March 2015							
Cost	439,757	10,020	35,041	6,019	2,232	7,727	500,796
Valuation	188,911	2,216	-	-	-	-	191,127
Accumulated depreciation	(122,392)	(370)	(8,835)	(1,837)	(1,237)	-	(134,671)
Net book amount	506,276	11,866	26,206	4,182	995	7,727	557,252
Year ended 31 March 2016							
Opening net book amount	506,276	11,866	26,206	4,182	995	7,727	557,252
Additions	35,875	-	5,131	1,023	165	1,333	43,527
Disposals	(3,294)	-	(90)	(123)	(25)	-	(3,532)
Depreciation charge (note 5)	(16,597)	(148)	(2,675)	(800)	(373)	-	(20,593)
Closing net book amount	522,260	11,718	28,572	4,282	762	9,060	576,654
At 31 March 2016							
Cost	471,677	10,020	40,000	6,762	2,235	9,060	539,754
Valuation	188,911	2,216	-	-	-	-	191,127
Accumulated depreciation	(138,328)	(518)	(11,428)	(2,480)	(1,473)	-	(154,227)
Net book amount	522,260	11,718	28,572	4,282	762	9,060	576,654

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

The amount of interest capitalised was $952,368 (2015: $631,000)

(a) 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.

The company's electricity distribution network was revalued as at 31 March 2016 to fair value by Deloitte. The fair values were established in accordance with NZ IAS 16 - Property, Plant and Equipment and subsequent years IFRS 13 Fair Value Measurement. The valuation was prepared using discounted cash flow methodology.

	Land and buildings $'000	Distribution network $'000	Plant and equipment $'000
Group			
Cost	10,020	480,509	47,370
Accumulated depreciation	(370)	(163,144)	(12,205)
Net book amount at 31 March 2015	9,650	317,365	35,165
Cost	10,020	513,016	47,370
Accumulated depreciation	(518)	(168,050)	(16,516)
Net book amount at 31 March 2016	9,502	344,966	30,854
Parent			
Cost	10,020	480,509	46,745
Accumulated depreciation	(370)	(163,144)	(11,910)
Net book amount at 31 March 2015	9,650	317,365	34,835
Cost	10,020	513,016	52,785
Accumulated depreciation	(518)	(168,050)	(15,381)
Net book amount at 31 March 2016	9,502	344,966	37,404

The key assumptions used in the valuation as at 31 March 2016 include growth assumptions and the discount rate.

Description	Valuation assumptions adopted	Low	High	Valuation impact
WACC	6.50%	6%	7%	+/- $22m
CPI	2.00%	1.50%	2.50%	+/- $24m
Real Growth	2.25	1.75%	2.75%	+/- $4m

10. Construction work in progress

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Amounts expected to be recovered with 12 months	**29,492**	34,905	**-**	-
Amounts expected to be recovered after more than 12 months	**2,570**	1,164	**-**	-
Net amount due from customers	**32,062**	36,069	**-**	-
Made up of:				
Layer one	**23,062**	18,599	**-**	-
Layer two	**(10,812)**	(13,165)	**-**	-
Connections	**19,812**	30,635	**-**	-
	32,062	36,069	**-**	-
Analysed as:				
Contract costs incurred	**312,689**	232,323	**-**	-
Less: progress billings	**(280,627)**	(196,254)	**-**	-
Contracts in place at balance sheet date	**32,062**	36,069	**-**	-
Revenue from construction contracts	**82,576**	76,506	**-**	-

During the year $5.6 million was transferred out of construction work in progress of which $2.9 million related to goodwill (note 12) and the balance to property, plant and equipment assets.

11. Non-current assets - Investment in joint venture

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Opening carrying value	**62,642**	28,382	**-**	-
Acquisition of shares at cost	**67,959**	39,439	**-**	-
Goodwill	**6,014**	-	**-**	-
	136,615	67,821	**-**	-
(Loss)/gain on deemed disposal of share in joint venture	**1,357**	(2,246)	**-**	-
Share of (loss)/gain in joint venture	**(3,517)**	(2,933)	**-**	-
	(2,160)	(5,179)	**-**	-
Closing carrying value	**134,455**	62,642	**-**	-

Ultrafast Fibre Limited is incorporated in New Zealand and has a financial year end of 30 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.

