



# Annual Report 2014

for the year ended 31 March 2014

*Here for the Community*



*Balloons  
over Waikato*



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# ABOUT WEL ENERGY TRUST

WEL Energy Trust was formed in 1993 for the purpose of holding shares in the newly created lines company WEL Energy Group after some government led industry restructuring. The Trust is now a 100% shareholder of WEL Networks Ltd, as the group is now known, and owns these shares on behalf of the community. WEL Networks Ltd owns the lines in Hamilton City, Waikato district and a small part of Waipa district. WEL Energy Trust has seven trustees who are publicly elected every three years, with the last triennial election held in June 2014.

## *Our Values*

### **Purpose driven:**

Our actions deliver a clear, positive outcome.

### **Respectful:**

We openly and fairly listen to and consider the opinions of each other and stakeholders.

### **Embrace positive change and seek constant improvement:**

We are willing to challenge the status quo and strive to achieve improved outcomes.

### **Integrity and honesty:**

We act in good faith and are prepared to be held accountable.

### **Clear, constructive communication:**

We create understanding through open and informative engagement.

## *Our Core Purpose*

'Growing investment for our community'. WEL Energy Trust meets this core purpose by being diligent shareholders and by utilising the profits of the Company as effectively as possible. The profits of WEL Networks Ltd are used for the benefit of the community in several ways; in the form of a lines charge discount direct to customers, which is managed and delivered by the Company, through distributions or 'grants' to community organisations and to regional projects by the Trust, through reinvestment in the network to keep the lights on, and through strategic distributions that leverage third party contributions such as the Healthier Homes programmes and other energy efficiency projects.

## *Our Vision*

'A forward thinking, vibrant, connected community'.

## Organisational Directory

as at 31 March 2014

### Trustees

Mark Ingle (Chair)  
Denise Harding (Deputy Chair)  
Kathryn Williams  
David Kneebone  
Rob Hamill  
Mark Bunting  
Brad Chibnall



David Kneebone Rob Hamill Denise Harding Mark Ingle Kathryn Williams Mark Bunting Brad Chibnall

### Trustee Portfolio areas

Energy Efficiency	Rob Hamill (Chair) & Denise Harding
Communications	Kathryn Williams (Chair), Mark Bunting, Brad Chibnall
Finance	Brad Chibnall (Chair), Mark Ingle
Risk Management	Denise Harding (Chair), David Kneebone
Community Visits	Denise Harding & Kathryn Williams
Industry Updates	Rob Hamill

### Staff



Andy Gowland-Douglas  
General Manager



David Cowley  
Grants Advisor



Shelley Halpin  
Trust Secretary



Annette Evans  
Financial Administrator

### Advisors

Accountants	Staples Rodway Waikato LP, Hamilton
Energy Industry	Third Bearing Limited, Palmerston North
Solicitors	Tompkins Wake, Hamilton
Bankers	ASB Hamilton Commercial Banking; ANZ Banking Group, Wellington; Bank of New Zealand, Hamilton
Auditors	PricewaterhouseCoopers, Hamilton



# CHAIR'S REPORT

The following Chairman's Report provides specific comment on WEL Energy Trust ('the Trust') operations only. The consolidated (Group) financial statements include the Trust and WEL Networks Ltd ('the Company') and subsidiaries thereof. The Annual Report of the Company provides commentary on all activities of the Company and its subsidiaries.

## FINANCIAL RESULTS

For accounting purposes only, the Momentum Foundation loan has been written down to recognise the net present value of the loan (\$9,820,000). Hence, the Trust produced a net loss (after tax and distribution) of \$9,362,000. This revaluation is a one-off adjustment, and annually the fair value will be increased back up to \$10,000,000 by the loan repayment date.

Operating income was \$3,774,000 compared to a budget of \$3,714,460, and operating expenditure was \$72,000 lower than budget.

The Trust provided grants of \$2,322,000. This figure was down slightly from last year due to an unused budget of \$80,000 related to energy efficiency projects.

## INVESTMENT

During the year the Trust maintained its investment in the Company.

In the 2012/13 financial year the Trust implemented a new policy regarding the valuation of its shareholding in WEL Networks Ltd. The Trust now only requires an independent market valuation every three years, and this is provided for management reporting purposes only. As such, the value of the Trust's investment in the Company, as disclosed in the Parent only column of the Financial Report, is reported at cost.

An independent valuation of the Trust's investment in the Company was completed at the end of March 2014. At that time the market value of the shares held in the Company was \$629,200,000 [2012: \$600,700,000].

The Trust seeks to maintain a balance of at least \$10,000,000 in term deposits, where the interest generated contributes toward the operating costs of the Trust. A further \$2,000,000 less committed funds, is also set aside for the Trust's community lending programme.

## TRUST DISTRIBUTIONS

The Trust continued to support the Company with uneconomic undergrounding projects. However, these arrangements changed from previous years, with the Company committing directly to these projects.

Energy related projects received \$200,000 including the WEL Energy Trust Healthier Homes Programme. Although funding was available, the Trust was advised that WEL Networks Ltd, which manages the programme on the Trust's behalf, had difficulty attracting recipients. The Trust will keep a watchful eye on this to ensure that this investment continues to be effective.



The Trustees approved distributions of \$2,047,215 (2012/13: \$2,030,341) through the community funding round and Trust initiated grants, benefiting 281 community organisations and groups.

During the year Philips Search & Rescue Trust commissioned their new search and rescue helicopter and Te Awa River Ride Charitable Trust opened the Hamilton North to Horotiu section of the River Ride. These two projects were supported in previous years by the Trust with major grants totalling \$1,600,000. The grants were made possible from a special dividend paid by the Company to the Trust from funds associated with the Te Uku Windfarm.

During the year the Trustees considered a number of applications for the community lending fund, although at balance date no committed funds had been drawn down. Additionally, multi-year funding was initiated for nine recipients of regular funding as part of the annual community grants programme.

### WEL NETWORKS

The Trust remains focused on ensuring that the Company operates as a successful business. Annually, the Trustees review the performance of the Company and its strategic direction, and receive a report on the Board's internal annual performance review. The Trustees continue to support the Board and management, and the strategic direction that the Company is moving in.

The Trust also supports the continued investment of the Company into the network. This will ensure the Company will continue its proud record as one of the country's top performers in supply reliability.

A \$22,300,000 (2012/13: \$21,800,000 million) discount was announced by the Company for the customers of its core network, as a result of the Company delivering on its budgeted surplus. The Trust continues to support the discount programme, which over the past 12 years has distributed \$235,000,000 to people and businesses in the WEL Networks region.

The cost of electricity continues to be a matter of concern for most New Zealanders. The Trust continues to discuss this with the Company to ensure that it maintains a sustainable balance between capital expenditure and maintenance on the network, the discount programme, the cost of service delivery per customer (best quartile target), and the WEL Networks charges (2014 increase in line with CPI at 0.7%). The Company and Trust continue to be advocates for transparency of power bills.

During the year two Directors were reappointed for further terms; Margaret Devlin for four years and Tony Steele for three years. The Trustees also initiated a process to replace John Spencer who will retire as Chairman on 30 September 2014. The Trustees thank John for his contribution over nine years and wish him well. As a result of this replacement process, Margaret Devlin has been appointed Chairman from October 2014.

Chief Executive Julian Elder finished at the end of March after seven productive years with the Company. Trustees thank Julian, the Board, management and staff for their good performance in 2013/14 that enabled the discount programme to continue and the high standards of reliability to be maintained. The Company continues its sector leadership in areas like the Smart Grid and the Ultrafast Fibre projects.

### MOMENTUM FOUNDATION

As mentioned earlier, the treatment of the Momentum Foundation loan of \$10,000,000, due for repayment at the Trust's termination in 2073, has been written down to recognise the net present value of the loan. Annually an amount will be added back to income for

the Trust, until the loan reaches \$10,000,000 again just prior to repayment. This is an accounting reporting requirement.

### LOOKING AHEAD

This is a year of key personnel changes for both the Trust and the Company.

The Trust election was held in June 2014, which resulted in six of the current Trustees standing and successfully returning to office for a further three year term. The Trust farewells David Kneebone and welcomes new Trustee, Charlotte Isaac.

The role of Trust General Manager, vacated by Andy Gowland-Douglas in June 2014, has been filled by Raewyn Jones, commencing in August.

Up to two new Directors of WEL Networks Ltd will be appointed by the end of September 2014, and the Company will welcome a new Chief Executive in October. Trustees will continue to work with Company Directors during 2014 to ensure that the strategies of both the Trust and the Company are complementary.

The Trust continues to work with the Electricity Trusts of New Zealand on matters pertaining to the Commerce Commission's review of the Electricity Act and the Government's review of the Trust Act. As noted in last year's report, both reviews are of strategic importance to the Trust and Company.

### TRUSTEES AND STAFF

The Trustees continue to be committed to a strategic direction for the Trust that seeks to grow investment in the community, providing long term benefits for our region.

I thank my fellow Trustees and the WEL Energy Trust team for their individual and collective contributions toward the operation of a progressive, independent thinking and respectful Trust.



**Mark Ingle**

Chair





# GENERAL MANAGER'S REPORT

The early focus of the team in 2014 was the establishment of the Momentum Foundation. The Trust provided operational support to help the new foundation become firmly embedded until the appointment of its Chief Executive in January 2014.

A major project for the year was the revision of the Trust Deed. The purpose of the review was to update the Deed to better reflect the practices of the Trust, to correctly reference current legislation and to ensure that the contribution to the Momentum Foundation was not at odds with the Trust Deed. This involved two public consultation rounds; firstly on the changes, and then on the amended changes driven as a result of initial feedback. A full list of changes to the Trust Deed is provided later in this report.

Early in 2014 the Trust also reviewed and amended its governance structures and policies. These now more accurately reflect the operations of the Trust.

Prior to the 2013 community grants round, WEL Energy Trust redeveloped its online grants system. The new system now allows for all applications and processing to occur online, reducing paperwork and double handling of applications. Despite a few teething problems, the new system has been very successful and has been well received by community organisations and by Trustees.

In August, the Trust consulted with the community to help inform its strategic direction. In particular, the community was asked what they wanted the Trust to focus on for the next five years. The process involved an online survey completed by 151 groups and followed by a series of workshops which approximately 50 groups and individuals attended. A new strategic plan was signed off by the Trust in November 2013.

During that consultation process, supporting and recognising volunteers in the community was identified as a high priority. As such the Trust supported volunteer initiatives associated with the Balloons Over Waikato ASB Nightglow and the Volunteering Waikato 2014 Volunteer Excellence Awards.

The new vision for the Trust is that its work will contribute to "A forward thinking, vibrant, connected community". The core purpose was reworded to "Growing investment for our community", similar to the Trust's previous vision. The goals of the new strategic plan have provided a clear pathway for the next few years.

Over the next 12 months the team will take stock of what the Trust has achieved to date, in order to better inform future decisions and ensure that the organisation is being as effective as possible with its investments. This will also lead to the Trust growing investment in the community.

Part of the Trust's communication plan has been to improve engagement with stakeholders. In addition to community engagement around the strategic plan and consultation related to the Trust Deed changes, the Trust has developed a collaborative fund. This fund will be used to support joint initiatives with other funders, such as DV Bryant Trust and Trust Waikato.

WEL Energy Trust also produced a short video telling the Trust's story. This has been a useful community engagement tool and was highly commended at the 2013 Electricity Trusts of New Zealand Conference.

**Andy Gowland-Douglas**  
General Manager



Mark Ingle at the Rescue Helicopter launch



Dawn Breakfast at Balloons Over Waikato

# GRANT RECIPIENT STORIES

**Organisation:** Hamilton Community Men's Shed Trust  
**Funding received:** \$2,000  
**Purpose:** Operational costs

Here's an organisation that gives much more than it gets.

The Men's Shed provides educational and personal development opportunities for men. It enables men, some of them struggling, to contribute positively to our community while maintaining their own health and well-being.

The Hamilton Men's Shed was launched in March 2008 with donations of equipment and a lot of good will.

Is it successful? Absolutely!

The organisation now has a solid base of enthusiastic men working alongside individuals and community groups, assisting with maintenance or projects that would otherwise have been beyond their reach.

And the services they offer are growing, from regular woodwork skills classes to help for new migrants.

In addition, the team from the Men's Shed help out community organisations like Hospice Waikato, the Salvation Army, schools, clubs and more. They have a safe workplace for members to construct and work with wood in a way which helps keep men healthy, productive and engaged.

The grant from WEL Energy Trust contributes towards a Men's Shed co-ordinator. We're proud to support a service which helps not only men, but the wider Waikato community as well.







**Organisation:** Hamilton Cricket Association  
**Funding received:** \$15,000  
**Purpose:** Development Officer salary

It's all about cricket for this organisation, and has been for a very long time.

Fostering cricket. Promoting cricket. Supporting cricket.

The Hamilton Cricket Association works in schools, assists coaches and umpires, helps out with first aid courses and administration, nurtures high-performance skills, reaches out to the community and more. In a nutshell, the association encourages as many people as possible to participate and achieve in the game.

The grant from WEL Energy Trust assisted in the employment of a hands-on development officer who is supported by 10 seasonal coaches. With WEL Energy Trust's help, cricket players of all ages and abilities can receive the encouragement and help they need to participate in and play the very best cricket they can.







**Organisation:** Stroke Foundation Hamilton  
**Funding received:** \$2,000  
**Purpose:** Contribution towards operating costs

Having a stroke can be life-changing and sometimes devastating.

And for some people, coping with a disability while trying to reintegrate and recover, can be extremely difficult.

Not any more.

Thanks to Stroke Foundation Hamilton, there's no need for those people who suffer strokes, and their families and whanau, to struggle on their own.

The organisation provides friendship and peer support through a range of activities, all aimed at helping those who have suffered strokes integrate more quickly back into the community. Through a peer support group and monthly meetings, people are helped to recover more quickly.

There's a home visitor service, involving volunteers visiting people in their homes, rest homes, retirement villages and in hospital. And there's support to attend physiotherapy and speech language therapy.

Support towards operating costs from the WEL Energy Trust allows those who have suffered a potentially devastating and life-changing stroke to recover faster, and more fully.

It's a critical service from which everyone wins.



**Organisation:** Waikato Family Centre  
**Funding received:** \$22,500  
**Purpose:** Contribution toward operating expenses

It's not always easy having babies and toddlers in the house.

But it's probably a little bit easier and a lot more rewarding for many Waikato families, thanks to the Waikato Family Centre.

