WEL ENERGY TRUST

ANNUAL REPORT

for the year ended 31 March 2017

'Here for the Community'

SCHEDULE OF CONTENTS

ABOUT WEL ENERGY TRUST

BACKGROUND

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 the 100% shareholder of WEL Networks Ltd, 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 Networks Ltd is also a shareholder of Ultrafast Fibre Ltd, which was established in 2010 to fulfil a NZ Government initiative to roll out ultrafast broadband (UFB) across eight centres in the North Island. WEL Energy Trust has up to seven Trustees who are publicly elected every three years.The Capital Beneficiaries are Hamilton City Council (63%), Waikato District Council (35%) and Waipa District Council (2%).

OUR VISION

'A FORWARD THINKING, VIBRANT, CONNECTED COMMUNITY.'

The Trust's Vision is to support "A forward thinking, vibrant, connected Community" and it does this by being diligent shareholders and investors, and by using its income as effectively as possible to benefit the Community.

OUR MISSION

'WORKING TOGETHER, WORKING SMARTER, TO GROW INVESTMENT AND TO UNLOCK THE POWERFUL POSSIBILITIES OF OUR COMMUNITY, NOW AND INTO THE FUTURE.'

Trustees have listened carefully to the community voice on what is important to the region in terms of regional values, as well as priority areas for action, and has adopted a bold new Mission to guide the Trust into the future.

To meet our responsibilities and resource our strategies and communities long term, an important focus of the Trust is that of investor and asset owner. The strategic plan reflects the Trust's intention to be an active and responsible asset owner, adopting investment strategies to sustain and grow its assets for people today and for future generations. It is clear that lasting change requires long term commitment and a well-researched, collaborative approach. As an organisation we remain focussed on our commitment to back the people who are leading positive change, and to proactively work with others to realise the powerful possibilities of the region.

OUR VALUES

1 PURPOSE DRIVEN
Our actions deliver a clear, positive outcome.

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

3 EMBRACE POSITIVE CHANGE AND SEEK CONSTANT IMPROVEMENT
We are willing to challenge the status quo and strive to achieve improved outcomes.

4 INTEGRITY AND HONESTY
We act in good faith and are prepared to be held accountable.

5 CLEAR, CONSTRUCTIVE COMMUNICATION
We create understanding through open and informative engagement.

ORGANISATIONAL DIRECTORY

TRUSTEES

(for the year ended 31 March 2017)

The 2017 Triennial Election was held 30 June, which was after the reporting period for this Annual Report.

Mark Ingle (Chair)

Denise Harding (Deputy Chair)

Brad Chibnall

Charlotte Isaac

Kathryn Williams

Rob Hamill

STAFF

Raewyn Jones (Trust Manager)

David Cowley (Grants Manager)

Sarah Lewis (Financial Administrator)

Shelley Halpin (Trust Secretary)

TRUSTEE SUB-COMMITTEES/ PORTFOLIO AREAS

- Energy Efficiency ..... Rob Hamill (Chair)
  Denise Harding
  Kathryn Williams
- Communications ..... Kathryn Williams (Chair)
- Finance ..... Brad Chibnall (Chair)
  Mark Ingle
- Risk Management ..... Denise Harding (Chair)
  Charlotte Isaac
- Community Visits ..... Denise Harding
  Kathryn Williams
  Charlotte Isaac
- Industry Updates ..... Rob Hamill

ADVISORS

- Accountants ..... Staples Rodway Waikato LP, Hamilton
- Energy Industry ..... KPMG, Hamilton
- Investment Management ..... Russell Investments, Auckland
- Solicitors ..... Tompkins Wake, Hamilton
- Bankers ..... ASB Hamilton Commercial Banking, Bank of New Zealand, Hamilton
  ANZ Banking Group, Wellington
- Auditors ..... PricewaterhouseCoopers, Hamilton

CHAIR'S REPORT

VISION
A FORWARD THINKING, VIBRANT, CONNECTED COMMUNITY

'Working together, working smarter, to grow investment and to unlock the powerful possibilities of our community, now and into the future'

Our bold new mission is worth reading again, and I urge you to consider what it may mean to you personally. After all, this is the language of our region, your language, shared through the community engagement workshops that underpin The Waikato Story and Vital Signs project, both regionally important and both supported by the WEL Energy Trust (the Trust).