11. Non-current assets - Investment in joint venture (continued)

Under the Deed of Amendment signed on the 31 July 2014, Clause 8 of the Shareholders Agreement is suspended for the period from the date of the variation to the end of the concession period. The effect of this variation is to suspend the obligation to purchase the A shares for the year ended 30 June 2015 and 30 June 2016 and to limit the obligation to purchase A shares to $10 million in the year to 30 June 2017, $15 million in the year to 30 June 2018 and $20 million in the year to 30 June 2019. Waikato Networks Limited are not required to purchase A shares from Crown Fibre Holdings during the suspension period except for the committed A shares however they can elect to exercise their rights under clause 8 of the Shareholders Agreement and purchase additional A shares in respect of the number of End Users connected and receiving services during that period. For any A shares that WNL has not acquired from CFH during the suspension period these shares convert to ordinary shares and continue to be held by CFH.

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.

Shares in joint venture

The interest in Ultrafast Fibre Limited is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the parent entity.

(a) The Group's share of the results of its joint venture, all of which are unlisted and its aggregated assets and liabilities, are as follow:

	Joint Venture	
	2016 $'000	**2015 $'000**
Current assets		
Bank	**3,134**	3,494
Accounts Receivable & Prepayments	**4,940**	2,268
Total current assets	**8,074**	5,762
Non current assets	**274,167**	193,835
Total assets	**282,241**	199,597
Current liabilities	**19,354**	9,021
Non current liabilities	**-**	-
Total liabilities	**19,354**	9,021
Revenue	**21,800**	7,728
Depreciation	**(12,735)**	(7,442)
Other expenses	**(20,995)**	(15,542)
Taxation	**3,387**	4,266
Profit/(loss) from continuing operations	**(8,543)**	(10,990)
Movements in carrying amounts		
Opening net assets	**190,576**	120,284
Loss for the period	**(8,543)**	(10,990)
Shares issued during the year	**80,854**	81,282
	262,887	190,576
Interest % in joint venture	**49**	33

12. Non-current assets - Intangible assets

Group	Computer software $'000	Goodwill $'000	Easements & consents $'000	Leasehold interest $'000	Assets under construction $'000	Total $'000
Year ended 31 March 2015						
Opening net book amount	5,628	-	5,363	107	197	11,295
Additions	4,266	-	226	-	1,169	5,661
Disposals	(1,917)	-	(504)	-	-	(2,421)
Amortisation charge (note 5)	(2,737)	-	(164)	-	-	(2,901)
Closing net book amount	5,240	-	4,921	107	1,366	11,634
At 31 March 2015						
Cost	19,602	-	6,985	107	1,366	28,060
Accumulated amortisation and impairment	(14,362)	-	(2,064)	-	-	(16,426)
Net book amount	5,240	-	4,921	107	1,366	11,634
Year ended 31 March 2016						
Opening net book amount	5,240	-	4,921	107	1,366	11,634
Additions	2,339	2,961	249	-	-	5,549
Disposals	(878)	-	-	-	(821)	(1,699)
Amortisation charge (note 5)	(2,780)	-	(121)	-	-	(2,901)
Closing net book amount	3,921	2,961	5,049	107	545	12,583
At 31 March 2016						
Cost	19,971	2,961	7,233	107	545	30,817
Accumulated amortisation and impairment	(16,050)	-	(2,184)	-	-	(18,234)
Net book amount	3,921	2,961	5,049	107	545	12,583
Parent						
Year ended 31 March 2015						
Opening net book amount	3,822	-	4,859	107	539	9,327
Additions	1,769	-	226	-	827	2,822
Disposals	-	-	-	-	-	-
Amortisation charge (note 5)	(1,805)	-	(164)	-	-	(1,969)
Closing net book amount	3,786	-	4,921	107	1,366	10,180
At 31 March 2015						
Cost	16,744	-	6,985	107	1,366	25,202
Accumulated amortisation and impairment	(12,958)	-	(2,064)	-	-	(15,022)
Net book amount	3,786	-	4,921	107	1,366	10,180
Year ended 31 March 2016						
Opening net book amount	3,786	-	4,921	107	1,366	10,180
Additions	2,201	-	249	-	-	2,450
Disposals	-	-	-	-	(821)	(821)
Amortisation charge (note 5)	(2,563)	-	(121)	-	-	(2,684)
Closing net book amount	3,424	-	5,049	107	545	9,125
At 31 March 2016						
Cost	18,945	-	7,233	107	545	26,830
Accumulated amortisation and impairment	(15,521)	-	(2,184)	-	-	(17,705)
Net book amount	3,424	-	5,049	107	545	9,125