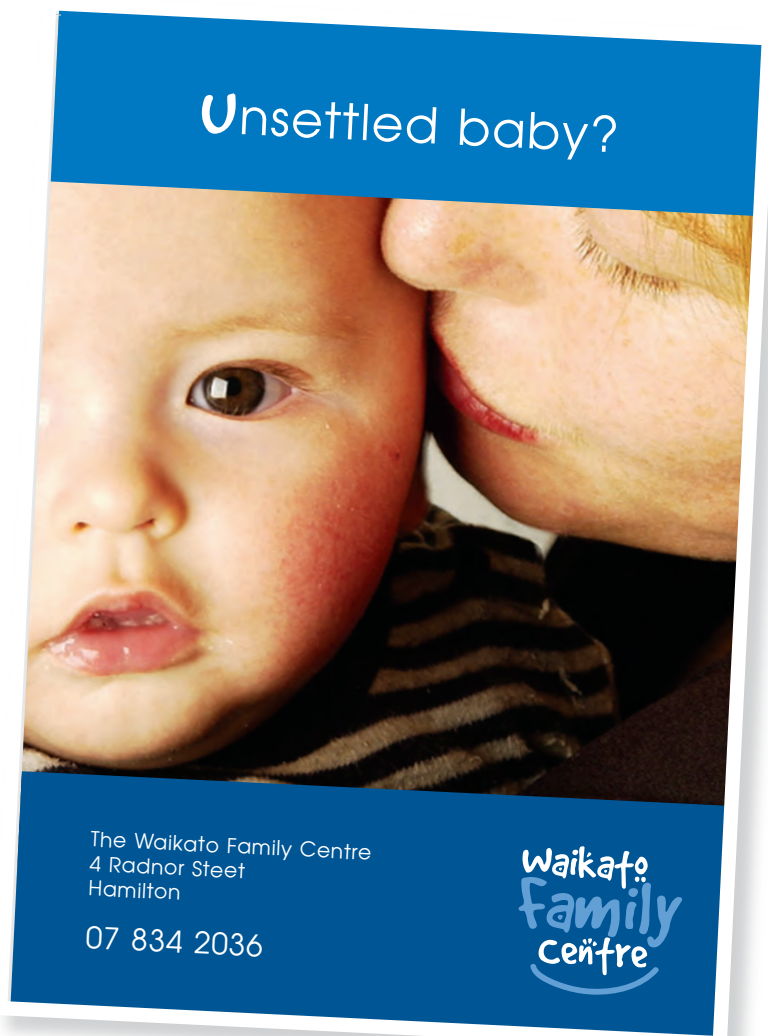
This Hamilton-based organisation provides a professional, medically-based and integrated family health service to any Waikato families or whanau with babies and toddlers.

The Centre receives referrals from other health professional and helps with issues like feeding, reflux, allergies, slow weight gain in babies, sleep, weaning, mother craft, parent education and post natal depression. There's support for teenage mums and dads and a weekly young mothers group.

Best of all... it's all free.

The Waikato Family Centre, its professional staff and its early intervention strategies play a key role in supporting Waikato families and helping keep our babies and toddlers happy, health and safe. In 2013, more than 830 families received help.

That's a lot of babies and a lot of toddlers and WEL Energy Trust was very happy to help.





**Organisation:** Creative Waikato  
**Funding received:** \$10,000  
**Purpose:** Design and develop a website  
([www.creativewaikato.co.nz](http://www.creativewaikato.co.nz))

Creative Waikato was formed in 2012 to strengthen, develop and invigorate the creative sector in the greater Waikato.

The organisation works alongside the sector, providing information, advice, support and some funding for arts or cultural projects. It helps promote and raise awareness of the amazing creativity within our region, and brings people together in ways that strengthen and develop the sector as well as adding richness and diversity to our communities.

WEL Energy supported Creative Waikato develop its website; a critical investment for the organisation. It's the most effective way it can share critical information with artists, audiences and key stakeholders.

For the first time ever, there is now a comprehensive online 'space' for the Waikato's creative community to go and call their own. It contains event information, a directory of arts resources, funding information, news and learning modules to help the sector develop and grow.

The website is a vital tool for artists, audiences and key stakeholders, with more than 6,000 unique visitors each month. It's helped increase attendances at events, and it's providing some real evidence of audience development in the region.

What's more... the mainstream media use the website locally and nationally to source good-news stories about the Waikato – helping showcase the very best that our creative community has to offer.



**Organisation:** McKenzie Centre  
**Funding received:** \$12,000  
**Purpose:** To help fund the building extensions and renovations



Here's an organisation with an impeccable history.

For nearly 30 years, the McKenzie Centre has provided specialist support to thousands of young children with developmental disabilities or delays. Each year, staff work with around 100 children and their families.

The benefits of early intervention in enhancing a child's potential for growth and development are well known. Supporting children with developmental delays as soon as possible can improve learning, social and behavioural outcomes for them and can narrow the gap with their peers. By supporting the child's parents as well, the long-term outcomes for the entire family are improved.

There's no doubt the services provided by the McKenzie Centre are critical for children and their families. And a decade ago, it became apparent that very quickly, the Centre would not have the physical space or enough staff to meet the growing demand.

The Board, staff and supporters started planning and fundraising for a major building extension and renovation. In February 2014, almost a decade after the need was recognised, it was finally completed.

WEL Energy Trust provided a grant to assist, providing funding at a critical time. Its grant enabled the McKenzie Centre to commit to the building project and complete work over the Christmas holiday period, minimising disruption to children and their families.

WEL Energy Trust is proud to support the McKenzie Centre and be part of its legacy.





# PREMIER EVENTS

The Trust is proud to be long term supporters of the Balloons Over Waikato and Hamilton Gardens Arts Festivals. These events are significant to the Trust as they enable wide community participation and enjoyment, much of it at zero or low cost to participants. The annual grants for these events are the largest the Trust makes.





**Organisation:** Hamilton Gardens Summer Festival Foundation  
**Funding received:** \$60,000  
**Purpose:** Event costs

### Hamilton Gardens Arts Festival

WEL Energy Trust continued its support of the incredible Hamilton Gardens Arts Festival with a \$60,000 grant towards operating expenses. This year a record 115,000 people attended at least one of the Festival performances. There were more than 360 hours of free entertainment provided in one of Hamilton's most magical outdoor settings.







**Organisation:**            **Balloons Over Waikato Trust**  
**Funding received:**    **\$70,000**  
**Purpose:**                 **Event costs**

### **Balloons Over Waikato**

Balloons Over Waikato continued to wow people this year, thanks in part to \$70,000 in funding support from WEL Energy Trust. Record crowds attended a range of free events, including the spectacular ASB Nightglow which attracted another record crowd of 85,000. The Trust again hosted the WEL Energy Trust Dawn breakfast at Innes Common.



# ENERGY EFFICIENCY

## HEALTHY HOMES



For ten years the Healthier Homes programme has been a core component of our Energy Efficiency Programme. In 2013-14 the Trust contributed \$200,000 towards the retrofitting of homes. A late start to the programme due to delays from the Energy Efficiency and Conservation Authority (EECA) meant approximately \$146,000 was spent on insulating 122 homes. The remainder of funds were carried over to the 2014-15 financial year on request from the programme manager, WEL Networks.



Over 2300 homes have benefitted from the programme which is delivered in partnership with EECA who provide 60% of the funding. The Healthier Homes programme targets customers with Community Services Cards and health issues, the elderly, or young who would benefit from an improvement in living standards for the home. Ceiling and under-floor insulation, cylinder wrapping, hot water pipe lagging and door stopping make up the programme components.



Research from EECA has proven that the benefits offer a 5:1 ratio of payback, which is an exceptional outcome. Health benefits are obvious, but there are also educational and economic effects as well. Some households find they spend significantly less on heating their houses after the intervention, and these savings can increase their effective disposable income. A healthier home environment also reduces absentee days from both work and education, especially during the winter months.

The following feedback has been received from families who have benefited from the programme:

"Just wanted to thank you to the installers who worked on mum's house today. Mum is extremely grateful to you all for the work you have done to warm up her home".

"Just a quick note to let you know our rental property was insulated last Monday. I would like to say a huge thanks to you for your help in making this happen for our tenant who is undergoing chemotherapy at the moment. I talked with him tonight and he advised that the house is noticeably warmer!"

"THANK YOU WEL Energy Trust for the insulation. We have had some hard times and could not afford to make our home warm. Our family is feeling the difference already. We really appreciate it".

"I would like to thank you all for insulating our home this winter. We won't be cold and damp this winter thanks to your gracious support".

"Thanks so much we really appreciated getting our home insulated".

"A big thank you to WEL for the insulation".

*In partnership with*





# PERFORMANCE MEASURES AGAINST ANNUAL PLAN

## *Company*

Deliver at least one direct communication to lines customers by March 2014.

- The work of the Trust has been featured in the WEL Networks newsletters delivered to customers at the time of their smart meter box installations.

Conduct a review of the operation of WEL Networks Ltd and the performance of the Directors, alongside a review of the investment in WEL Networks Ltd, by 30 November 2013.

- Report received November 2013 and recommendations accepted at Trust meeting held 10 December 2013.

Effectively respond to any major proposals affecting the capital structure of WEL Networks Ltd or the Trust's shareholding within one month of these being put to the Trust.

- No proposals were received during the 12-month period to 31 March 2014.

## *Partnering*

Increase number of homes retrofitted.

- The Trust contributed \$200,000 towards the Healthier Homes programme, \$146,000 of which was spent retrofitting 122 homes, with the balance of funds being carried over to the new financial year at the request of WEL Networks Ltd.

Recruit new funders/partners to Healthy Homes programme.

- Waipa Networks Trust committed \$230,000 to the project.

## *Financial*

Grants pool increased to \$2,020,000 for 2013.

- Approved by resolution to adopt 2013/14 Annual Plan at Trust meeting held 23 April 2013.

Produce Annual Report and present associated Auditor's report with no qualifications.

- Adopted at Trust meeting held 23 July 2013.

Hold Trust AGM within four months of balance date.

- The AGM of the Trust beneficiaries was held on Friday 26 July 2013 and PricewaterhouseCoopers (Hamilton) was appointed as auditor for the year ending 31 March 2014.

Gain 4% return on Trust reserves.

- This target was exceeded.

# PERFORMANCE MEASURES AGAINST ANNUAL PLAN (CONTINUED)

## *Funding Systems and Processes*

Establish community loans scheme.

- The Trust received its first community lending application in June 2013 and there were four applications received in total, three of which have been approved, however no money had been uplifted at the publication date of this report.

Implement new on-line grant system within budget.

- Phase 1 was completed in July 2013 in readiness for the 2013/2014 funding round.

Hold workshops for grant applicants.

- One-on-one support was given to four organisations during August 2013.

## *Communications*

Hold at least two events to highlight the work of the Trust and/or grant recipients.

- The work of the Trust (and groups that it funds) was highlighted at the AGM/video launch event on 26 July 2013.
- A Christmas morning tea was held with grant recipients on 4 December 2013.

Publicly profile at least four groups/projects funded by the Trust.

- This was achieved through the grant recipient stories included in the Trust's 2013 Annual Report.

Issue a proposed Annual Plan in accordance with clause 16.14 of the Trust Deed for public consultation, and review any submissions received for adoption of the Plan.

- The 2014-15 Annual Plan was approved at the Trust meeting held 1 April 2014 after a draft was issued for public consultation on 28 February, with 11 submissions received.

# FINANCIAL PERFORMANCE AGAINST BUDGET

## (a) Trust Income and Expenditure Against Annual Plan

The Trust income and expenses against budget for the year ended 31 March 2014 are as follows:

Trust 2013 Actual \$000		Trust 2014 Actual \$000	Trust 2014 Budget \$000
	<b>Income</b>		
3,715	Interest	3,703	3,526
10,250	Dividends	-	-
19	Other	71	108
13,984		3,774	3,634
	<b>Operating Expenditure</b>		
337	Management and administration	417	377
53	Communications	40	95
250	Representation	241	260
-	Election related costs	-	20
38	WEL Network shareholding	22	34
-	Special projects & trust deed policy	36	-
27	Distribution expenses	9	-
705	<b>Total Operating Expenditure</b>	765	786
13,279	<b>Net Operating Profit</b>	3,009	2,848
-	Gain/(Loss) on revaluation of loan to fair value	(9,820)	-
13,279	<b>Profit/(Loss) before Distributions</b>	(6,811)	2,848
2,416	<b>Distributions</b>	2,322	2,425
10,863	<b>Net Profit/(Loss) before Tax</b>	(9,133)	423
897	Taxation	229	220
9,966	<b>Net Profit/(Loss) after Tax</b>	(9,362)	203

The 2013 comparative operating expenditure has been reclassified to align to the new expense categories for the 2014 Budget.

## (b) Trust Capital Fund & Trust Income Fund

The movements in the Capital Fund and Income Fund against budget for the year ended 31 March 2014 are as follows:

Trust 2013 Actual \$000		Trust 2014 Actual \$000	Trust 2014 Budget \$000
	<b>CAPITAL FUND</b>		
52,067	Vested Capital	52,067	52,067
52,067	<b>Total Capital Fund</b>	52,067	52,067
	<b>INCOME FUND</b>		
85,427	Opening Retained Earnings	95,393	85,712
9,966	Net Surplus for the Period	(9,362)	203
95,393	<b>Total Income Fund</b>	86,031	85,915
147,460	Total Equity	138,098	137,982

# RESULTS OF REVIEW OF INVESTMENT IN WEL NETWORKS LIMITED

## *Brief for the Review*

Clause 16.15 of the Trust Deed requires that the annual performance report includes the results of the Trustees' review of the Trust's investment in the Company.

During the period covered by this Annual Report, the Trust established the Annual Plan for 2013/2014 which had the following specific objectives as part of the Capital and Income Activities:

- To monitor the performance of WEL Networks Limited for the purposes of clause 8 of the Trust Deed with a review of the investment in WEL Networks Limited by the Trust, prior to 30 November each year.
- For the purposes of clauses 8 and 16.15 of the Trust Deed to conduct an annual review of the operation of WEL Networks Limited and of the performance of the Directors of WEL Networks Limited in conjunction with the review of the investment.

A summary of the key points arising from the review of the investment in WEL Networks Limited is provided below. In carrying out the reviews, the Trust has also considered the requirements of clauses 8.1, 8.2, 14.3 and 16.2 of the Trust Deed.

## *Information Used & Matters Covered*

The Company's half-yearly report to 30 September 2013 was published in December 2013.

The Company's Annual Report for the twelve months ended 31 March 2013 was received 26 June 2013, and a full review was undertaken prior to November 2013 of the Trust's investment in WEL Networks Limited and performance of the Directors. This review was comprehensive and was prepared by the Trust's Financial and Energy Advisors and covered the following key areas:

- Financial performance
- Operational review
- Pricing structure and customer interests
- Performance review of the Directors
- Review of performance measures as per the Trust's 2012/2013 Annual Plan
- WEL Networks Limited as an investment for the Trust

The Trust's Advisors had access to a large amount of operating and financial information about the Company throughout the year, and there was frequent interaction at Trust/Board and Advisor/Management levels.



# RESULTS OF REVIEW OF INVESTMENT IN WEL NETWORKS LIMITED (CONTINUED)

The concluding recommendations from the review were as follows:

- The Trust continues its 100% investment in the Company.
- The Trust continues to monitor industry developments and take whatever steps are necessary to protect and enhance its major investment.
- The Trust continues with a largely undiversified investment portfolio with a dominant asset allocation in favour of the Company's investment.
- That Trustees continue to balance the financial impact of energy cost efficiency and discounts for consumers, as against the requirement for retention of tax paid profits in the Company to allow it to continue to invest in infrastructural assets and acquisitions, and to meet its stated major investment objectives.

The Trust adopted these recommendations on 10 December 2013.

## STRATEGIC DIRECTION, TARGETS AND MEASURES 2013-2018

The Company submits its Strategic Direction, Targets and Measures to the Trust each year for comment and approval. The document for 2013-2018 (Focus for 2013/14) was approved in June 2013, after taking advice from the Trust's Energy Advisor.

The document is prepared and agreed to ensure that the Directors and Management of WEL Networks Limited are directing the Company in a manner that is aligned with the goals of the Trust as owner.

The document incorporates both longer term strategic direction and shorter term annual objectives.

The Trust has reviewed WEL Networks Limited's performance against its Strategic Direction, Targets and Measures and is satisfied that the targets are being substantially met.