This mission forms part of the Trust's new five-year strategic plan, an exciting piece of work that reflects 12 to 18 months of engagement, listening and challenging ourselves regarding what role the Trust can and should play in our region's bright future.

STRATEGY

This past year has involved a degree of governance reset. The Trust has not only developed a new long term strategy, it has also developed a number of new governance documents to help transition it from being a passive shareholder, to an engaged investor and shareholder.

These documents, combined with the 2015 – 2019 Community Investment Strategy, now mean the Trust can clearly articulate its expectations of itself and its investments. With the significant growth in investment activity by WEL Networks Limited (the Company), these new documents will assist in guiding the Trustees' stewardship over the significant community assets and value that the WEL Group (the Group) represents.

LEADERSHIP

'Working together and working smarter' refers to leadership and collaboration, and to being a learning organisation. Leadership in the region is an important focus for the Trust, and as such we are supporting some great work in this space. The CELF Leadership Programme at the University is connecting and educating For Purpose and For Profit leaders. Waikato Means Business and Momentum Waikato are leading initiatives that help to inform and support positive change. The Trust continues to invest in upskilling and providing learning opportunities for the team and key

community partners. Our team's, other funders' and regional community organisations' attendance at events such as the Evidence in Action Conference, Philanthropy New Zealand Summit and the Oxford Impact Investing Programme, as well as attracting thought leaders to our region, speaking to funders, councils and communities alike, all contribute to the growth of leadership in our region.

We also congratulate our WEL Group executives who were recognised at the Westpac Waikato Business Awards, winning CEO of the Year and Emerging Leader of the Year, and we thank the wonderful teams who support them in achieving these accolades.

INVESTING

'Growing investment to unlock the powerful possibilities of our community, now and into the future' refers to both financial investments (including the Trust's core investment in the Company), as well as investment in the community through grants.

COMMUNITY INVESTMENTS (GRANTS)

During the period the Trust increased its community loans from three to four. We had three Community Support rounds and five Quick Response rounds. It was pleasing to see that the Trust's grants strategy is changing the way grants are being allocated. Over the last three years the average grant size has increased ($7,269 average to $10,040) while the total number of grants given has reduced (280 down to 249).

The largest single grant went to the Waikato Regional Council through the Economic and Business Development fund, associated with the Waikato Means Business and Waikato Story initiatives ($160,000). The largest single energy efficiency grant was made to Te Puna Oranga for the Whare Ora Healthy Homes programme ($95,000).

The total amount paid out in grants was $2,499,981.

The Trust has focused on improving our grant making experience for applicant organisations:

- recipients of Community Support or Quick Response grants are now also able to apply for grants from the Major Transformational Projects Fund, Business/Economic Development & Workability Fund or Organisational Development and Convening Fund
- community loans are now more flexible around early payment and interest rebates
- new processes were introduced for multi-year grants
- returned grants are now added back into the grants pool for future distribution

Regarding the IRD's tax review of consumer discounts, the Trust supported the Company in its contribution to the ENA submission, which proposes these payments should not attract tax.

The Anti-Money Laundering/Counter Financial Terrorism Act 2009 requires the Trust to gain independent compliance sign off. This was successfully achieved.

FINANCIAL INVESTMENT

The Trust developed its first Statement of Investment Policy and Objectives (SIPO), with the assistance of Russell Investments. This document has helped the Trustees to articulate how they want to operate as investors. It covers matters such as Governance, Investment Objectives, Beliefs, Strategy, Implementation, Risk Management and Review, and Monitoring Procedures, allowing the Trust to proactively oversee its investments. This includes its core investment in the Company, its investment portfolio previously held as cash deposits, and Mission Related Investments. A topic that has arisen from the SIPO discussion is how the Trust deals with intergenerational value. Although the Trust initiated discussions with its Capital Beneficiaries on this matter toward the end of 2016, it is still considering how this may practically manifest itself within Trust strategy.