13. Current liabilities - Trade and other payables

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Trade payables	**35,773**	21,253	**5,924**	12,881
Related party payables	**15**	225	**15**	-
Related party loans	**-**	-	**26,379**	2,841
Advances received for contract work	**1,590**	914	**1,590**	914
	37,378	22,392	**33,908**	16,636
14. Current liabilities - Provisions				
Employee benefits	**735**	494	**735**	494
Annual leave	**1,410**	1,408	**1,410**	1,408
Gratuities	**-**	87	**-**	87
Other provisions	**137**	112	**137**	112
	2,282	2,101	**2,282**	2,101
15. Non-current liabilities - Provisions				
Employee benefits	**567**	590	**567**	590
	567	590	**567**	590
16. Non-current liabilities - Borrowings				
Term borrowings - bank loans				
Maturing in less than one year	**-**	-	**-**	-
Maturing between 1 and 3 years	**-**	-	**-**	-
Maturing between 3 and 5 years	**199,859**	137,266	**199,859**	137,266
Maturing after 5 years	**-**	-	**-**	-
	199,859	137,266	**199,859**	137,266

17. Non-current liabilities - Deferred tax liabilities (assets)

Group	Accelerated tax depreciation $'000	Revaluation of property, plant and equipment $'000	Provisions and other $'000	Derivative instruments $'000	Total $'000
At 1 April 2014	8,770	62,515	2,536	-	73,821
Charged/(credited) to the statements of comprehensive income	3,133	-	(19)	-	3,114
Charged/(credited) directly to equity - revaluations	-	(543)	-	-	(543)
Charged/(credited) directly to equity - derivatives	-	-	-	(505)	(505)
At 31 March 2015	11,903	61,972	2,517	(505)	75,887
At 1 April 2015	11,903	61,972	2,517	(505)	75,887
Charged/(credited) to the statements of comprehensive income	3,152	-	(1,260)	-	1,892
Charged/(credited) directly to equity - revaluations	-	(773)	-	-	(773)
Charged/(credited) directly to equity - derivatives	-	-	-	(1,726)	(1,726)
At 31 March 2016	15,055	61,199	1,257	(2,231)	75,280
Parent					
At 1 April 2014	9,116	62,515	2,536	-	74,167
Charged/(credited) to the statements of comprehensive income	2,653	-	(19)	-	2,634
Charged/(credited) directly to equity - revaluations	-	(543)	-	-	(543)
Charged/(credited) directly to equity - derivatives	-	-	-	(505)	(505)
Benefit of tax losses transferred from Waikato Networks Limited	(920)	-	-	-	(920)
At 31 March 2015	10,849	61,972	2,517	(505)	74,833
At 1 April 2015	10,849	61,972	2,517	(505)	74,833
Charged/(credited) to the statements of comprehensive income	2,273	-	367	-	2,640
Charged/(credited) directly to equity - revaluations	-	(773)	-	-	(773)
Charged/(credited) directly to equity - derivatives	-	-	-	(1,726)	(1,726)
At 31 March 2016	13,122	61,199	2,884	(2,231)	74,974

18. Contributed equity

Group and Parent

	2016 Shares '000	2015 Shares '000	2016 $'000	2015 $'000
(a) Share capital				
Opening balance	**8,153**	8,153	**111,142**	111,142
Shares issued in the year	**-**	-	**-**	-
	8,153	8,153	**111,142**	111,142

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

(b) Convertible notes

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Opening balance	**39,000**	39,000	**39,000**	39,000
Notes issued	**-**	-	**-**	-
Closing balance	**39,000**	39,000	**39,000**	39,000

19. Reserves and retained earnings

(a) Reserves				
Property, plant and equipment revaluation reserve	**157,995**	159,982	**157,995**	159,982
Hedging reserve - cash flow hedges	**(5,739)**	(1,300)	**(5,739)**	(1,300)
	152,256	158,682	**152,256**	158,682
Movements:				
Property, plant and equipment revaluation reserve				
Opening balance	**159,982**	161,379	**159,982**	161,379
Fair value gains on distribution network	**(2,760)**	(1,940)	**(2,760)**	(1,940)
Deferred tax	**773**	543	**773**	543
Closing balance	**157,995**	159,982	**157,995**	159,982
Hedging reserve - cash flow hedges				
Opening balance	**(1,300)**	(367)	**(1,300)**	(367)
Fair value gains/(losses) in year	**(6,165)**	(1,438)	**(6,165)**	(1,438)
Deferred tax	**1,726**	505	**1,726**	505
Net fair value gain/(loss) recognised to cashflow hedge reserve	**(4,439)**	(933)	**(4,439)**	(933)
Closing balance	**(5,739)**	(1,300)	**(5,739)**	(1,300)