At the Trust meeting held on 25 June 2013, further to recommendations made by the Trust's Energy Advisor, the following was resolved:

That:

- a) A short summary of the key trends for proposed capital expenditure on the electricity network, based on the Company's Asset Management Plan, be added to the 2013/2014 and future documents.
- b) Commentary on the expected future revenue and profitability from the major investments being made in Ultrafast Fibre and smart meters be given in future documents.
- c) Long term Key Performance Indicators be reinstated in future documents.

That the Trust endorses the Company's Strategic Document based on feedback resulting from this meeting.

# GUIDELINES FOR ACCESS TO INFORMATION BY BENEFICIARIES

The Trust is required by legislation to adopt a set of guidelines to ensure the availability of certain Trust information to its beneficiaries. The guidelines were originally adopted by the Trust on 22 August 2006 and are reviewed every three years. The last review was undertaken in August 2011 and the next review is scheduled for August 2014.

The guidelines outline a minimum number of documents that are required to be made available to Trust beneficiaries, and the options available to beneficiaries if the Trust declines a request to provide information without good reason.

The guidelines also require that the Trust reports on the number of requests for information that it has received during the year.

It should be noted that, unlike other energy Trusts, all WEL Energy Trust meetings are widely advertised for the public to attend, and agendas and minutes are also available on the Trust's website. A small number of confidential items largely pertaining to the commercial nature of the Company's operations are considered in the public excluded section of the Trust's monthly meeting.

A copy of the guidelines can be found on the Trust's website: [www.welenergytrust.co.nz](http://www.welenergytrust.co.nz)

No requests for information were received in 2013-14.

# CHANGES TO THE TRUST DEED

With the exception of several entrenched clauses, the Trust Deed gives authority for the Trustees to make amendments to the Deed by resolution passed by a 75% majority of Trustees. Some parts of the Deed (e.g. changes to the election provisions) also require use of a public consultative (notice and submission) procedure.

Clause 16.15 of the Trust Deed requires any changes to the Deed to be disclosed in the Annual Report.

The following changes to the Trust Deed adopted at the Trust meeting held 23 July 2013:

## **CHANGES TO THE TRUST DEED**

### AMENDMENTS TO EXISTING CLAUSES 3.1 and 3.2

#### **ORIGINAL**

##### **3.1(j)(v) EQUITY AND EQUALITY:**

- By strictly complying with all legislation from time to time that protects or advances the rights of citizens including but not limited to:
- New Zealand Bill of Rights Act 1990
- The Treaty of Waitangi
- Human Rights Commission Act 1977
- Race Relations Act 1971.

#### **ADOPTED**

##### **3.1(j)(v) EQUITY AND EQUALITY**

- By strictly complying with all legislation from time to time that protects or advances the rights of citizens including but not limited to:
- New Zealand Bill of Rights Act 1990
- The Treaty of Waitangi
- Human Rights Act 1993.

#### **ORIGINAL**

##### **3.1(ka) PROFESSIONAL ADVISOR means:**

(i) A person holding a practising certificate under the Law Practitioners Act 1982.

(ii) A person holding a certificate of public practice under the Institute of Chartered Accountants of New Zealand Act 1996.

#### **ADOPTED**

##### **3.1(ka) PROFESSIONAL ADVISOR means:**

(i) A person holding a practising certificate under the Lawyers and Conveyancers Act 2006.

(ii) A person holding a certificate of public practice under the New Zealand Institute of Chartered Accountants Act 1996 .

#### **ORIGINAL**

3.1A9 **PUBLIC CONSULTATION** means a procedure for public consultation based on public submissions and hearings adopted by the TRUSTEES and taken from the same principal objectives as the procedure set out in section 716A of the Local Government Act 1974, but subject to the TRUST in its absolute discretion:

A9.1 being able to depart from aspects of such adopted procedure as may be necessary to give adequate protection to issues of confidentiality and commercial sensitivity; and

A9.2 otherwise being the final determinant of such adopted procedure.

#### **ADOPTED**

3.1A9 **PUBLIC CONSULTATION** means a procedure for public consultation based on public submissions and hearings adopted by the TRUSTEES and taken from the same principal objectives as the procedure set out in section 83 of the Local Government Act 2002, but subject to the TRUST in its absolute discretion:

A9.1 being able to depart from aspects of such adopted procedure as may be necessary to give adequate protection to issues of confidentiality and commercial sensitivity; and

A9.2 otherwise being the final determinant of such adopted procedure.

#### **ORIGINAL**

3.1(m) **PUBLIC NOTIFICATION** means:

(i) Not less than two notices or advertisements, at least three days apart, in a newspaper or newspapers circulating in the DISTRICT; plus

(ii) Postal delivery to each TERRITORIAL AUTHORITY; together with

(iii) Such other public notice as is thought desirable in the circumstances.

#### **ADOPTED**

3.1(m) **PUBLIC NOTIFICATION** means:

(i) At least two notices or advertisements in a newspaper or newspapers circulating in the DISTRICT; plus

(ii) Email or postal delivery to each TERRITORIAL AUTHORITY; together with

(iii) Such other public notice as is thought desirable in the circumstances.

#### **ADOPTED NEW CLAUSE**

3.2(e) References to specific legislation contained in this Deed are deemed to be replaced by references to any legislation that modifies, substitutes for, or succeeds that legislation.

AMENDMENTS TO EXISTING CLAUSE 9.3 (D) & 9.5; PLUS ADDITIONAL CLAUSE 9.3 (E)

#### **ORIGINAL**

9.3 **REMAINING INCOME:** After paying, or allowing for the payment of, the expenses referred to in clause 9.1 the remaining

income of the TRUST **may** be paid or applied to or for such one or more of the following purposes as the TRUSTEES think fit:

- (a) Investment in the COMPANY as a means of assisting it in its growth and prosperity.
- (b) The CUSTOMERS at the time of payment or application (by cash, rebates or otherwise), equally or unequally or in proportion to the consumption of energy purchased from the COMPANY by a CUSTOMER.
- (c) Investment in, or sponsorship of, or grant to, other energy related projects which are consistent with the GUIDING PRINCIPLES and which are projects inappropriate or unable to be funded by the COMPANY.
- (d) Regional or COMMUNITY projects which are approved in accordance with clause 9.5.

**9.5 REGIONAL OR COMMUNITY PROJECTS:** The The TRUSTEES in making decisions on projects in accordance with clauses 9.3(d) will take into account the recommendations of the relevant TERRITORIAL AUTHORITIES but the TRUSTEES have the overall responsibility for approving projects and their decision will be final. It is intended that the TRUST rely on the established mechanisms of the TERRITORIAL AUTHORITIES, including their annual plan and consultative processes to help establish the needs of the COMMUNITY. Where appropriate, responsibility for managing projects may be delegated to the relevant TERRITORIAL AUTHORITY or other PERSON. For the sake of clarity it is recorded that distributions are intended to supplement local and central Government responsibilities rather than replace them.

#### **ADOPTED**

**9.3 REMAINING INCOME:** After paying, or allowing for the payment of, the expenses referred to in clause 9.1 the remaining income of the TRUST **may** be paid or applied to or for such one or more of the following purposes, which are consistent with the GUIDING PRINCIPLES, as the TRUSTEES think fit:

- (a) Investment in the COMPANY as a means of assisting it in its growth and prosperity.
- (b) The CUSTOMERS at the time of payment or application (by cash, rebates or otherwise), equally or unequally or in proportion to the consumption of energy purchased from the COMPANY by a CUSTOMER.
- (c) Investment in, or sponsorship of, or grant to, other energy related projects which are projects inappropriate or unable to be funded by the COMPANY.
- (d) Regional or COMMUNITY projects which are approved in accordance with clause 9.5, including but not limited to any or all of the administration, operational, or implementation costs associated with the particular project that the TRUSTEES think fit to fund.
- (e) Charitable or Not for Profit Organisations providing benefit to the COMMUNITY, provided that if the TRUSTEES decide that the organisation receiving funds under this clause must hold the funds as a capital sum, then the payment must be made subject to the condition that the funds are not spent and must be repaid to the TRUST prior to the TERMINATION DATE.

**9.5 REGIONAL OR COMMUNITY PROJECTS OR GRANTS:** The The TRUSTEES in making decisions on projects or grants in accordance with clauses 9.3(d) and 9.3(e), will take into account the recommendations of the relevant TERRITORIAL AUTHORITIES but the TRUSTEES have the overall responsibility for approving projects or grants and their decision will be final. It is intended that, in relation to considering projects under clause 9.3(d), the TRUST rely on the established mechanisms of the TERRITORIAL AUTHORITIES, including their annual plan and consultative processes to help establish the needs of the COMMUNITY. Where appropriate, responsibility for managing projects may be delegated to the relevant TERRITORIAL AUTHORITY or other PERSON. For the sake of clarity it is recorded that distributions are intended to supplement local and central Government responsibilities rather than replace them.



## AMENDMENTS TO EXISTING CLAUSE 13.5

### **ORIGINAL**

13.5 **BANK ACCOUNTS:** To open an account or accounts at any time or times in the name of the TRUST at any BANK (and to overdraw any such account with or without giving any security) and in addition to the powers conferred by section 81 of the Trustee Act to make arrangements with any BANK for the TRUSTEES or any two or more of the TRUSTEES named in writing by all of the TRUSTEES to operate upon any account from time to time opened or subsisting at that BANK.

### **ADOPTED**

13.5 **BANK ACCOUNTS:** To open an account or accounts at any time or times in the name of the TRUST at any BANK (and to overdraw any such account with or without giving any security) and in addition to the powers conferred by section 81 of the Trustee Act to make arrangements with any BANK for the TRUSTEES or any two or more of the TRUSTEES named in writing by all of the TRUSTEES, or the Executive Officer of the TRUST for the time being if so authorised by the TRUSTEES in writing, to operate upon any account from time to time opened or subsisting at that BANK.

## AMENDMENTS TO EXISTING CLAUSE 16.8

### **ORIGINAL**

16.8 **AUDITOR:** At each annual general meeting or as required, appoint an auditor of the Trust in compliance with sections 158C to 158E of the Electricity Act 1992.

### **ADOPTED**

16.8 **AUDITOR:** At each annual general meeting or as required, appoint an auditor of the Trust in compliance with sections 101 – 103 of the Electricity Industry Act 2010.

## AMENDMENTS TO EXISTING RULE 2 IN THE SCHEDULE OF RULES TO THE TRUST DEED

### **ORIGINAL**

2.2 **ELIGIBILITY:** The following persons are not eligible for election or appointment as a TRUSTEE and may not hold office as a TRUSTEE:

- (a) **Bankrupt:** A bankrupt who has not obtained a final order of discharge, has been suspended for a term not yet expired, or is subject to a condition not yet fulfilled or to any order under section 111 of the Insolvency Act 1967

### **ADOPTED**

2.2 **ELIGIBILITY:** The following persons are not eligible for election or appointment as a TRUSTEE and may not hold office as a TRUSTEE:

- (a) **Bankrupt:** A bankrupt who has not obtained a final order of discharge, has been suspended for a term not yet expired, or is subject to a condition not yet fulfilled or to any order under section 299 of the Insolvency Act 2006

### **ORIGINAL**

2.14(i) The Electoral Officer must not accept the nomination of a CANDIDATE if the Electoral Officer is not satisfied by the evidence (if any) that the Electoral Officer requires, that the name under which the CANDIDATE is nominated is –

- (i) The name under which the CANDIDATE's birth was registered; or

- (ii) The name which the CANDIDATE adopted by deed poll or by statutory declaration under section 21 of the Births, Deaths and Marriages Registration Act 1995, at least six (6) months before the closure of nominations; or

#### **ADOPTED**

2.14 (i) The Electoral Officer must not accept the nomination of a CANDIDATE if the Electoral Officer is not satisfied by the evidence (if any) that the Electoral Officer requires, that the name under which the CANDIDATE is nominated is –

- (i) The name under which the CANDIDATE's birth was registered; or
- (ii) The name which the CANDIDATE adopted by deed poll or by statutory declaration under section 21A of the Births, Deaths and Marriages and Relationships Registration Act 1995, at least six (6) months before the closure of nominations; or

#### AMENDMENTS TO EXISTING RULE 6.1 IN THE SCHEDULE OF RULES TO THE TRUST DEED

#### **ORIGINAL**

6.1 **REMUNERATION:** The TRUSTEES will be entitled in each FINANCIAL YEAR to such remuneration, allowances and expenses as may be reasonable having regard to their duties and responsibilities in a manner based on the Fees and Travelling Allowances Act 1951 and the Local Government Act 1974.

#### **ADOPTED**

6.1 **REMUNERATION:** The TRUSTEES will be entitled in each FINANCIAL YEAR to such remuneration, allowances and expenses as may be reasonable having regard to their duties and responsibilities in a manner based on the Fees and Travelling Allowances Act 1951 and the Local Local Government Act 2002.

#### AMENDMENTS TO EXISTING RULE 10 IN THE SCHEDULE OF RULES TO THE TRUST DEED

#### **ORIGINAL**

##### **10.0 NOTICE OF MEETINGS**

Notice in writing of every meeting whether ordinary or special must be delivered or sent by post or facsimile to each TRUSTEE by the secretary (or other person acting under the direction of the TRUSTEES) or (in the case of a special meeting) by or under the direction of the persons summoning the meeting at least 7 days before the date of the meeting. No notice will be necessary for adjourned meetings except to TRUSTEES not present when the meeting was adjourned. Notice of any general or special meeting may be abridged or waived if all the TRUSTEES who are for the time being in New Zealand consent in writing to the abridgement or waiver.

#### **ADOPTED**

##### **10.0 NOTICE OF MEETINGS**

Notice in writing of every meeting whether ordinary or special must be delivered or sent by post or email or other electronic means as deemed appropriate to each TRUSTEE by the secretary (or other person acting under the direction of the TRUSTEES) or (in the case of a special meeting) by or under the direction of the persons summoning the meeting at least 5 days before the date of the meeting. No notice will be necessary for adjourned meetings except to TRUSTEES not present when the meeting was adjourned. Notice of any general or special meeting may be abridged or waived if all the TRUSTEES who are for the time being in New Zealand consent in writing to the abridgement or waiver.

The Trust Deed can be accessed on the Trust's website: [www.welenergytrust.co.nz](http://www.welenergytrust.co.nz).