WEL GROUP

The Group includes the Trust and the Company and subsidiaries thereof, including Ultrafast Fibre Limited (UFF).

Over the past three years the Company has invested significantly in UFF, building and operating the majority of the central North Island's Ultra-Fast Broadband Network. Total investment in fibre infrastructure, including that of 15% shareholding partner Waipa Networks, will reach almost $450 million by 2018.

The Trust and the Company have reviewed the investments and business structures of the Group. This ensures the synchronising of the Trust's new Strategic Plan with the Company Strategic Directions Document, and improving dialogue regarding what's required to deliver success for all parties involved in the Group.

The Company supported the Trust unexpectedly during

the year with the payment of a special dividend of $777,064, enabling the Trust to increase its distribution pool and impact investing funds for 2017/18.

KPMG valued WEL Networks Limited as at October 2016, using two valuation methodologies; Equity Value and Enterprise Value.

The Equity Value midpoint was $650m, a decrease of $16m when compared to the March 2014 Equity Value midpoint valuation of $666m, determined by Staples Rodway.

The Enterprise Value midpoint was $1,115m, an increase of $334m when compared to the March 2014 Enterprise Value midpoint valuation of $771m, determined by Staples Rodway.

The Trust has increased the regularity of the WEL Networks Limited valuation from three-yearly to annually, with KPMG contracted to complete this work. This is seen as prudent while the Group has higher than previously held debt levels associated with its investing activities.

There have been a number of projects undertaken by the Company over the past few years that have required the Company Directors, and in particular the Chairman, to commit extra-ordinary time to their roles without extra compensation. The Trustees extend thanks for this contribution on behalf of the community we ultimately all serve.

Two Directors will retire at the Company's AGM in 2017. The Trustees thank David Wright for his individual contribution over his three years of service. A special thank you goes to Margaret Devlin, a WEL Networks Board member for 10 years, the last three as Chairman. Margaret has contributed significantly to the governance and strategy, helping build what is now a multi-utility community asset with an enterprise value of over $1 billion.

FINANCIAL PERFORMANCE

The consolidated (Group) financial statements reported on in the financial section of this Annual Report include the Trust and WEL Networks Ltd and subsidiaries thereof.

This year the Company delivered a total of $20 million (including GST) to WEL Networks customers via the annual WEL discount. Strong commercial lines consumption, urban development and capitalisation of additional borrowing costs associated with the fibre network all contributed to the Company net profit being $5 million higher than budget.

The Trust-specific operations produced a net surplus (after tax and distribution) of $852,000 (2016: $45,000). Operating income was $4,074,000 (2016: $3,399,000) compared to a budget of $3,325,000, and operating expenditure was $26,000 below budget.

The continuing low interest rate environment has seen the Trust move from investing cash with trading banks, to investing globally through a managed portfolio of investments.

THE YEAR AHEAD

2017 is a Trust election year. With Mark Bunting finishing in 2016 and the Trust's longest serving Trustee, Brad Chibnall, stepping down after 15 years of service, there will be new faces around the Trust table. With the new enthusiasm and thinking that new Trustees will bring, along with the clear strategy and governance processes that have now been adopted, the next three years will be nothing short of exciting to be part of.

I would like to thank my fellow Trustees for their continuing support and contributions, and the team for their dedication, leadership and belief that we can always do more.

Although this Annual Report is a backward-looking document, it is important to understand where we have come from and reflect on what we have achieved in order to support a mission like ours to take us forward. Our success must be measured on our ability to deliver on this mission, and our strategy provides us with a map to navigate our way there. To genuinely stretch ourselves to be transformative we will be brave, we will be bold and we will continue to listen to the community voice as we act, in good faith, to make our mission a reality. If you're reading this, then you most likely have a role to play as we work together. Thanks, and welcome, please join us on our journey.