19. Reserves and retained earnings (continued)

(b) Retained earnings

Movements in retained earnings were as follows:

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Opening balance	**100,462**	87,580	**110,110**	90,782
Net profit for the year	**12,513**	14,062	**21,769**	20,508
Dividends	**(351)**	-	**(351)**	-
Convertible note interest	**(2,456)**	(3,120)	**(2,456)**	(3,120)
Fair value gain on distribution network	**2,760**	1,940	**2,760**	1,940
Closing balance	**112,928**	100,462	**131,832**	110,110

20. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

Property, plant and equipment	**21**	319	**21**	319
Intangible assets	**-**	37	**-**	37
	21	356	**21**	356

Installation of the Waikato smart network project is nearing completion with almost all advanced meters now installed.

(b) Operating lease commitments

The Group leases land, premises, vehicles and equipment. 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:

Within one year	**1,299**	1,003	**440**	597
Later than one year and not later than two years	**939**	851	**235**	369
Later than two year and not later than five years	**2,696**	2,173	**286**	366
Later than five years	**4,919**	3,670	**638**	608
	9,853	7,697	**1,599**	1,940

21. Related party transactions

(a) Key management and personnel compensation

Key management personnel compensation for the years ended 31 March 2016 and 31 March 2015 is set out below. The key management personnel are all the directors of the company and the executives with 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	Share-based payments $'000	Total $'000
2016	**2,332**	**-**	**-**	**-**	**-**	**2,332**
2015	1,587	39	(211)	30	-	1,445

(b) Transactions with related parties

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

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

Other than the payment of Directors fees, the Group has not entered into any transactions with Directors. No related party debts were forgiven or written off during the year.

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
(i) Related party transactions with WEL Energy Trust				
Other income	**-**	60	**-**	60
Interest on convertible note	**(2,456)**	(3,120)	**(2,456)**	(3,120)

Total dividends paid during the year were $351,000 (2015: nil).

Related party transactions with Ultrafast Fibre Limited				
Sale of fibre Assets	**82,260**	76,947	**-**	-
Huawei Layer 2 Services and Service Desk	**4,095**	5,698	**-**	-
Support services	**4,514**	3,866	**-**	-
Management fees	**456**	1,245	**-**	-
Fibre access services on Velocity network	**813**	707	**-**	-
	92,138	88,463	**-**	-
Fibre access services on Velocity network	**570**	1,074	**-**	-
Provision for management services	**29**	66	**-**	-
	599	1,140	**-**	-
Trade receivables	**13,009**	7,058	**-**	-
Trade payables	**(15)**	(225)	**-**	-

21. Related party transactions (continued)

Waikato Networks Limited is a construction company that is building a fibre network for Ultrafast Fibre Limited. Waikato Networks Limited owns 49% (2015: 33%) of Ultrafast Fibre Limited shares.

No dividends were paid in 2016 (2015: Nil).

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
(iii) Related party transactions with Waikato Networks Limited				
Management fee	**-**	-	**1,334**	2,476
Compliance work	**-**	-	**-**	113
Pole make ready and lease costs	**-**	-	**157**	50
Interest	**-**	-	**6,194**	3,622
	-	-	**7,685**	6,261
Net advances to subsidiaries	**-**	-	**172,576**	96,753
Loan from subsidiary	**-**	-	**(27,639)**	(2,841)
Related party receivable	**-**	-	**10**	12
Related party payable	**-**	-	**(15)**	-

Net advances to subsidiaries are loans that are interest bearing repayable on call. Interest is charged at a rate equal to the Parent's average finance expense. The outstanding balance includes interest and advances receivable. The advances are unsecured and have no repayment terms and conditions. The loans are used to fund the investment in Ultrafast Fibre Limited.

A transfer of tax losses from Waikato Networks Limited to WEL Networks of $2,713,000 (2015: $919,000) was made during the year.