# GRANTS APPROVED BY THE TRUST

## 2013/2014 COMMUNITY FUNDING ROUND

Organisation Name	Funds Approved	Organisation Name	Funds Approved
@Heart Inc - Waikato Branch	\$1,800	Dynamo Cycling & Sports Club Incorporated	\$5,000
A Rocha Aotearoa NZ	\$8,000	Eastlink Cricket Club (Inc)	\$1,250
Age Concern Hamilton Inc.	\$8,000	Enderley Computer Clubhouse Trust	\$7,500
Alf's Imperial Fifth Waikato Dragoons Incorporated	\$1,000	Endometriosis Waikato (T/A Insight Endometriosis)	\$7,500
Alzheimers Waikato	\$18,000	English Language Partners, Waikato Inc.	\$3,000
Amputee Society of Waikato Bay of Plenty & Districts Inc	\$3,500	Epilepsy Waikato Charitable Trust	\$10,000
Anglican Action Mission Trust	\$10,000	Fairfield Intermediate School Parent Teacher Association (PTA)	\$3,000
Anglican parish of St Luke's Melville and Ohaupo	\$1,000	Fairfield Swim Club	\$5,000
Arthritis Foundation of New Zealand Incorporated	\$1,000	Families Autism Support Trust	\$10,000
Arts for Health Community Trust	\$12,500	Frankton Railway Combined Sports Club	\$1,500
Asthma & Respiratory Services (Waikato) Inc.	\$19,000	Friendship House (Huntly) Community Charitable Trust	\$10,000
Athletics Waikato - Bay of Plenty Incorporated	\$7,500	Glen Afton Pukemiro Communities Society Inc	\$4,000
Auckland District Kidney Society Inc	\$3,000	Glenview Community Centre	\$10,000
Autism New Zealand Incorporated	\$12,000	Grandview Community Garden Trust	\$5,000
Balloons over Waikato Trust	\$70,000	Habitat for Humanity (Central North Island) Ltd	\$13,500
Barnardos New Zealand	\$5,000	Halberg Disability Sport Foundation	\$2,000
Beerescourt Tennis Club Incorporated	\$7,500	Hamilton Abuse Intervention Project	\$22,500
Birthingright Waikato Te Whanautanga Tika Inc	\$15,000	Hamilton BMX Club Incorporated	\$2,000
Board of Trustees of Peachgrove Intermediate School	\$2,000	Hamilton Boys' High School	\$30,000
Business and Professional Women, Huntly & Districts Club Inc.	\$1,750	Hamilton Branch of the Air Training Corps Association of NZ Inc	\$6,000
Cantando Choir Inc:	\$2,000	Hamilton Central Baptist Church	\$5,000
CanTeen Waikato	\$7,500	Hamilton Children and Families Trust	\$2,000
Catholic Family Support Services	\$8,000	Hamilton Chorale Inc	\$900
Catholic Women's League Frankton	\$300	Hamilton Christian Nightshelter Trust	\$10,000
Chartwell Cooperating Parish	\$2,500	Hamilton Christmas Charitable Trust	\$12,500
Chartwell Scout Group	\$900	Hamilton Citizens' Band Incorporated	\$5,000
Child Matters	\$18,000	Hamilton City Council	\$50,000
Children's Bible Ministries Inc.	\$2,500	Hamilton City Tigers Senior Rugby League Club Inc	\$2,000
Christian Home Educators Corporate Hamilton CHECH	\$1,000	Hamilton Civic Choir	\$2,500
Citizens Advice Bureau Hamilton Inc	\$14,500	Hamilton Combined Christian Foodbank Trust	\$9,000
City Hope Charities Trust (Life Community Services)	\$6,000	Hamilton Community Arts Council Incorporated	\$12,000
City Ministry Group	\$500	Hamilton Community Centre of Music	\$12,000
Cochlear Implant Foundation of New Zealand	\$2,500	Hamilton Community Men's Shed Trust	\$2,000
Community Development Trust	\$3,000	Hamilton Cricket Association Incorporated	\$15,000
Creative Waikato Trust	\$17,500	Hamilton East Community Toy Library Incorporated	\$500
Cystic Fibrosis Association of New Zealand - Waikato Branch	\$6,000	Hamilton Fire Brigade Volunteer Unit	\$1,250
Deaf Aotearoa NZ Inc (Waikato Branch)	\$2,500	Hamilton Gardens Development Trust	\$30,000
Deanwell School	\$5,000	Hamilton Gardens Summer Festival Foundation	\$60,000
Desert Spring Ministries Trust	\$9,000	Hamilton Group Riding for the Disabled	\$7,500
Diabetes New Zealand Incorporated Waikato Branch	\$7,000	Hamilton Household Budgeting Advisory Trust	\$4,000
Draw inc. Charitable Trust	\$2,500	Hamilton Inline Hockey Club Inc	\$5,000
Dress for Success Hamilton Trust	\$7,500	Hamilton Kerala Samajam	\$1,250



# GRANTS APPROVED BY THE TRUST

## 2013/2014 COMMUNITY FUNDING ROUND (CONTINUED)

Organisation Name	Funds Approved	Organisation Name	Funds Approved
Hamilton Masters Swimming Club	\$1,800	New Zealand Hack and Pony Council Inc	\$1,000
Hamilton Mountain Bike Club Incorporated	\$2,000	New Zealand Intercultural Society of Arts	\$750
Hamilton Multicultural Services Trust	\$5,500	New Zealand Red Cross Inc	\$7,500
Hamilton Operatic Society Inc.	\$12,500	New Zealand Russian (Waikato) Friendship	\$500
Hamilton Parents Centre Incorporated	\$1,000	New Zealand Water Ski Racing Association Incorporated	\$3,500
Hamilton PechaKucha Trust	\$750	Ngaruawahia Community Care & Crisis Support Trust	\$17,000
Hamilton Performing Arts Trust	\$14,000	Ngaruawahia Community House Incorporated	\$10,000
Hamilton Permaculture Trust	\$5,000	Ngaruawahia Community Youth Holiday Programme	\$7,500
Hamilton Ramayan Sanstha Inc.	\$1,000	Ngaruawahia Tu Tangata Charitable Trust	\$9,000
Hamilton South Community Centre Association	\$5,000	Ngaruawahia United Association Football Club Incorporated	\$4,500
Hamilton Squash and Tennis Club Inc	\$7,500	Ngaruawahia Volunteer Fire Brigade	\$5,000
Hamilton United Womens Bowling Club	\$1,000	Ngaruawahia/Huntly Driver Education Programme (Waka trust)	\$500
Hamilton Yacht Club	\$2,500	North Hamilton Community Patrol	\$1,500
Head Injury Society (Waikato) Inc	\$17,500	North Waikato Blue Light Ventures	\$3,000
Hearing Association Hamilton & Districts Branch	\$5,000	North Waikato Care of the Aged Trust	\$5,000
Hillcrest Bowling Club Incorporated	\$1,500	NZ Council of Victim Support Groups Inc.	\$4,500
Hillcrest High School Rowing Inc	\$4,500	Opus Orchestra Trust	\$10,000
Huntly Primary School	\$1,000	Pacific Rose Festival Trust	\$6,000
Huntly Seniornet Inc	\$2,500	Pacifika by Nature	\$4,000
IHC New Zealand Incorporated	\$2,500	Para Kore Marae Incorporated	\$2,000
K9 Sense	\$403	Parent to Parent Waikato	\$15,000
Kaiwhenua Organics Charitable Trust	\$5,000	Parentline Charitable Trust	\$20,000
Kiwi Pro Am Country Music Organisation Inc.	\$4,500	Parkinsonism Society Waikato Inc	\$8,000
Life Education Trust, Hamilton	\$12,500	Paws 4 Life Charitable Trust	\$6,000
LifeLine Waikato Inc	\$8,000	Perry Outdoor Education Trust	\$8,500
Link House Trust	\$17,500	Philips Search & Rescue Trust	\$15,000
Lower Waikato River Enhancement Society	\$4,000	Positive Change Programmes Charitable Trust	\$5,000
Lugton Park Combined Sports Association Incorporated	\$10,000	Pregnancy Counselling Services Inc	\$2,000
M S Waikato Trust	\$8,000	Prison Care Ministries	\$5,826
Male survivors of Sexual Abuse Trust, Waikato	\$3,000	Project Litefoot Trust	\$20,000
Maramarua Golf Club Inc	\$2,250	Pukeko Preschool Trust Board	\$1,000
Marching Waikato Assn. Inc	\$3,000	Pukemiro School Board of Trustees (Centennial Committee)	\$1,000
Matahuru Waiterimu Hall Association	\$2,250	Pukete Neighbourhood Association Incorporated	\$1,500
Maungatautari Ecological Island Trust	\$12,000	Raglan & District Museum Society Inc.	\$1,500
McKenzie Centre Trust	\$30,000	Raglan Community Arts Council	\$3,000
Melville Primary School	\$2,000	Raglan Community House Society Incorporated	\$9,000
Mighty River Harmony	\$4,500	Raglan Community Patrol Charitable Trust	\$2,500
Motor Neurone Disease Assn of NZ	\$4,500	Raglan Community Radio	\$2,500
Muscular Dystrophy Northern	\$3,000	Raglan Community Vehicle Trust	\$1,000
Nawton Community Children & Families Charitable Trust Inc.	\$2,000	Raglan Events and Multisport Trust	\$4,000
Netball Waikato Bay of Plenty Zone Inc	\$8,000	Raglan Maori Wardens Charitable Trust	\$2,500
New Zealand Deerstalker's Association - Waikato Branch Inc	\$600	Raglan Surf Life Saving Club Incorporated	\$12,916

# GRANTS APPROVED BY THE TRUST

## 2013/2014 COMMUNITY FUNDING ROUND (CONTINUED)

Organisation Name	Funds Approved	Organisation Name	Funds Approved
Raglan Swimming Club Society Inc. _____	\$15,000	The Gifted Education Centre _____	\$1,500
Rainbow Chinese Community Centre Charitable Trust _____	\$2,500	The Hamilton Chinese Learning Centre Charitable Trust _____	\$1,500
Rape & Sexual Abuse Healing Centre _____	\$9,000	The Huntly Mining and Cultural Museum Society Incorporated _____	\$4,500
Rauawaawa Kaumatua Charitable Trust _____	\$15,000	The Kiwi Kids Lifeskills Trust T/A The First Tee of New Zealand _____	\$3,500
Riding for Disabled Waikato Group Incorporated _____	\$10,000	The Order Of St John Central Region _____	\$8,000
Riverlea Theatre & Arts Centre Inc. _____	\$25,000	The Parenting Place _____	\$4,500
Rostrevor House Incorporated _____	\$8,000	The Refugee Orientation Centre Trust _____	\$8,500
Rotongaro Pony Club _____	\$2,500	The Remote Fiction Theatre _____	\$500
Royal New Zealand Plunket Society - Hamilton Branch Inc. _____	\$7,500	The Roman Catholic Bishop of the Diocese of Hamilton _____	\$4,000
Royal New Zealand Plunket Society - Waikato Area Inc _____	\$15,000	The Salvation Army Hamilton Community Ministries (The Nest) _____	\$27,000
Rukuhia School Board of Trustees _____	\$8,000	The Social Service Waikato Trust trading as Community Waikato _____	\$17,500
Ryder-Cheshire Foundation (Waikato) _____	\$6,000	The Taiohi Toa Trust _____	\$10,000
Shama Hamilton Ethnic Women's Centre Trust _____	\$10,000	The University of Waikato, Faculty of Education _____	\$2,000
Smart Waikato Trust _____	\$7,500	TOTI charitable Trust _____	\$20,000
Society of St Vincent de Paul - Hamilton Area _____	\$18,000	Toughlove Waikato Trust _____	\$3,000
South East Kirikiriroa Community Association Inc _____	\$7,000	Trash to Fashion (Waikato) Trust _____	\$2,000
Special Olympics Waikato _____	\$3,000	True Colours Charitable Trust _____	\$20,000
SpiralZ Rhythmics of Hamilton _____	\$400	Twin Rivers Art (Ngaruawahia) Council Inc _____	\$8,500
Squash Waikato Inc _____	\$4,000	U Leisure Ltd _____	\$7,500
Sri Lanka Friendship Society Waikato Inc _____	\$1,000	United Youth Orchestra Trust _____	\$1,800
StarJam Charitable Trust _____	\$4,000	Volunteering Waikato _____	\$10,000
Stroke Foundation Hamilton _____	\$2,000	Waikare Golf Club Te Kauwhata Inc _____	\$4,000
Surfside Christian Life Centre _____	\$4,000	Waikato Area Girls' Brigade _____	\$3,000
Swim Waikato Inc. _____	\$15,000	Waikato Basketball Council Inc _____	\$10,000
Tainui Waka Cultural Trust _____	\$5,000	Waikato Branch of the Royal New Zealand Society for the Prevention of Cruelty to Animals, Incorporated _____	\$15,000
Taki Rua Productions Society Incorporated _____	\$1,200	Waikato Charitable Broadcasting Trust T/A Free FM _____	\$1,820
Te Akau Hall Society Incorporated _____	\$7,000	Waikato Community Hospice Trust _____	\$7,500
Te Kauwhata & Districts Information & Support Centre Inc _____	\$6,000	Waikato Compassion Meditation Trust _____	\$1,000
Te Kauwhata Health Awareness Society Inc. _____	\$11,500	Waikato Contemporary Dance Projects Trust _____	\$2,000
Te Kauwhata Rugby Sports Club Inc _____	\$1,750	Waikato Diocesan School Rowing Club Inc _____	\$5,000
Te Kohao Health Ltd _____	\$3,000	Waikato District Council _____	\$45,000
Te Rapa Badminton Club Incorporated _____	\$1,800	Waikato Environment Centre Trust _____	\$12,500
Te Whakaruruhau _____	\$27,500	Waikato Family Centre Trust _____	\$22,500
Te Whanau Putahi _____	\$8,000	Waikato Golf Association Incorporated _____	\$3,000
Te Whare o te Ata Fairfied/Chartwell Community Centre Trust Inc _____	\$9,000	Waikato Healthcare Chaplaincy Committee Charitable Trust _____	\$5,000
Tennis Waikato-Bays Inc _____	\$3,500	Waikato Institute for Leisure & Sport Studies _____	\$8,000
Thames Coromandel Hauraki Waihi Life Education Trust _____	\$2,000	Waikato Japanese Community Trust Jap-Bunnies Volleyball club _____	\$500
The Bush Tramway Club Incorporated _____	\$7,500	Waikato Kindergarten Association - Frankton Kindergarten _____	\$1,750
The Care Community Trust _____	\$3,000	Waikato Kindergarten Association - Insoll Kindergarten _____	\$1,250
The Crosslight Trust _____	\$12,500	Waikato Martial Arts Centre Society Incorporated _____	\$6,000
The Dyslexia Association of Waikato _____	\$5,000	Waikato Orchestral Society Inc _____	\$11,500
The Flagstaff Club Inc _____	\$2,000		

# GRANTS APPROVED BY THE TRUST

## 2013/2014 COMMUNITY FUNDING ROUND (CONTINUED)

Organisation Name	Funds Approved
Waikato Paraplegic & Physically Disabled Assn Inc _____	\$12,500
Waikato Queer Youth Trust _____	\$4,500
Waikato Refugee Resettlement Society _____	\$2,500
Waikato Regional Volleyball Association _____	\$800
Waikato Senior Indian Citizens Association Incorporated _____	\$600
Waikato Society of Arts Inc _____	\$2,000
Waikato Society of Potters Inc. _____	\$3,000
Waikato Stock and Saloon Car Club _____	\$2,000
Waikato Table Tennis Association _____	\$7,500
Waikato Unicol Association Football Club Incorporated _____	\$2,000
Waikato University Combined Sports Incorporated _____	\$7,500
Waikato University Hockey Club Incorporated _____	\$1,750
Waikato University Netball Club Incorporated _____	\$600
Waikato University Rugby Football Club incorporated _____	\$3,000
Waikato Valley Cricket Association _____	\$1,000
Waikato Youth Empowerment Trust operating as FYD Waikato _____	\$12,500
Wakato Boxing Club Inc _____	\$4,000
Wanderers Sports Club Inc _____	\$7,000
Western Community Association _____	\$12,500
Whaingaroa Community Toy Library Inc _____	\$500
Whaingaroa Environment Centre _____	\$5,000
Whaingaroa Ki te Whenua Trust _____	\$2,000
Whitiora School _____	\$7,000
Woodstock School _____	\$2,000
Xtreme Waste Incorporated Society _____	\$1,750
Young Women's Christian Association of Hamilton Incorporated _____	\$19,000
Young Workers' Resource Centre _____	\$2,000
Youth Search and Rescue Hamilton Trust _____	\$4,000
Zeal Education Trust _____	\$22,500
<b>Total</b> _____	<b>\$2,035,215</b>

## TRUST INITIATED GRANTS

Waikato Rowing Club _____	\$12,000
Volunteering Waikato _____	\$7,500
<b>Total</b> _____	<b>\$19,500</b>

## ENERGY RELATED GRANTS

Raglan Surf Life Saving Club _____	\$20,000
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# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

The Trustees are pleased to present the consolidated financial statements of the WEL Energy Trust.