MARK INGLE
Chairman

5 YEAR *STRATEGIC PLAN*

2017 - 2021

The Trust's new five-year strategic plan is the result of 12 to 18 months of engagement, consultation, reflection and review, and was adopted by the Trust on 28 February 2017. The Trust clarified its purpose, principles and process to identify the following clear priorities for the next five years.

GOVERN THE TRUST EFFECTIVELY AND EFFICIENTLY AND BE RESPONSIVE TO OUR COMMUNITY

1.	We recognise the need to align our resources with our strategic intent, and to regularly monitor and review our investments and practices.
2.	The Trust believes that retaining a controlling interest in WEL Networks is beneficial in ensuring the Company retains a strong sense of social responsibility, and in growing investment for our community.
3.	We'll continue to review investments and business structures to ensure they are the best fit for purpose, including providing the level of liquidity the Trust requires to action its strategic intent.
4.	Through a clear Statement of Intent, we'll strive to balance commercial outcomes and growth with the social and cultural aspirations of the Community. This will involve taking a holistic or 'multiple bottom line' approach to investment, with consideration of both profit-related and socially oriented goals.

MAXIMISE LONG TERM IMPACT BY BEING STRATEGIC AND TRANSFORMATIVE

1.	We are a Community Trust with a regional focus and roles to play in terms of both regional leadership and the guardianship of community assets/value.
2.	The Trust wishes to understand the social and cultural aspirations of the Community, and to work collaboratively to make a transformational difference in identified regional priority areas, including economic development.
3.	The Trust focuses on making a long term sustainable difference by giving priority to initiatives and organisations that can demonstrate collaboration and that are impacting or enhancing: • Individuals' lives – providing high and/or broad impact • Organisations – capacity building and encouraging collaboration • The Community – preventing issues from occurring • People's views – delivering strong community pride
4.	We will take a balanced view of intergenerational benefit which relates to investment in the Community in the present, over the life of the Trust, as well as the capital value of the Trust's assets at the termination of the Trust.
5.	We aim to leverage grants through partnership and collaboration with community groups, other funders, business, and Local and Central Government to have a greater impact in the region.

EXPAND SUPPORT BEYOND GRANT MAKING

1.	To assist communities in developing their full potential, and to find answers to complex issues and encourage better ways for working together, the Trust will look for new ways to support the economic, social and physical wellbeing of the community.
2.	Our aspiration is to prevent problems from occurring in the first place, and to work together to back the people who are leading positive change, building on existing strengths to move the needle on identified regional priority areas.
3.	We'll ensure the Trust contributes to the dialogue, vision and leadership in the Community, particularly as it relates to the Trust's strategic vision and wider regional priorities.

OUR GRANTS AT A GLANCE

TOTAL GRANTS	QUICK RESPONSE GRANTS up to $5000	CONVENING & ORGANISATIONAL DEVELOPMENT	COMMUNITY SUPPORT GRANTS over $5000	MULTI-YEAR GRANTS
249	123	4	122	27

of which

27% OF TOTAL GRANT AMOUNT

70% OVERALL APPLICANT SUCCESS RATE

AVERAGE GRANT **$10,040**

TOTAL GRANT AMOUNT **$2,499,981**

MEDIAN TIME TO COMPLETE APPLICATION

2.0HRS QUICK RESPONSE

3.0HRS COMMUNITY SUPPORT

GRANT RECIPIENTS

The following 13 pages highlight a number of community organisations supported by the WEL Energy Trust

Integrity and Honesty

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

WAIKATO ROCKS TRUST

2016/17 FUNDING RECEIVED **$4,000**

Waikato Rocks Trust seeks to support talented youth to create a vibrant community.

They've produced weekly music shows for TV Central and Sky TV and have a weekly radio show on Free FM 89.0 Waikato wide and 98.1 FM in Raglan promoting the original music of local people. They organise live events and expose creative talent to thousands of people on stage, on Radio, online and in print.

"We have young creative people in abundance that are of many cultures. We aim to expose them to bigger audiences throughout the country and beyond to value their creativity. We intend to create an opportunity to showcase them on stage and in all possible media.