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
(iv) Related party transactions with Smartco Limited				
Other income	**482**	25	**482**	25
	482	25	**482**	25
Other expenses	**226**	162	**226**	162
	226	162	**226**	162
Purchase of plant and equipment	**1,234**	541	**1,234**	541
Trade receivables	**210**	129	**210**	129

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.

21. Related party transactions (continued)

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
(v) Related party transactions with Waipa Networks Limited				
Interest expense	**1,080**	640	**-**	-
Pole make ready and lease costs	**30**	25	**-**	-
Payments to related parties	**1,110**	665	**-**	-
Loan from shareholders	**30,445**	17,074	**-**	-
Trade receivables	**-**	12	**-**	12

Net advances from Waipa are loans that are interest bearing repayable on call. Interest is charged at a rate equal to the WEL Parent's average finance expense. The outstanding balance includes interest and advances receivable. The advances are unsecured and have no repayment terms and conditions. The loans are used to fund the investment in Ultrafast Fibre Limited.

22. Contingencies
As at 31 March 2016 the parent entity and Group had no contingent liabilities or assets (2015:$Nil).

23. Investments in subsidiaries

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Net advances to subsidiaries	**-**	-	**172,576**	96,753
	-	-	**172,576**	96,753

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2016 %	Equity holding 2015 %
Operating Subsidiaries				
Waikato Networks Limited	New Zealand	Ordinary	**85**	85
Non Operating Subsidiaries				
WEL Electricity Limited	New Zealand	Ordinary	**100**	100
WEL Power Limited	New Zealand	Ordinary	**100**	100
WEL Energy Group Limited	New Zealand	Ordinary	**100**	100
Waikato Electricity Limited	New Zealand	Ordinary	**100**	100
WEL Generation Limited	New Zealand	Ordinary	**100**	100
WEL Services Limited	New Zealand	Ordinary	**100**	-

All subsidiaries have balance dates of 31 March.

24. Derivative financial instruments

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Non-current liabilities				
Forward foreign exchange contracts - cash flow hedges ((a)(i))	**6**	-	**6**	-
Interest rate swaps - fair value hedges ((a)(ii))	**7,966**	1,805	**7,966**	1,805
Total non-current derivative financial instrument liabilities	**7,972**	1,805	**7,972**	1,805
Total derivative financial instrument liabilities	**7,972**	1,805	**7,972**	1,805

(a) Instruments used by the Group

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

(i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2016 were $991,635 (2015: Nil).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 March 2016 are recognised in the profit and loss component of the statements of comprehensive income in the period or periods during which the hedged forecast transaction affects the statements of comprehensive income. This is generally within 12 months of the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (5 to 10 years).

(ii) Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2016 were $130 million (2015: $75 million).

At 31 March 2016, the fixed interest rates vary from 3.905% to 4.18% (2015: 3.905% to 4.18%), and the main floating rate is BKBM. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 March 2016 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

25. Financial risk management

The Group's activities expose it to a variety of financial and regulatory risks. Financial risks include market risk (including foreign exchange and 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

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

At 31 March 2016 if the currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been $67,822 (2015: 5,884) higher / lower, mainly as a result of foreign exchange gains / losses on translation of US dollar-denominated financial assets.

(ii) Cash flow and fair value interest rate risk

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

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The swaps are for the duration of the borrowing term.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	31 Mar 2016		31 Mar 2015	
	Weighted average interest rate %	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Interest rate swaps (notional/principal amounts)	**3.85%**	(130,000)	4.02%	(100,000)
Interest bearing liabilities	**4.86%**	199,859	3.50%	137,266
Bank overdrafts and loans	**nil**	-	3.60%	3,065
Net exposure to cash flow interest rate risk		69,859		40,331