The consolidated financial statements report on both the WEL Energy Trust as the Parent Entity and the WEL Energy Trust and its wholly owned company as a Group. The Group incorporates the results of:

- WEL Energy Trust ('the Trust')
- WEL Networks Limited ('the Company') and subsidiary companies



Mark Ingle

Chair

15 July 2014

Denise Harding

Deputy Chair

15 July 2014



# STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2014

	Notes	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
Revenue	4	166,546	158,167	3,774	13,984
Other net gains	5	31	44	-	-
Contracting cost of sales	6	(61,611)	(60,990)	-	-
Other operating expenses	6	(76,675)	(69,761)	(765)	(705)
<b>Net operating profit</b>		<b>28,291</b>	<b>27,460</b>	<b>3,009</b>	<b>13,279</b>
Finance costs	7	(2,137)	(1,181)	-	-
Loss on loan revalued to fair value	17	(9,820)	-	(9,820)	-
(Loss)/gain on deemed disposal of share in joint venture	13	(1,139)	194	-	-
Share of loss of joint venture	13	(1,398)	(534)	-	-
Net profit/(loss) before grants		13,797	25,939	(6,811)	13,279
Less grants		(2,322)	(2,416)	(2,322)	(2,416)
<b>Net profit/(loss) before income tax</b>		<b>11,475</b>	<b>23,523</b>	<b>(9,133)</b>	<b>10,863</b>
Income tax expense	8	(6,575)	(7,365)	(229)	(897)
<b>Net profit/(loss) for the year</b>		<b>4,900</b>	<b>16,158</b>	<b>(9,362)</b>	<b>9,966</b>
<b>Other comprehensive income</b>					
Gain / (loss) on revaluation of property, plant and equipment, net of deferred tax		598	(939)	-	-
Cash flow hedge (net of tax)		(237)	(130)	-	-
Other comprehensive income / (expense) for the period, net of tax		361	(1,069)	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>5,261</b>	<b>15,089</b>	<b>(9,362)</b>	<b>9,966</b>
<b>Total net profit/(loss) attributable to:</b>					
Equity holders of the Group and Trust		5,392	16,223	(9,362)	9,966
Non-controlling interest		(492)	(65)	-	-
		<b>4,900</b>	<b>16,158</b>	<b>(9,362)</b>	<b>9,966</b>
<b>Total comprehensive income/(loss) attributable to:</b>					
Equity holders of the Group and Trust		5,753	15,154	(9,362)	9,966
Non-controlling interest		(492)	(65)	-	-
		<b>5,261</b>	<b>15,089</b>	<b>(9,362)</b>	<b>9,966</b>

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

# STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2014

	Notes	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	525,391	500,692	47	57
Intangible assets	10	13,092	10,290	17	1
Trade and other receivables	11	329	200	-	-
Investment in joint venture	13	28,381	6,563	-	-
Investment in subsidiaries	27	-	-	124,797	124,797
Deferred income tax	19	72	301	72	301
Loan Advanced	17	180	-	180	-
Goodwill	29	5,182	5,182	-	-
		<b>572,627</b>	<b>523,228</b>	<b>125,113</b>	<b>125,156</b>
<b>Current assets</b>					
Cash and cash equivalents	15	15,005	13,855	13,122	12,574
Trade and other receivables	11	12,851	12,514	285	10,152
Construction work in progress	12	31,014	21,525	-	-
		<b>58,870</b>	<b>47,894</b>	<b>13,407</b>	<b>22,726</b>
<b>TOTAL ASSETS</b>		<b>631,497</b>	<b>571,122</b>	<b>138,520</b>	<b>147,882</b>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Vested capital	16	52,067	52,067	52,067	52,067
Reserves	30	110,508	112,283	-	-
Retained earnings		254,640	247,112	86,031	95,393
		<b>417,215</b>	<b>411,462</b>	<b>138,098</b>	<b>147,460</b>
Non-controlling interests		(565)	(73)	-	-
<b>TOTAL EQUITY</b>		<b>416,650</b>	<b>411,389</b>	<b>138,098</b>	<b>147,460</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	18	-	42,000	-	-
Deferred income tax liabilities	19	73,821	73,033	-	-
Deferred income	20	1,323	1,400	-	-
Provisions	22	668	951	-	-
		<b>75,812</b>	<b>117,384</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>					
Trade and other payables	21	19,285	18,225	422	422
Derivative financial instruments	14	367	130	-	-
Provisions	22	143	-	-	-
Current income tax payable		1,305	522	-	-
Loan from non-controlling interest	28	8,770	4,472	-	-
Customer discount payable		19,365	19,000	-	-
Borrowings	18	89,800	-	-	-
		<b>139,035</b>	<b>42,349</b>	<b>422</b>	<b>422</b>
<b>TOTAL LIABILITIES</b>		<b>214,847</b>	<b>159,733</b>	<b>422</b>	<b>422</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>631,497</b>	<b>571,122</b>	<b>138,520</b>	<b>147,882</b>

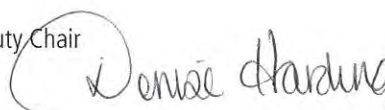
The above balance sheet should be read in conjunction with the accompanying notes.

Chair



Date: 15 July 2014

Deputy Chair



Date: 15 July 2014



# STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2014

	Notes	Vested capital (\$000)	Reserves (\$000)	Retained earnings (\$000)	Total (\$000)	Non- controlling interest (\$000)	Total equity (\$000)
<b>Group</b>							
Balance at 1 April 2012		52,067	114,597	229,644	396,308	(8)	396,300
Comprehensive income							
Net profit for the year		-	-	16,223	16,223	(65)	16,158
Other comprehensive income							
Cash flow hedge (net of tax)		-	(130)	-	(130)	-	(130)
Fair value gains:							
- distribution network		-	(3,102)	1,245	(1,857)	-	(1,857)
Movement in deferred tax on revaluation	19	-	918	-	918	-	918
Net income recognised directly in equity		-	(2,314)	1,245	(1,069)	-	(1,069)
Total comprehensive income for the year		-	(2,314)	17,468	15,154	(65)	15,089
<b>Balance at 31 March 2013</b>		<b>52,067</b>	<b>112,283</b>	<b>247,112</b>	<b>411,462</b>	<b>(73)</b>	<b>411,389</b>
Balance at 1 April 2013		52,067	112,283	247,112	411,462	(73)	411,389
Comprehensive income							
Net profit for the year		-	-	5,392	5,392	(492)	4,900
Other comprehensive income							
Cash flow hedge (net of tax)		-	(237)	-	(237)	-	(237)
Fair value gains:							
- distribution network		-	(2,136)	2,136	-	-	-
Movement in deferred tax on revaluation	19	-	598	-	598	-	598
Net income recognised directly in equity		-	(1,775)	2,136	361	-	361
Total comprehensive income for 2013/2014		-	(1,775)	7,528	5,753	(492)	5,261
<b>Balance at 31 March 2014</b>		<b>52,067</b>	<b>110,508</b>	<b>254,640</b>	<b>417,215</b>	<b>(565)</b>	<b>416,650</b>
<b>Trust</b>							
Balance at 1 April 2012		52,067	-	85,427	137,494	-	137,494
Comprehensive income							
Net profit for the year		-	-	9,966	9,966	-	9,966
<b>Balance at 31 March 2013</b>		<b>52,067</b>	<b>-</b>	<b>95,393</b>	<b>147,460</b>	<b>-</b>	<b>147,460</b>
Balance at 1 April 2013		52,067	-	95,393	147,460	-	147,460
Comprehensive income							
Net profit/(loss) for the year		-	-	(9,362)	(9,362)	-	(9,362)
<b>Balance at 31 March 2014</b>		<b>52,067</b>	<b>-</b>	<b>86,031</b>	<b>138,098</b>	<b>-</b>	<b>138,098</b>

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

# STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2014

Notes	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>Cash flows from operating activities</b>				
Receipts from customers	167,961	157,167	66	19
Payments to employees and suppliers	(123,616)	(102,017)	(709)	(649)
Interest received	477	562	3,597	3,602
Interest paid	(1,840)	(1,817)	-	-
Income tax paid	(4,174)	(5,292)	-	-
Grants paid	(2,376)	(4,133)	(2,376)	(4,133)
Dividends received	-	-	10,000	250
<b>Net cash from operating activities</b>	<b>36,432</b>	<b>44,470</b>	<b>10,578</b>	<b>(911)</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment	4,202	784	-	-
Purchases of property, plant and equipment	(51,657)	(53,322)	(4)	(28)
Purchases of intangible assets	(5,193)	(2,064)	(26)	-
Purchase of investments	(24,484)	(5,600)	-	-
<b>Net cash used in investing activities</b>	<b>(77,132)</b>	<b>(60,202)</b>	<b>(30)</b>	<b>(28)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	51,850	14,446	-	-
Proceeds from convertible notes issued	-	-	-	-
Loan advanced	(10,000)	-	(10,000)	-
<b>Net cash used in financing activities</b>	<b>41,850</b>	<b>14,446</b>	<b>(10,000)</b>	<b>-</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,150</b>	<b>(1,286)</b>	<b>548</b>	<b>(939)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>13,855</b>	<b>15,141</b>	<b>12,574</b>	<b>13,513</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>15,005</b>	<b>13,855</b>	<b>13,122</b>	<b>12,574</b>
<b>Comprises of the following:</b>				
Cash and deposits	15,005	13,855	13,122	12,574
	<b>15,005</b>	<b>13,855</b>	<b>13,122</b>	<b>12,574</b>

# STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

	Notes	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>Reconciliation of net profit after tax to net cash flows - operating activities</b>					
<b>Net profit/(loss) after tax</b>		<b>4,900</b>	16,158	<b>(9,362)</b>	9,966
<b>Adjustments for items not involving cash flows:</b>					
Depreciation	6	21,095	18,764	16	12
Amortisation	6	2,390	2,186	9	1
Impairment	9	-	347	-	-
Loss on loan revalued to fair value	17	9,820	-	9,820	-
Loss on sale of property, plant and equipment	6	2,789	2,044	-	-
Net movements in provision for liabilities and charges		171	(286)	-	-
Deferred tax asset		1,614	3,259	229	897
Loss /(gain) on deemed disposal of share in joint venture	13	1,139	(194)	-	-
Share of loss of joint venture	13	1,398	534	-	-
Net movements in derivatives		-	(13)	-	-
<b>Changes in working capital:</b>					
Trade and other receivables		(32)	(292)	9,867	(10,109)
Construction work in progress		(9,488)	(5,040)	-	-
Trade and other payables		(149)	8,188	(1)	(1,678)
Current income tax liabilities		-	(1,185)	-	-
<b>Net cash inflow from operating activities</b>		<b>36,432</b>	44,470	<b>10,578</b>	(911)

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

## 1. General information

WEL Energy Trust is the holding entity of WEL Networks Limited, a profit oriented company incorporated in New Zealand under the Companies Act 1993. The group consists of WEL Energy Trust (the 'Trust'), WEL Networks Limited (the 'Company') and its subsidiaries (together the 'Group'). The Group is an electricity network business, delivering energy to customers in the Waikato Region and is the contracting company associated with the construction of the Government Ultrafast Fibre rollout programme in the Waikato, Tauranga and Taranaki areas. The WEL Energy Trust's principal objective is to ensure WEL Networks Ltd operates as a successful business, as well as having regard to consumer interests in the regulation of the electricity industry and distributing surplus income in accordance with its Trust Deed.

The Trust is a Trust as defined in the Trust Deed. The address of its office is NWM House, 711 Victoria Street, Hamilton.

These consolidated financial statements have been approved for issue by the Trustees on 15th July 2014. Once issued the Trustees do not have the power to amend these financial statements.

The structure of the companies with the Group consists of:

### Operating subsidiaries

WEL Networks Limited  
Waikato Networks Limited

### Activity

Construction of fibre network

### Interest

2014

100%

85%

Interest

2013

100%

85%

### Non-operating entities

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

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. There were no new standards and amendments to standards that apply to the Trust as the standards applying to the Trust have been frozen as outlined in paragraph 2.1(a) which follows.

### 2.1 Basis of preparation

#### (a) Basis of preparation

The consolidated financial statements of the Trust have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents International Financial Reporting Standards for Public Benefit Entities ('NZ IFRS PBE').

A new Accounting Standards Framework (incorporating a Tier structure and a separate suite of accounting standards for PBEs) has been issued by the External Reporting Board (XRB).

Under the new Accounting Standards Framework the Trust will have to transition to the new Not-for-Profit Public Benefit Entities (NFP PBE) Standards that will be based mainly on International Public Sector Accounting Standards (IPSAS). The effective date for the new NFP PBE Standards is for reporting periods beginning on or after 1 April 2015. Therefore the Trust will have to prepare its financial statements in accordance with the new NFP PBE Standards for the first time for the annual period ending 31 March 2016.

The Trust has not been able to determine the impact of this transition as the new NFP PBE Standards are currently being developed by the XRB.

Due to the change in the Accounting Standards Framework for PBEs, all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to PBEs as the XRB has effectively frozen the financial reporting requirements for PBEs until PBEs transition to the PBE Standards. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude PBEs from their scope.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land, buildings, distribution network as disclosed in the specific accounting policies below.

The group has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 outlines which suite of accounting standards public benefit entities must follow. The group is required to report in accordance with NZ IFRS PBE. There is no impact on the current or prior year financial statements of transitioning to the new Accounting Standards Framework.



## Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

#### (b) Estimates and judgement

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

#### (c) Consolidation

##### **Subsidiaries**

The consolidated financial statements incorporate the assets and liabilities of the WEL Energy Trust (Trust or Parent) including WEL Networks Limited (Company) and all subsidiaries of WEL Networks Limited as at 31 March 2014 and the results of WEL Energy Trust and WEL Networks Limited and its subsidiaries for the year then ended. WEL Networks Limited subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss component of the comprehensive income statement.

Inter entity transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities, and cash flows on a line by line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venture. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

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

#### (e) Joint venture

The interest in Ultrafast Fibre Limited is accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of profits or losses of the jointly controlled entity is recognised in the profit and loss component of the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the Balance sheet.

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### Summary of significant accounting policies (continued)

#### Subsidiaries (continued)

##### (f) Entities reporting

The financial statements of the Trust are for WEL Energy Trust as a separate legal entity. The consolidated financial statements of the Consolidated or Group entity are for the economic entity comprising WEL Energy Trust and the consolidated financial statements of WEL Networks Limited and its subsidiaries. The Trust and the Consolidated entity are designated as public benefit entities for financial reporting purposes.

##### (g) Statutory base

WEL Energy Trust is a Trust as governed by its Trust Deed. The Trust is domiciled and incorporated in New Zealand under the Trustees Act 1956.