25. Financial risk management (continued)

(iii) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

		INTEREST RATE RISK			
31 March 2016	**Carrying amount $'000**	**Profit -1% $'000**	**Equity -1% $'000**	**Profit +1% $'000**	**Equity +1% $'000**
Financial assets					
Cash and cash equivalents	4,049	-	(40)	40	-
Trade and other receivables	24,029	-	-	-	-
Financial liabilities					
Trade payables	37,378	-	(1)	1	-
Interest bearing liabilities	199,859	-	(698)	698	-
Derivative financial instruments	7,972	-	-	-	-
Loan from non-controlling interest	30,455	-	(403)	403	-
Customer discount payable	18,836	-	-	-	-
Total increase/ (decrease)		-	(1,142)	1,142	-
31 March 2015					
Financial assets					
Trade and other receivables	19,185	-	-	-	-
Financial liabilities					
Cash and cash equivalents	2,960	-	30	(30)	-
Trade payables	22,392	-	-	-	-
Interest bearing liabilities	137,266	-	(623)	623	-
Derivative financial instruments	1,805	-	-	-	-
Loan from non-controlling interest	17,074	-	(171)	171	-
Customer discount payable	19,100	-	-	-	-
Total increase/ (decrease)		-	(764)	764	-
Parent					
31 March 2016					
Financial assets					
Cash and cash equivalents	4,000	-	-	-	-
Trade and other receivables	10,736	-	-	-	-
Financial liabilities					
Trade payables	33,908	-	(1)	1	-
Interest bearing liabilities	199,859	-	(698)	698	-
Derivative financial instruments	7,972	-	-	-	-
Customer discount payable	18,836	-	-	-	-
Total increase/ (decrease)		-	(699)	699	-
31 March 2015					
Financial assets					
Trade and other receivables	11,715	-	-	-	-
Financial liabilities					
Cash and cash equivalents	3,065	-	30	(30)	-
Trade payables	16,636	-	(30)	30	-
Interest bearing liabilities	137,266	-	(403)	403	-
Derivative financial instruments	1,805	-	-	-	-
Customer discount payable	19,100	-	-	-	-
Total increase/ (decrease)		-	(403)	403	-

(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 on going 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 36% (2015: 33%) 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.

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 Group was in compliance with covenants during the year.

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

25. Financial risk management (continued)

Group - At 31 March 2016	Notes	Less than one year $'000	Between 1 and 2 years $'000	Between 2 and 3 years $'000	Between 3 and 5 years $'000	Total contractual cash flows $'000	Carrying Amount liabilities $'000
Non-derivatives							
Interest bearing liabilities		9,896	9,896	9,896	220,392	250,080	199,859
Trade and other payables		37,377	-	-	-	37,377	37,378
Customer discount payable		18,836	-	-	-	18,836	18,836
Loan from non controlling interest		30,455	-	-	-	30,455	30,455
Total non-derivatives		96,564	9,896	9,896	220,392	336,748	286,528
Derivatives							
Interest rate swaps							
- Inflow		(6,318)	(6,318)	(6,318)	(6,318)	(25,272)	-
- Outflow		6,354	6,354	6,354	6,354	25,416	7,966
Foreign exchange contracts - outflow		6	-	-	-	6	6
Total derivatives		42	36	36	36	150	7,972
Group - At 31 March 2015							
Non-derivatives							
Interest bearing liabilities		6,818	6,818	6,818	150,902	171,356	137,266
Trade and other payables		22,392	-	-	-	22,392	22,394
Customer discount payable		19,100	-	-	-	19,100	19,100
Loan from non controlling interest		17,074	-	-	-	17,074	17,074
Total non-derivatives		65,384	6,818	6,818	150,902	229,922	195,834
Derivatives							
Interest rate swaps							
- Inflow		(4,860)	(6,318)	(6,318)	(6,318)	(23,814)	-
- Outflow		5,034	6,354	6,354	6,354	24,096	1,805
Foreign exchange contracts		-	-	-	-	-	-
Total derivatives		174	36	36	36	282	1,805
Parent - At 31 March 2016							
Non-derivatives							
Interest bearing liabilities		9,896	9,896	9,896	220,392	250,080	199,859
Trade and other payables		33,908	-	-	-	33,908	33,908
Customer discount payable		18,836	-	-	-	18,836	18,836
Total non-derivatives		62,640	9,896	9,896	220,392	302,824	252,603
Derivatives							
Interest rate swaps							
- Inflow		(6,318)	(6,318)	(6,318)	(6,318)	(25,272)	-
- Outflow		6,354	6,354	6,354	6,354	25,416	7,966
Foreign exchange contracts		6	-	-	-	6	6
Total derivatives		42	36	36	36	150	7,972
Parent - At 31 March 2015							
Non-derivatives							
Interest bearing liabilities		6,818	6,818	150,902	150,902	315,440	137,266
Trade and other payables		16,636	-	-	-	16,636	16,638
Customer discount payable		19,100	-	-	-	19,100	19,100
Total non-derivatives		42,554	6,818	150,902	150,902	351,176	173,004
Derivatives							
Interest rate swaps							
- Inflow		(4,860)	(6,318)	(6,318)	(6,318)	(23,814)	-
- Outflow		5,034	6,354	6,354	6,354	24,096	1,805
Foreign exchange contracts		-	-	-	-	-	-
Total derivatives		174	36	36	36	282	1,805

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 March 2016 and 31 March 2015.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Group - At 31 March 2016				
Liabilities				
Derivatives used for hedging				
Interest rate contracts	-	7,966	-	7,966
Foreign exchange contracts	-	6	-	6
Total liabilities	-	7,972	-	7,972
Group - At 31 March 2015				
Liabilities				
Derivatives used for hedging				
Interest rate contracts	-	1,805	-	1,805
Total liabilities	-	1,805	-	1,805
Parent - At 31 March 2016				
Liabilities				
Derivatives used for hedging				
Interest rate contracts	-	7,966	-	7,966
Foreign exchange contracts	-	6	-	6
Total liabilities	-	7,972	-	7,972
Parent - At 31 March 2015				
Liabilities				
Derivatives used for hedging				
Interest rate contracts	-	1,805	-	1,805
Foreign exchange contracts	-	-	-	-
Total liabilities	-	1,805	-	1,805

25. Financial risk management (continued)

(e) Financial instruments by category

Financial assets as per balance sheet	Loans and receivables $'000	Assets at fair value through profit or loss $'000	Derivatives used for hedging $'000	Available for sale $'000	Other $'000	Total $'000
Group						
At 31 March 2016						
Trade and other receivables (excluding prepayments)	23,249	-	-	-	-	23,249
Cash and cash equivalents	4,049	-	-	-	-	4,049
	27,298	-	-	-	-	27,298
At 31 March 2015						
Trade and other receivables (excluding prepayments)	18,325	-	-	-	-	18,325
Cash and cash equivalents	-	-	-	-	-	-
	18,325	-	-	-	-	18,325
Parent						
At 31 March 2016						
Trade and other receivables (excluding prepayments)	10,013	-	-	-	-	10,013
Cash and cash equivalents	4,000	-	-	-	-	4,000
	14,013	-	-	-	-	14,013
At 31 March 2015						
Trade and other receivables (excluding prepayments)	10,958	-	-	-	-	10,958
Cash and cash equivalents	-	-	-	-	-	-
	10,958	-	-	-	-	10,958

25. Financial risk management (continued)

Financial liabilities as per balance sheet	Liabilities at fair value through profit or loss $'000	Derivatives used for hedging $'000	Measured at amortised cost $'000	Total $'000
Group				
At 31 March 2016				
Interest bearing liabilities	-	-	199,859	199,859
Loan from non-controlling interest	-	-	30,455	30,455
Customer discount payable	-	-	18,836	18,836
Derivative financial instruments	-	7,972	-	7,972
Trade and other payables	-	-	37,378	37,378
	-	7,972	286,528	294,500
At 31 March 2015				
Interest bearing liabilities	-	-	137,266	137,266
Cash and cash equivalents	-	-	2,960	2,960
Loan from non-controlling interest	-	-	17,074	17,074
Customer discount payable	-	-	19,100	19,100
Derivative financial instruments	-	1,805	-	1,805
Trade and other payables	-	-	22,392	22,392
	-	1,805	198,792	200,597
Parent				
At 31 March 2016				
Interest bearing liabilities	-	-	199,859	199,859
Customer discount payable	-	-	18,836	18,836
Derivative financial instruments	-	7,972	-	7,972
Trade and other payables	-	-	33,908	33,908
	-	7,972	252,603	260,575
At 31 March 2015				
Interest bearing liabilities	-	-	137,266	137,266
Cash and cash equivalents	-	-	3,065	3,065
Customer discount payable	-	-	19,100	19,100
Derivative financial instruments	-	1,805	-	1,805
Trade and other payables	-	-	16,636	16,636
	-	1,805	176,067	177,872

(f) Capital risk management

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

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

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

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Total borrowings (note 16)	**199,859**	137,266	**199,859**	137,266
Less: cash and cash equivalents	**(4,049)**	2,961	**(4,000)**	2,961
Net debt	**195,810**	140,227	**195,859**	140,227
Total equity	**411,990**	407,584	**434,230**	418,934
Total capital	**607,800**	547,811	**630,089**	559,161
Gearing ratio	**32%**	26%	**31%**	25%

26. Events occurring after the reporting period

During April and May 2016, Ultrafast Fibre Limited issued shares to Crown Fibre Holdings and Waikato Networks Limited under the terms of the construction contract, as a result Waikato Networks Limited shareholding has changed to 54%.