WEL Networks Limited is a limited liability company which is domiciled and incorporated in New Zealand. It is registered under the Companies Act 1993.

As required by the Electricity Act 2010 the financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993.

### 2.2 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 statement of comprehensive income.

### 2.3 Property, plant and equipment

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

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

The electricity distribution network is measured at fair value. Fair value has previously been determined on the basis of an independent valuation prepared by external valuers, based on a depreciated replacement cost methodology. The fair values have been recognised in the electricity distribution network is not materially different from fair value. Consideration has been given as to whether the electricity distribution financial statements of the group and have been reviewed at the end of each reporting period to assess whether the carrying value of the network is impaired as detailed in note 2.5. From 31 March 2013 onwards fair value has been determined on the basis of an independent valuation prepared by expert valuers using a discounted cash flow methodology (DCF).

## Summary of significant accounting policies (continued)

### 2.3 Property, plant and equipment (continued)

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

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

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

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

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

	2014	2013
Buildings	3%	3%
Distribution network	1.3% - 16.7%	1.3% - 16.7%
Plant & equipment	9.5% - 60%	9.5% - 60%
Generation assets	20%	20%

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.5).

### 2.4 Intangible assets

#### (a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years) (2013: three to five years).

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years) (2013: three to five years).

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

#### (b) Easements

Acquired easement rights are capitalised on the basis of the costs incurred. These costs are amortised over their estimated useful lives (33 years) (2013: 33 years).

#### (c) Leasehold Interest

Long term leasehold interest in substation land has been recorded at fair value. These assets will be amortised over the period of the leases.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### Summary of significant accounting policies (continued)

#### 2.4 Intangible assets (continued)

##### (d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

#### 2.5 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation and depreciation 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.

#### 2.6 Financial assets

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

##### (a) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non current assets. Loans and receivables are classified as 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet (Note 2.8 and Note 2.11 respectively).

##### (b) Assets at fair value through profit or loss

Derivative assets that do not meet the criteria for hedge accounting are recorded at fair value through the profit and loss component of the comprehensive income statement.

#### 2.7 Financial liabilities

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

##### (a) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are non derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for maturities greater than 12 months after the reporting date which are classified as non current liabilities. Other financial liabilities are classified as 'trade and other payables', 'customer discount payable', 'loan from non-controlling interest', 'provisions' and 'borrowings' in the Balance Sheet.

##### (b) Liabilities at fair value through profit or loss

Derivative liabilities that do not meet the criteria for hedge accounting are recorded at fair value through the profit or loss component of the statement of comprehensive income.



## **Summary of significant accounting policies (continued)**

### **2.8 Trade receivables**

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

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

### **2.9 Derivatives**

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either

- (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (2) hedges of highly probable forecast transactions (cash flow hedges).

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

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

#### **Cash flow hedge**

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

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

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

### **2.10 Trade and other payables**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### Summary of significant accounting policies (continued)

#### 2.11 Cash and cash equivalents

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

#### 2.12 Contributed equity

Vested capital of the WEL Energy Trust is the settled equity within the Trust as defined by the Trust Deed.

#### 2.13 Convertible notes

Convertible notes issued by WEL Networks Limited that 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. The convertible notes are recognised as an investment in the Trust's balance sheet. Interest payments on convertible notes are recorded in the profit or loss component of the comprehensive income statement of the Trust and are eliminated on consolidation. The interest rate is fixed at 8%.

#### 2.14 Income tax

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

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

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

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

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

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

#### 2.15 Goods and Services Tax (GST)

The Trust is not registered for GST because the income that the Trust receives falls within the definition of exempt supplies contained in the Goods and Services Tax Act 1985 and also because the Trust does not undertake a taxable activity. The Trust's financial statements have been prepared inclusive of GST. The financial statements of WEL Networks Limited and its subsidiaries in the consolidated financial statements have been prepared exclusive of GST. All items in the Group's balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

## Summary of significant accounting policies (continued)

### 2.16 Employee benefits

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

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

#### (b) Termination benefits

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

#### (c) Bonus plans

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

#### (d) Long term incentive scheme

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

### 2.17 Provisions

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

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

### 2.18 Revenue recognition

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

#### (a) Line revenue

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

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

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

#### (c) Construction contract revenue

Refer to policy 2.22 construction contracts.

#### (d) Interest income

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### Summary of significant accounting policies (continued)

#### 2.18 Revenue recognition (continued)

##### (e) Government grants

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

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

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

##### (f) Operating lease revenue

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

#### 2.19 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 or loss component of the comprehensive income statement on a straight line basis over the period of the lease. Lease incentives are included in deferred income and released over the period of the lease.

#### 2.20 Dividends

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

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

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

#### 2.22 Construction contracts

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

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

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

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

#### 2.23 Investments

Investments are valued at historical cost. Impairments in the value of investments are written off to profit or loss component of the statement of comprehensive income as they arise.



## Summary of significant accounting policies (continued)

### 3. Critical accounting estimates and judgements

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

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

#### (a) Revenue recognition for line revenue

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

#### (b) Revenue recognition for sale of services

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

#### (c) Estimated fair value and useful lives of distribution network assets, substation land and buildings.

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

#### (d) Construction contract revenue

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### Summary of significant accounting policies (continued)

#### 3. Critical accounting estimates and judgements (continued)

##### (e) Discounted cash flows

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

##### (f) Assessment of any impairment in the carrying value of the investment in Ultrafast Fibre Limited

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

##### (g) Assessment of impairment in the carrying value of the investment in Waikato Networks Limited

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

	Note	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>4. Revenue</b>					
Gross line revenues		109,115	101,952	-	-
Discount		(19,317)	(18,943)	-	-
Net line revenues		89,798	83,009	-	-
Third party contributions		6,478	6,073	-	-
Contracting revenue		63,638	62,287	-	-
Operating lease revenue		2,717	3,091	-	-
Interest on investments		634	675	583	595
Interest on convertible notes	28	-	-	3,120	3,120
Dividends received	28	-	-	-	10,250
Rental Income		14	30	14	19
Other income		3,267	3,002	57	-
<b>Total revenue</b>		<b>166,546</b>	<b>158,167</b>	<b>3,774</b>	<b>13,984</b>

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

#### 5. Other net gains/(losses)

Amortisation of deferred income on Government grants		31	31	-	-
Fair value movements in derivatives	14	-	13	-	-
		<b>31</b>	<b>44</b>	<b>-</b>	<b>-</b>

## 6. Operating expenses

	Note	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
Transmission costs		27,166	25,153	-	-
Wages and salaries		9,962	7,839	236	163
Materials and services		8,218	6,770	-	-
Contracting cost of sales		61,611	60,990	-	-
<b>Depreciation of property, plant and equipment</b>					
Buildings		148	74	-	-
Plant and equipment		2,986	2,167	16	12
Distribution network		17,961	16,490	-	-
Land fill generation		-	33	-	-
Total depreciation		21,095	18,764	16	12
Amortisation expense		2,390	2,186	9	1
Directors & Trustees' fees		509	499	218	213
Net loss on disposal of property, plant and equipment		2,789	2,032	-	-
Impairment on property, plant and equipment	9	-	347	-	-
Research and development		98	174	-	-
Bad debts written off		64	230	-	-
Change in provision for impaired receivables		32	(74)	-	-
Rental and operating lease payments		285	470	66	60
Other expenses		3,742	5,137	203	229
<b>Remuneration of Auditors</b>					
Amounts paid or payable to the auditors of WEL Energy Trust					
Auditing the financial statements - PWC		17	17	17	17
Auditing the financial statements - KPMG		-	10	-	10
Amounts paid or payable to the auditors of WEL Networks Limited					
Auditing the financial statements - PWC		143	137	-	-
Half year review		22	20	-	-
Assurance procedures on disclosure information		49	21	-	-
Tax advice		10	25	-	-
Other advisory services		84	4	-	-
Total other services		308	207	-	-
Total Remuneration		325	234	17	27
PricewaterhouseCoopers were the only auditors employed during the year. Other advisory services comprise advice on funding options and review of models to support the ultrafast broadband project.					
<b>Total operating expenses</b>		<b>138,286</b>	<b>130,751</b>	<b>765</b>	<b>705</b>
Wages and salaries capitalised to property, plant and equipment		8,597	7,122	-	-

## 7. Finance costs

Interest expense					
Bank borrowings		3,334	2,102	-	-
Less capitalised on construction of property, plant and equipment		(169)	(176)	-	-
Less capitalised on construction contracts		(1,024)	(741)	-	-
Less capitalised on construction of intangible assets		(4)	(4)	-	-
Convertible notes		-	-	-	-
		2,137	1,181	-	-

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

Note	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>8. Income tax expense</b>				
Current tax	3,882	4,005	-	-
Deferred tax	2,693	3,360	229	897
	<b>6,575</b>	<b>7,365</b>	<b>229</b>	<b>897</b>

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

Net profit/(loss) before tax	11,475	23,523	(9,133)	10,863
Tax calculated at 28% and 33%	2,756	7,056	(3,014)	3,585
Tax effects of:				
Imputation credits on dividends	-	-	-	1,450
Income not subject to tax	(8)	(8)	-	-
Expenses not deductible for tax purposes	4,109	826	4,020	809
Grants distributed	(682)	(566)	(682)	(566)
Share of loss of joint venture	710	95	-	-
Imputation credits attached to dividends	-	-	-	(4,393)
Adjustments in respect of prior years	(310)	(38)	(95)	12
Income tax expense	<b>6,575</b>	<b>7,365</b>	<b>229</b>	<b>897</b>

The Trust's income tax rate is 33% and its subsidiaries are at the company tax rate of 28% (2013: 33% & 28%). The weighted average effective tax rate for the Group was 57% (2013: 31%).

9. Property, plant and equipment	Land and buildings (\$000)	Distribution network (\$000)	Plant and equipment (\$000)	Generation assets (\$000)	Total (\$000)
<b>Group</b>					
<b>Year ended 31 March 2013</b>					
Opening net book amount	12,154	452,324	9,854	367	474,699
Revaluation surplus/(deficit)	181	(2,031)	-	-	(1,850)
Transfer between classes	(8,290)	8,290	-	-	-
Additions	8,198	36,412	10,618	-	55,228
Work in progress	-	(6,043)	(25)	-	(6,068)
Disposals	-	(2,025)	(181)	-	(2,206)
Impairment	(14)	-	-	(333)	(347)
Depreciation charge	(74)	(16,490)	(2,167)	(33)	(18,764)
<b>Closing net book amount</b>	<b>12,155</b>	<b>470,437</b>	<b>18,099</b>	<b>1</b>	<b>500,692</b>
	<b>Land and buildings (\$000)</b>	<b>Distribution network (\$000)</b>	<b>Plant and equipment (\$000)</b>	<b>Generation assets (\$000)</b>	<b>Total (\$000)</b>
<b>At 31 March 2013</b>					
Cost or valuation	12,229	470,437	25,218	1,250	509,134
Accumulated depreciation	(74)	-	(7,119)	(1,249)	(8,442)
<b>Net book amount</b>	<b>12,155</b>	<b>470,437</b>	<b>18,099</b>	<b>1</b>	<b>500,692</b>
<b>Capital work in progress included in cost and net book amount</b>	-	19,637	3	-	19,640



## 9. Property, plant and equipment (continued)

	Land and buildings (\$000)	Distribution network (\$000)	Plant and equipment (\$000)	Generation assets (\$000)	Total (\$000)
<b>Year ended 31 March 2014</b>					
Opening net book amount	12,155	470,437	18,099	1	500,692
Revaluation surplus/(deficit)	-	-	-	-	-
Transfer between classes	-	-	-	-	-
Additions	2	35,895	11,793	-	47,690
Work in progress	-	4,215	68	-	4,283
Disposals	-	(5,687)	(491)	(1)	(6,179)
Depreciation charge	(148)	(17,960)	(2,987)	-	(21,095)
<b>Closing net book amount</b>	<b>12,009</b>	<b>486,900</b>	<b>26,482</b>	<b>-</b>	<b>525,391</b>
<b>At 31 March 2014</b>					
Cost or valuation	12,231	504,684	36,005	-	552,920
Accumulated depreciation	(222)	(17,784)	(9,523)	-	(27,529)
<b>Net book amount</b>	<b>12,009</b>	<b>486,900</b>	<b>26,482</b>	<b>-</b>	<b>525,391</b>
<b>Capital work in progress included in cost and net book amount</b>	<b>-</b>	<b>24,796</b>	<b>71</b>	<b>-</b>	<b>24,867</b>

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

### Revaluations and impairment review

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### 9. Property, plant and equipment (continued)

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

	Land and buildings (\$000)	Distribution network (\$000)	Plant and equipment (\$000)	Generation assets (\$000)	Total (\$000)
Cost	10,012	406,224	25,218	1,250	442,704
Accumulated depreciation	(74)	(151,724)	(7,119)	(1,249)	(160,166)
<b>Net book amount at 31 March 2013</b>	<b>9,938</b>	<b>254,500</b>	<b>18,099</b>	<b>1</b>	<b>282,538</b>
Cost	10,013	439,625	36,004	-	485,642
Accumulated depreciation	(222)	(156,668)	(9,523)	-	(166,413)
<b>Net book amount at 31 March 2014</b>	<b>9,791</b>	<b>282,957</b>	<b>26,481</b>	<b>-</b>	<b>319,229</b>
<b>Trust</b>					
<b>Year ended 31 March 2013</b>					
Opening net book amount	-	-	41	-	41
Additions	-	-	28	-	28
Depreciation charge	-	-	(12)	-	(12)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>-</b>	<b>57</b>
<b>At 31 March 2013</b>					
Cost or valuation	-	-	208	-	208
Accumulated depreciation	-	-	(151)	-	(151)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>57</b>	<b>-</b>	<b>57</b>
<b>Year ended 31 March 2014</b>					
Opening net book amount	-	-	57	-	57
Additions	-	-	6	-	6
Depreciation charge	-	-	(16)	-	(16)
<b>Closing net book amount</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>-</b>	<b>47</b>
<b>At 31 March 2014</b>					
Cost or valuation	-	-	192	-	192
Accumulated depreciation	-	-	(145)	-	(145)
<b>Net book amount</b>	<b>-</b>	<b>-</b>	<b>47</b>	<b>-</b>	<b>47</b>
<b>Capital work in progress included in cost and net book amount</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 10. Intangible assets

	Licenses	Software	Easements & Consents	Leasehold interest	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Group</b>					
<b>Year ended 31 March 2013</b>					
Opening net book amount	19	5,886	4,422	113	10,440
Revaluation deficit	-	-	-	(6)	(6)
Additions	-	1,311	613	-	1,924
Work in progress	-	139	-	-	139
Disposals	(19)	(1)	-	-	(20)
Amortisation expense	-	(1,793)	(394)	-	(2,187)
<b>Closing net book amount</b>	<b>-</b>	<b>5,542</b>	<b>4,641</b>	<b>107</b>	<b>10,290</b>

<b>At 31 March 2013</b>					
Cost or valuation	-	15,031	6,312	107	21,450
Accumulated amortisation	-	(9,489)	(1,671)	-	(11,160)

<b>Net book amount</b>	<b>-</b>	<b>5,542</b>	<b>4,641</b>	<b>107</b>	<b>10,290</b>
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Capital work in progress included in cost and net book amount	-	361	14	-	375
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Leasehold Interest was revalued to market value on 31 March 2013 by independent valuers, Telfer Young (Waikato) Ltd Registered Valuers.

	Licenses	Software	Easements & Consents	Leasehold interest	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Year ended 31 March 2014</b>					
Opening net book amount	-	5,542	4,641	107	10,290
Additions	-	2,624	397	-	3,021
Work in progress	-	2,120	51	-	2,171
Amortisation expense	-	(2,160)	(230)	-	(2,390)
<b>Closing net book amount</b>	<b>-</b>	<b>8,126</b>	<b>4,859</b>	<b>107</b>	<b>13,092</b>

<b>At 31 March 2014</b>					
Cost or valuation	-	19,776	6,760	107	26,643
Accumulated amortisation	-	(11,650)	(1,901)	-	(13,551)

<b>Net book amount</b>	<b>-</b>	<b>8,126</b>	<b>4,859</b>	<b>107</b>	<b>13,092</b>
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Capital work in progress included in cost and net book amount	-	2,481	55	-	2,536
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	Software	Easements & Consents	Leasehold interest	Total
	(\$000)	(\$000)	(\$000)	(\$000)

## Trust

<b>Year ended 31 March 2013</b>				
Opening net book amount	2	-	-	2
Amortisation expense	(1)	-	-	(1)
<b>Closing net book amount</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

<b>At 31 March 2013</b>				
Cost or valuation	16	-	-	16
Accumulated amortisation	(15)	-	-	(15)
<b>Net book amount</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

	Licenses (\$000)	Software (\$000)	Easements & Consents (\$000)	Leasehold interest (\$000)	Total (\$000)
<b>10. Intangible assets (continued)</b>					
<b>Trust</b>					
<b>Year ended 31 March 2014</b>					
Opening net book amount		1	-	-	1
Additions		25	-	-	25
Amortisation expense		(9)	-	-	(9)
<b>Closing net book amount</b>		<b>17</b>	<b>-</b>	<b>-</b>	<b>17</b>
<b>At 31 March 2014</b>					
Cost or valuation		42	-	-	41
Accumulated amortisation		(25)	-	-	(25)
<b>Net book amount</b>		<b>17</b>	<b>-</b>	<b>-</b>	<b>17</b>

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>11. Trade and other receivables</b>				
Trade receivables	9,705	9,905	5	-
Trade receivables - related parties	1,947	1,444	-	-
Less: provision for impairment of receivables	(335)	(303)	-	-
Trade receivables - net	11,317	11,046	5	-
Amounts due from customer for contract work	641	814	-	-
Interest receivable on short term deposit	254	148	254	148
Prepayments	968	706	26	4
Dividends Receivable	-	-	-	10,000
	<b>13,180</b>	<b>12,714</b>	<b>285</b>	<b>10,152</b>
Current	12,851	12,514	285	10,152
Non current	329	200	-	-
	<b>13,180</b>	<b>12,714</b>	<b>285</b>	<b>10,152</b>

### (a) Impaired receivables

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

Less than three months	296	423	-	-
Three to six months	408	193	-	-
Over six months	310	341	-	-
	<b>1,014</b>	<b>957</b>	<b>-</b>	<b>-</b>

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

Less than three months	32	8	-	-
Three to six months	175	83	-	-
Over six months	128	212	-	-
	<b>335</b>	<b>303</b>	<b>-</b>	<b>-</b>



**(a) Impaired receivables (continued)**

	<b>Group 2014 (\$000)</b>	<b>Group 2013 (\$000)</b>	<b>Trust 2014 (\$000)</b>	<b>Trust 2013 (\$000)</b>
Movements in the provision for impairment of receivables are				
<b>Opening balance 1 April</b>	<b>303</b>	<b>377</b>	-	-
Movement in provision for impairment recognised during the year	<b>96</b>	<b>121</b>	-	-
Receivables written off during the year as uncollectible	<b>(64)</b>	<b>(195)</b>	-	-
<b>Closing balance 31 March</b>	<b>335</b>	<b>303</b>	-	-

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

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

**(b) Foreign exchange and interest rate risk**

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

**(c) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group not hold any collateral as security. Refer to note 31 – Financial risk management for more information on the risk management policy of the Group.

**12. Construction work in progress**

	<b>Group 2014 (\$000)</b>	<b>Group 2013 (\$000)</b>	<b>Trust 2014 (\$000)</b>	<b>Trust 2013 (\$000)</b>
Work in progress for external work	<b>31,014</b>	21,525	-	-
	<b>31,014</b>	21,525	-	-

**13. Investment in joint venture**

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### 13. Investment in joint venture (continued)

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

#### (a) Nature of investment in joint venture 2014 and 2013

Name of entity	Place of Business / Country of Incorporation	% Ownership Interest	Nature of Relationship	Measurement Method
Ultrafast Fibre Limited	New Zealand	23.8%	Ultrafast Broadband wholesaler	Equity
Ultrafast Fibre Limited				
		<b>2014</b>	<b>2013</b>	
		<b>(\$000)</b>	<b>(\$000)</b>	
Current assets		2,445	2,226	
Non-current assets		119,894	65,170	
Total assets		122,339	67,396	
Current liabilities		1,949	1,949	
Total liabilities		1,949	1,949	
Revenue		3,172	1,522	
Expenses		(14,628)	(8,150)	
Profit/(Loss)		(8,263)	(4,761)	
% Interest Held		24%	10%	

#### (b) Reconciliation of summarised information

Ultrafast Fibre Limited	<b>2014</b>	<b>2013</b>
	<b>(\$000)</b>	<b>(\$000)</b>
Opening net assets at 1 April	65,447	6,656
Loss for the period	(8,263)	(4,761)
Shares issued during the year	63,100	63,552
Closing net assets at 31 March	120,284	65,447
Interest in joint venture (23.8%; 10%)	28,381	6,563
<b>Carrying value</b>	<b>28,381</b>	<b>6,563</b>

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

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

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

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

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

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

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

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

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

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

**14. Derivative financial instruments**

The Group have forward foreign exchange contracts at year end as follows:

	Average Exchange rate	Foreign currency (\$000)	Contract value (\$000)	Carrying amount and fair value (\$000)
<b>Company and Subsidiaries</b>				
<b>As at 31 March 2014</b>				
USD foreign exchange contracts	0.7834	4,617	5,884	367
<b>Total forward foreign exchange contracts</b>		<b>4,617</b>	<b>5,884</b>	<b>367</b>
<b>As at 31 March 2013</b>				
USD foreign exchange contracts	0.8135	4,928	6,088	130
<b>Total forward foreign exchange contracts</b>		<b>4,928</b>	<b>6,088</b>	<b>130</b>

As foreign exchange rates change these derivative financial instruments are revalued to fair value and the change in value recorded in the statement of changes in equity. Fair value is determined in accordance with the Group policy in 2.9.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>15. Cash and cash equivalents</b>				
Cash at bank	3,077	2,307	1,194	1,026
Short term bank deposits	11,928	11,548	11,928	11,548
	<b>15,005</b>	<b>13,855</b>	<b>13,122</b>	<b>12,574</b>

## 16. Vested Capital

Balance at 1 April	52,067	52,067	52,067	52,067
	-	-	-	-
<b>Closing balance at 31 March</b>	<b>52,067</b>	<b>52,067</b>	<b>52,067</b>	<b>52,067</b>

Vested capital of the Trust is the settled equity within the Trust as defined by the Trust Deed.

## 17. Loan Advanced

Opening loan balance	-	-	-	-
Loan advanced during the year	10,000	-	10,000	-
Loss on revaluation to fair value taken to profit and loss	(9,820)	-	(9,820)	-
<b>Carrying amount at fair value</b>	<b>180</b>	<b>-</b>	<b>180</b>	<b>-</b>

On 28th August 2013 the Trust entered into a Funding Deed with the Momentum Foundation to advance \$10,000,000 to the Foundation for a period of 60 years. The advance is interest free but is subject to early repayment if the conditions of the Deed are not met by the Foundation. As required by NZ IAS 39 the loan is revalued to its fair value discounted to present value using the effective interest rate method which provides the current net present value of the loan. The Trustees have utilised an interest rate of 7% in the calculation which is a risk free rate plus a premium due to the very long term nature of the loan.

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>18. Borrowings</b>				
<b>Current</b>				
Bank borrowings	89,800	-	-	-
<b>Non-current</b>				
Bank borrowings	-	42,000	-	-
<b>Total borrowings</b>	<b>89,800</b>	<b>42,000</b>	<b>-</b>	<b>-</b>

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



## 19. Deferred income tax

	Tax Losses	Accelerated tax depreciation	Revaluation of property, plant and equipment	Provisions	Total
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<b>Group</b>					
<b>Deferred tax liabilities</b>					
<b>At 1 April 2012</b>	(1,198)	5,716	64,032	1,740	70,290
Charged to the income statement	897	1,743	-	720	3,360
Charged to equity - revaluation	-	-	(918)	-	(918)
<b>At 31 March 2013</b>	(301)	7,459	63,114	2,460	72,732
Charged to the income statement	229	1,311	-	75	1,386
Charged to equity - revaluation	-	-	(598)	-	(598)
<b>At 31 March 2014</b>	<b>(72)</b>	<b>8,770</b>	<b>62,516</b>	<b>2,535</b>	<b>73,749</b>

## Trust

<b>Deferred tax liabilities</b>					
<b>At 1 April 2012</b>	(1,198)	-	-	-	(1,198)
Charged to the income statement	897	-	-	-	897
<b>At 31 March 2013</b>	(301)	-	-	-	(301)
Charged to the income statement	229	-	-	-	229
<b>At 31 March 2014</b>	<b>(72)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72)</b>

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
Reconciliation of deferred tax assets and liabilities				
Deferred Tax Asset	(72)	(301)	(72)	(301)
Deferred Tax Liability	73,821	73,033	-	-
	<b>73,749</b>	<b>72,732</b>	<b>(72)</b>	<b>(301)</b>

## 20. Deferred income

Deferred income on government grants	1,072	1,103	-	-
Receipts in advance	251	297	-	-
	<b>1,323</b>	<b>1,400</b>	<b>-</b>	<b>-</b>

## 21. Trade and other payables

Trade creditors and accruals	15,954	15,415	86	38
Trade creditors and accruals - related parties	200	375	-	-
Advances received for contract work	1,369	723	-	-
Sundry creditors and accruals	1,461	1,357	35	29
Grants payable	301	355	301	355
<b>Balance at 31 March</b>	<b>19,285</b>	<b>18,225</b>	<b>422</b>	<b>422</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

## 22. Provisions

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
Other Provisions				
Balance at the beginning of the year	406	29	-	-
Charged to the income statement	(195)	406	-	-
Amount used	-	(29)	-	-
Balance at the end of the year	211	406	-	-
Other Provisions				
Balance at the beginning of the year	545	558	-	-
Charged to the income statement	55	57	-	-
Amount used	-	(70)	-	-
Balance at the end of the year	600	545	-	-
Current	143	-	-	-
Non-current	668	951	-	-
	811	951	-	-

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

	Group 2014 (\$000)	Group 2013 (\$000)
23. Imputation credit memorandum account		
Balance at the end of the year	21,218	17,033

The parent as a Trust does not maintain an Imputation Credit Account and any imputation credits received by the Parent will be offset on the current year's tax liability or converted to losses.

## 24. Contingencies

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

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
25. Commitments				
Capital expenditure				
Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:				
Property, plant and equipment	9,946	6,457	-	-
Intangible assets	36	-	-	-
	9,982	6,457	-	-

	<b>Group 2014 (\$000)</b>	Group 2013 (\$000)	<b>Trust 2014 (\$000)</b>	Trust 2013 (\$000)
<b>25. Commitments (continued)</b>				

#### Operating lease commitments

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

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

No later than one year	<b>2,112</b>	1,665	<b>47</b>	62
Later than one year and no later than two years	<b>2,169</b>	1,687	-	47
Later than two, not later than five years	<b>2,642</b>	2,117	-	-
Later than five years	<b>4,573</b>	629	-	-
	<b>11,496</b>	6,098	<b>47</b>	109

#### 26. Interest in joint venture

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

	<b>Group 2014 (\$000)</b>	Group 2013 (\$000)
Assets:		
Trade receivables	-	-
<b>Net assets</b>	<b>-</b>	<b>-</b>
Income	-	-
Expenses	-	(9)
Impairment	-	(333)
<b>Net profit before income tax</b>	<b>-</b>	<b>(342)</b>

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

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

#### 27. Investments in subsidiaries

	<b>Group 2014 (\$000)</b>	Group 2013 (\$000)	<b>Trust 2014 (\$000)</b>	Trust 2013 (\$000)
Shares in WEL Networks Limited at Cost	-	-	<b>85,797</b>	85,797
Convertible Notes	-	-	<b>39,000</b>	39,000
	<b>-</b>	<b>-</b>	<b>124,797</b>	124,797

#### Convertible Notes

WEL Networks Limited issued \$39.0 million of convertible notes (the 'Notes') to the WEL Energy Trust. The Notes are subordinated to all other forms of debt. They are unsecured and bear fixed interest of 8.0% p.a. until 31 March 2015, accrued monthly. The Notes are convertible into a fixed number of non participating redeemable shares (NPRS) equal to the face value of the Notes. The Notes can be converted into NPRS at the Company's discretion. The NPRS do not have rights to vote or receive dividends. NPRS participate with ordinary shares in the event of liquidation of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### 27. Investments in subsidiaries (continued)

#### Shares in WEL Networks Limited

WEL Energy Trust Limited owns 8,153,000 shares (100%) of WEL Networks Limited. The shares are fully paid.

Subsidiary companies of WEL Networks Limited which are consolidated to form the "Group" are as follows:

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

#### Non Operating Subsidiaries

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

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

### 28. Related-party transactions

#### (a) Trustees & Directors

The Trust has a policy of maintaining a conflict of interest register to identify Trustees associated with grant applicants. Once a conflict of interest is registered by a Trustee, the Trustee will remove themselves from the decision making process relating to the associated entity. The names of the Trustees at any time during the financial year are as follows: M Ingle, D Harding, M Bunting, B Chibnall, R Hamill, D Kneebone and K Williams. All of these persons were also trustees during the year ended 31 March 2013.

The Trust has delegated operational running of the subsidiary to the Directors of WEL Networks Limited. The names of persons who were directors of WEL Networks Limited at any time during the financial year are as follows: J L Spencer, M P Devlin, Hon R W Prebble, M X Franklin, P D McGilvary and A V Steele. All of these persons were also directors during the year ended 31 March 2013.

#### (b) Compensation of directors and key management and personnel

There is one key management personnel in the Trust, alongside 7 trustees for the years ended 31 March 2014 and 31 March 2013. The total cost of governance and key management is \$328,534 (2012: \$300,443).

The directors and key management personnel compensation for the years ended 31 March 2014 and 31 March 2013 of WEL Networks Limited is set out below. The directors and the five executives profiled in this report have the greatest authority for the strategic direction and management of the Company.

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

#### (c) Other transactions with directors and key management personnel or entities related to them

The Company undertakes transactions with entities in which directors have disclosed an interest in the normal course of business. The following represents the major on-going transaction types but should not be taken as a complete list: lease, consent, easement, construction and advisory services.

#### (d) Subsidiaries

Interests in subsidiaries are set out in note 27.



## 28. Related-party transactions (continued)

### (e) Transactions with related parties

WEL Energy Trust is the ultimate parent of WEL Networks Limited as the Trust holds 100% of the shares in WEL Networks Limited. All members of the WEL Energy Trust Group are considered related parties with WEL Energy Trust. This includes the subsidiaries and associated companies listed in note 27.