At the 31st March 2016 Ultrafast Fibre Limited owes $13 million to Waikato Networks Limited. Included in this is $8.9 million accrued connection assets which were transacted during the month of April 2016.

On 1 April 2016 under the terms of the contract Waikato Networks Limited elected to purchase 10.5 million A shares at a value of $10.5 million from Crown Fibre Limited for connections between 1 January 2016 and 31 March 2016.

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

	Group 2016 $'000	Group 2015 $'000	Parent 2016 $'000	Parent 2015 $'000
Profit for the year	**10,879**	12,925	**21,769**	20,508
Depreciation and amortisation	**24,698**	24,418	**23,277**	23,380
Loss on sale of property, plant and equipment	**2,629**	3,638	**2,642**	2,662
Deferred tax	**1,892**	3,114	**2,634**	1,209
Loss/(gain) on disposal of share in joint venture	**(1,357)**	2,246	**-**	-
Share of loss of joint venture	**3,517**	2,933	**-**	-
(Increase) in receivables, prepayments and inventory	**(3,583)**	(6,494)	**979**	(1,181)
(Increase) in construction work in progress	**2,785**	(5,055)	**-**	-
Increase (decrease) in payables (excluding capital items), accruals and employee provisions	**13,459**	8,241	**(7,971)**	719
Increase in provision for income taxes payable	**(344)**	(2,695)	**1,069**	(777)
Net cash inflow from operating activities	**54,575**	43,271	**44,399**	46,520

Independent Auditors' Report

to the shareholders of WEL Networks Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of WEL Networks Limited (the "Company") on pages 33 to 73, which comprise the consolidated balance sheets as at 31 March 2016, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated 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 the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements 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'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 consolidated financial statements.

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

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

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pwc

Independent Auditors' Report

WEL Networks Limited

Opinion

In our opinion, the consolidated financial statements on pages 33 to 73 present fairly, in all material respects, the financial position of the Company and Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholder, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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 shareholder, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
26 May 2016

DIRECTORS' REPORT AND STATUTORY INFORMATION

1. Directors' Remuneration

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

	Year Ended 31 March 2016 $	Year Ended 31 March 2015 $
M P Devlin	85,000	66,500
M X Franklin	42,500	41,250
P D McGilvary	42,500	44,500
A V Steele	42,500	43,750
J L Spencer		39,000
B S Harris	42,500	22,500
D R Wright	42,500	21,250
R W Prebble		20,000
	297,500	298,750

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 $25 million and defence cost layer of $10 million. Statutory liability insurance with a limit of $1,000,000 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

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

Continuing Employees	Group Year Ended 31 March 2016
480,000-490,000	1
350,000-359,999	
280,000-289,999	
270,000-279,999	
250,000-259,999	2
240,000-249,999	3
230,000-239,999	
220,000-229,999	
210,000-219,999	1
200,000-209,999	1
190,000-199,999	
180,000-189,999	1
170,000-179,999	
160,000-169,999	1
150,000-159,999	3
140,000-149,999	3
130,000-139,999	6
120,000-129,999	2
110,000-119,999	7
100,000-109,999	26
Discontinued Employees	
290,000 - 299,999	1
200,000-209,999	1
180,000-189,999	1
140,000-149,999	1
130,000-139,999	1
110,000-119,999	3
100,000-109,999	2

6. Shareholders

As at 31 March 2016, 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 2016

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	
	Margaret P Devlin - Chairman Mark X Franklin Paul D McGilvary Anthony (Tony) V Steele Barry S Harris David R Wright
COMPANY MANAGEMENT	
Chief Executive	Garth W Dibley BE, MBA
EXECUTIVE OFFICERS	
General Manager Asset Management	Paul R Blue BE (Hons)
General Manager Commercial	Richard A Barnard BA, MA
General Manager Finance	Bella L Takiari-Brame MMS, CA, (ACT)
General Manager People and Performance	David S Fuller
General Manager WEL Services	David J van Deventer
AUDITORS	PricewaterhouseCoopers, Auckland
SOLICITORS	Tompkins Wake, Hamilton DLA Piper, Auckland
INSURANCE BROKERS	JLT New Zealand, Auckland