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

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

	<b>Group 2014 (\$000)</b>	<b>Group 2013 (\$000)</b>	<b>Trust 2014 (\$000)</b>	<b>Trust 2013 (\$000)</b>
<b>Related party transactions with WEL Networks Limited</b>				
Dividend Income	-	-	-	10,250
Interest income on convertible notes	-	-	3,120	3,120
Payments from related parties	-	-	3,120	13,370
Grants Paid	-	-	-	400
Payments to related parties	-	-	-	400
<b>Outstanding Balances</b>				
Dividend receivable	-	-	-	10,000
Convertible notes	-	-	39,000	39,000
Accounts Payable	-	-	60	-

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

### Related party transactions with Ultrafast Fibre Ltd

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

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

No dividends were paid 2014 (2013: Nil)

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
<b>28. Related-party transactions (continued)</b>				
<b>Related party transactions with Waikato Networks Ltd</b>				
The ultimate Trust of Waikato Networks Limited is WEL Networks Limited which owns 85% of its shares.				
Management Fee	2,616	2,301	-	-
Compliance work	134	136	-	-
Pole make ready and lease costs	189	-	-	-
Interest	1,573	594	-	-
Income from related parties	4,512	3,031	-	-
Trade receivables	-	48	-	-
Net advances to subsidiaries	49,694	25,340	-	-
Intercompany current account	(8,554)	(3,644)	-	-

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

### Related party transactions with Waipa Networks Limited

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

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

### Related party transactions with Smartco Limited

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

Other expenses	32	-	-	-
Payments to related parties	32	-	-	-
Purchase of plant and equipment	258	-	-	-
Trade receivables	129	-	-	-

### Long Term Incentive Scheme

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

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

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

## 28. Related-party transactions (continued)

### Long Term Incentive Scheme (continued)

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

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

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

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

## 29. Goodwill

Group and Trust

	<b>Group</b>	Group	<b>Trust</b>	Trust
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
Balance at the beginning of the year	<b>5,182</b>	5,182	-	-
Impairment	-	-	-	-
<b>Balance at the end of the year</b>	<b>5,182</b>	5,182	-	-

Goodwill arises on consolidation representing the excess in value of the shares acquired in WEL Networks Limited by the WEL Energy Trust. WEL Networks Limited is the only operating entity that was consolidated into the Group at the date of acquisition of the shares and therefore goodwill is allocated to WEL Networks Limited as the cash generating unit (CGU).

The recoverable amount of WEL Networks Limited as a CGU is determined by applying a discounted cash flow methodology. The basis of the valuation is value in use using pre tax cash flow projections based on financial budgets approved by management covering a 10 year period with terminal perpetuity. A discount rate of 6.9% (2013:6.70%) was applied. The revenue included in the forecasts was calculated using revenue growth of 6.8% in 2015, decreasing to 2.8% in 2016, increasing to between 3.7 and 3.9 % in 2017 to 2024 and a terminal perpetuity assumption of 1.8%. (2013: The revenue included in the forecasts was calculated using revenue growth of 7.8% for 2014 decreasing to 4.9% in 2015, increasing to 5.0% in 2016, decreasing to 3.9 % in 2017 to 2022 and a terminal perpetuity assumption of 2%).

The carrying value of goodwill has been reviewed against the estimated future cash flows from the underlying investment. This was performed at the lowest level possible of cash generating unit defined as WEL Networks Limited. In the Trustees' opinion, there is no impairment of the carrying value of goodwill.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### 30. Reserves

Group	Revaluation reserve (\$000)	Cash flow hedge reserve (\$000)	Total Reserves (\$000)
Balance at 1 April 2012	114,597	-	114,597
Cash flow hedge (net of tax)	-	(130)	(130)
Fair value gains:			
- distribution network	(3,102)	-	(3,102)
Movement in deferred tax on revaluation	918	-	918
Balance at 31 March 2013	<b>112,413</b>	<b>(130)</b>	<b>112,283</b>
Balance at 1 April 2013	112,413	(130)	112,283
Cash flow hedge (net of tax)	-	(237)	(237)
Fair value gains:			
- distribution network	(2,136)	-	(2,136)
Movement in deferred tax on revaluation	598	-	598
Balance at 31 March 2014	<b>110,875</b>	<b>(367)</b>	<b>110,508</b>

### 31. Financial and regulatory risk management

#### 31.1 Financial risk factors

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

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

#### (a) Market Risk

##### (i) Foreign Exchange Risk

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

#### Exchange rate sensitivity

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

### 31.1 Financial risk factors (continued)

#### (a) Market Risk (continued)

##### (i) Foreign Exchange Risk (continued)

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

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

The Trust has no foreign exchange exposure as at 31 March 2014 (2013: nil)

##### (ii) Interest Rate Risk

The Trust's exposure to the risk of changes in the market interest risk relates primarily to the Trust's cash investments and the convertible note.

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

## 31.1 Financial risk factors (continued)

(a) Market Risk (continued)

(ii) Interest Rate Risk (continued)

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

		Interest rate risk	
		+ 1%	- 1%
	Carrying amounts	Effect on profit before tax and equity	Effect on profit before tax and equity
	(\$000)	(\$000)	(\$000)
<b>Group</b>			
<b>As at 31 March 2014</b>			
Financial assets			
Trade and other receivables	11,958	-	-
Cash and cash equivalents	15,005	150	(150)
Loans Advanced	180	-	-
Financial liabilities			
Borrowings	89,800	(898)	898
Trade and other payables	17,916	-	-
Customer discount payable	19,365	-	-
Derivative financial instruments	367	-	-
Loan from non-controlling interest	8,770	(88)	88
Provisions	668	-	-
<b>Total (decrease) / increase</b>		<b>(836)</b>	<b>836</b>

## Group

As at 31 March 2013

Financial assets			
Trade and other receivables	12,008	-	-
Cash and cash equivalents	13,855	139	(139)
Financial liabilities			
Borrowings	42,000	(420)	420
Trade and other payables	17,499	-	-
Customer discount payable	19,000	-	-
Derivative financial instruments	130	-	-
Loan from non-controlling interest	4,472	(45)	45
Provisions	951	-	-
<b>Total (decrease) / increase</b>		<b>(452)</b>	<b>452</b>

### 31.1 Financial risk factors (continued)

		Interest rate risk	
	Carrying amounts	+ 1% Effect on profit before tax and equity	- 1% Effect on profit before tax and equity
(a) Market Risk (continued)			
(ii) Interest Rate Risk (continued)	(\$000)	(\$000)	(\$000)

#### Trust

#### As at 31 March 2014

Financial assets			
Trade and other receivables	5	-	-
Cash and cash equivalents	13,122	131	(131)
Convertible Note	39,000	-	-
Loans Advanced	180	-	-
Financial liabilities			
Trade and other payables	422	-	-
<b>Total increase / (decrease)</b>		<b>131</b>	<b>(131)</b>

#### As at 31 March 2013

Financial assets			
Trade and other receivables	10,148		
Cash and cash equivalents	12,574	126	(126)
Convertible Note	39,000	-	-
Financial liabilities			
Trade and other payables	2,100	-	-
<b>Total (decrease) / increase</b>		<b>126</b>	<b>(126)</b>

#### (b) Credit Risk

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

	Group 2014 (\$000)	Group 2013 (\$000)	Trust 2014 (\$000)	Trust 2013 (\$000)
Bank balances	15,005	13,855	13,122	12,574
Receivables	12,851	12,008	285	10,148
Convertible note	-	-	39,000	39,000
Loans Advanced	180	-	180	-

The previous maximum exposures are net of any recognised impairment losses on these financial instruments. No collateral is held on the above amounts.

The Trust's largest revenue provider accounts for 83% (2013: 96%) of total revenue. The Trust does not have any other concentrations of credit risk.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

### 31.1 Financial risk factors (continued)

#### (b) Credit Risk (continued)

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 Trust performs credit evaluations on all customers requiring credit and generally does not require collateral. The Trust monitors the credit quality of major financial institutions that are counter parties to its financial instruments, and does not anticipate non performance by the counter parties.

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

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

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

In regard to the loan advanced to the Momentum Foundation, the Trustees have entered into a Funding Deed dated 28th August 2013 which impose a restriction on the Foundation so that that principal of the loan advanced remains intact and invested in prudent investment practices. The Trustees have imposed annual report reporting requirements and the right to access information to monitor the ability of the Foundation to repay the loan. There are also conditions for the Foundation to immediately repay the loan if demanded by the Trustees when conditions of the Funding Deed are not met.

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 Trust to credit risk.

#### (c) Liquidity Risk

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

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

	Less than 1 year (\$000)	Between 1 and 5 years (\$000)	Unspecified term (\$000)
<b>Group</b>			
<b>At 31 March 2014</b>			
Borrowings	89,800	-	-
Trade and other payables	17,916	-	-
Customer discount payable	19,365	-	-
Loan from non-controlling interest	8,770	-	-
Provisions	668	-	-
	<b>136,519</b>	<b>-</b>	<b>-</b>
<b>At 31 March 2013</b>			
Borrowings	-	42,000	-
Trade and other payables	17,499	-	-
Customer discount payable	19,000	-	-
Loan from non-controlling interest	4,472	-	-
Provisions	951	-	-
	<b>51,501</b>	<b>42,000</b>	<b>-</b>

	Less than 1 year (\$000)	Between 1 and 5 years (\$000)	Unspecified term (\$000)
(b) Liquidity Risk (continued)			
<b>Trust</b>			
<b>At 31 March 2014</b>			
Trade and other payables	422	-	-
	<b>422</b>	<b>-</b>	<b>-</b>
<b>At 31 March 2013</b>			
Trade and other payables	422	-	-
	<b>422</b>	<b>-</b>	<b>-</b>

### 31.2 Regulatory risk factors

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

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

### 31.3 Capital Risk Management

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

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

The Trust manages capital risk by making calls for distributions from the company and adjusting distributions to beneficiaries.

WEL Energy Trust as Parent entity has delegated the operational running of WEL Networks Limited to the Directors of WEL Networks Limited. WEL Energy Trust places reliance on the Directors to optimise the returns on behalf of the WEL Energy Trust. The Directors of WEL Networks Limited, consistent with others in the industry, monitor capital using a gearing ratio, which is net debt divided by total capital plus net debt. WEL Networks Limited includes within debt, borrowings and term liabilities less cash and cash equivalents. Total WEL Networks Limited capital includes equity attributable to the equity holders of WEL Energy Trust.

The gearing ratios for WEL Networks Limited are as follows:

	Group 2014 (\$000)	Group 2013 (\$000)
Borrowings	89,800	42,000
Less: cash and cash equivalents	(1,883)	(1,281)
<b>Net debt/(cash and cash equivalents)</b>	<b>87,917</b>	<b>40,719</b>
Equity	398,168	383,548
Capital and net debt	486,086	424,267
Gearing ratio	18%	10%

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014 (CONTINUED)

	Loans and Receivables	Assets at fair value through profit or loss	Total	
	(\$000)	(\$000)	(\$000)	
31.4 Financial Instruments by category				
Group				
At 31 March 2014				
Assets				
Cash and cash equivalents	15,005	-	15,005	
Trade and other receivables	11,958	-	11,958	
Loan advanced	-	180	180	
			27,143	
At 31 March 2013				
Assets				
Cash and cash equivalents	13,855	-	13,855	
Trade and other receivables	12,008	-	12,008	
			25,863	
	Hedged derivatives	Other Financial Liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
	(\$000)	(\$000)	(\$000)	(\$000)
Group				
At 31 March 2014				
Liabilities				
Trade and other payables	-	17,916	-	17,916
Customer discount payable	-	19,365	-	19,365
Derivative financial instruments	367	-	-	367
Borrowings	-	89,800	-	89,800
Provisions	-	668	-	668
Loan from non-controlling interest	-	8,770	-	8,770
				136,886
At 31 March 2013				
Liabilities				
Trade and other payables	-	17,499	-	17,499
Customer discount payable	-	19,000	-	19,000
Derivative financial instruments	130	-	-	130
Borrowings	-	42,000	-	42,000
Provisions	-	10,951	-	10,951
Loan from non-controlling interest	-	4,472	-	4,472
				94,052



	Loans and Receivables	Assets at fair value through profit or loss	Total
	(\$000)	(\$000)	(\$000)
<b>31.4 Financial Instruments by category (continued)</b>			
<b>Trust</b>			
<b>At 31 March 2014</b>			
<b>Assets</b>			
Cash and cash equivalents	13,122	-	13,122
Trade and other receivables	5	-	5
Convertible Notes	39,000	-	39,000
Loan advanced	-	180	180
			<b>52,307</b>

<b>At 31 March 2013</b>			
<b>Assets</b>			
Cash and cash equivalents	12,574	-	12,574
Trade and other receivables	10,148	-	10,148
Convertible Notes	39,000	-	39,000
			<b>61,722</b>

	Hedged derivatives	Other Financial Liabilities at amortised cost	Liabilities at fair value through profit or loss	Total
	(\$000)	(\$000)	(\$000)	(\$000)
<b>Trust</b>				
<b>At 31 March 2014</b>				
<b>Liabilities</b>				
Trade and other payables	-	422	-	422
				<b>423</b>
<b>At 31 March 2013</b>				
<b>Liabilities</b>				
Trade and other payables	-	422	-	422
				<b>422</b>

### 32. Events subsequent to balance date

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

On 1 April 2014 under the terms of the contract (refer note 13) Waikato Networks Limited was required to purchase 1.7 million A shares at a value of \$1.6 million from Crown Fibre Holdings Limited for connections between 1 January 2014 and 31 March 2014.

On 1 July 2014 under the terms of the contract (refer note 13) Waikato Networks Limited was required to purchase 2.2 million A shares at a value of \$2 million from Crown Fibre Holdings Limited for connections between 1 April 2014 and 30 June 2014. No re purchase of A shares has occurred subsequent to the 31st of March 2014.



## ***Independent Auditors' Report***

to the Trustees of WEL Energy Trust

### ***Report on the Financial Statements***

We have audited the financial statements of WEL Energy Trust and its subsidiaries (**"the Group"**) on pages 35 to 75, which comprise the statements of financial position as at 31 March 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Trust and the Group. The Group comprises the Trust and the entities it controlled at 31 March 2014 or from time to time during the financial year.

### ***Trustees' Responsibility for the Financial Statements***

The Trustees are responsible for the preparation and fair presentation of financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal controls as the Trustees determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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

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



## ***Independent Auditors' Report***

WEL Energy Trust

### ***Opinion***

In our opinion, the financial statements on pages 35 to 75 present fairly, in all material respects, the financial position of the Trust and Group as at 31 March 2014, and its financial performance and cash flows for the year ended on that date in accordance with generally accepted accounting practice in New Zealand.

### ***Restriction on Use of our Report***

This report is made solely to the Trustees, as a body. Our audit work has been undertaken so **that we might state those matters which we are required to state 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 Trust and the Trustees, as a body, for our audit work, for this report or for the opinions we have formed.

A handwritten signature in cursive script, reading 'PricewaterhouseCoopers', with a horizontal line underneath it.

Chartered Accountants  
18 July 2014

Auckland

*This report relates to the financial report of WEL Energy Trust for the year ended 31 March 2014 included on the Trust's website. The Trustees are responsible for the maintenance and integrity of the Trust's website. We have not been engaged to report on the integrity of the Trust's website. We accept no responsibility for any changes that may have occurred to the financial report since it was initially presented on the website.*