The two events organised with WEL Energy Trust support this year have enabled hundreds of artistic people, mostly young people, to showcase their talents to more than 100,000 people nationwide."

Logan Nathan, Waikato Rocks Trust

WEL ENERGY TRUST STRATEGIC OUTCOME AREAS

"Enhancing the Image of the Region and Building Community Pride" is an important focus area for WEL Energy Trust. We aim to support events, arts or projects that showcase the strength of the Waikato, that instil a sense of pride, and that raise the community profile nationally or internationally. The opportunity to provide a Quick Response grant this year towards two events, 'Christmas at the Lake' in Hamilton and the 'Music and Dance Festival' in Raglan, was a great fit for this strategic priority area.

Information about WEL Energy Trust's four strategic outcome areas can be found in the 2015 to 2019 Community Investment Strategy on www.welenergytrust.co.nz

NORTH WAIKATO TRANSPORT TRUST

2016/17 FUNDING RECEIVED **$5,000**

North Waikato Transport Trust's Mission is to support the provision of rural and urban transport options to enable North Waikato people to live inclusive, healthy, independent lives. Their organisation provides a transport service to assist those in the community to attend health appointments, collect people from their homes and deliver them safely back again.

A koha based system is used, so the service is accessible to all.

WEL Energy Trust's contribution towards operational costs has helped towards wages for their coordinator, as well as towards fuel, telephone costs, and servicing their vehicle.

What people say…

"The many times this van has transported our elderly residents to Hospital appointments has meant a great reduction in the amount of time our staff have to go 'off the floor' to take residents to these appointments…

The volunteers are always friendly and courteous, and in many instances, they are known to the residents because they are locals."

Diana Le Mon, Facility Manager,
Kimiha Home and Hospital

WAIKATO VITAL SIGNS AND WEL ENERGY TRUST

In 2016, the Trust took part in the collaborative research project led by Momentum Waikato Community Foundation, called Waikato Vital Signs. Vital Signs is a community check-up that reports on the social, environmental, cultural and economic wellbeing of our communities, joining the dots between statistical information and what matters most to people living in our communities. WEL Energy Trust uses this information to inform its decision making and ensure we're "working together, working smarter to unlock powerful possibilities for our community."

Improving access to health services and improving transport options in and between our towns and city is amongst the top 10 community priorities for action, and the Trust is proud to support North Waikato Transport in their work in this regional priority area for action.

NGA RAU TATANGI (NRT) - MAORI HOUSING FOUNDATION

2016/17 FUNDING RECEIVED **$10,000**

We all know how important warm, safe housing is, and this was highlighted by the 2016 Vital Signs research which identified solving problems with affordability, availability and quality of housing as one of the top priorities for community action in our region.

Nga Rau Tatangi (NRT) works in partnership with like-minded organisations to support whanau into home ownership, alongside providing warm, safe and quality housing for Kaumatua.

The Wairere Village Project enables whanau to achieve their housing dreams and aspirations. Meanwhile, others wanting to support the project have invested socially to ensure rental housing is available to Kaumatua within an environment that is culturally responsive to their needs.

Nga Rau Tatangi also owns and manages two Kaumatua villages based on Papakainga living in Dinsdale, Hamilton. This is a place to call home for many Kaumatua residing in the village as they support and care for one another, sharing meals together and having fun.

WEL Energy Trust funding has assisted to provide hands on support, advice and advocacy. It has also contributed to wider networking and collaboration opportunities within social housing. Funding has been vital to ensure that NRT has the capacity to carry out the valuable provision of services for the betterment of others. WEL Energy Trust is committed to working with others to make a difference in this priority area.

What they say about it….

"Kaumatua are often the first to say, thank you, thank you I never thought I would have such a beautiful home.

Whanau that are moving into their new homes have shared emotion and felt they needed to pinch themselves as it seemed unbelievable. Words of gratitude and humility are always shared and expressed as they also go onto supporting others."

Yvonne Wilson, Community Project Manager of Nga Rau Tatangi

PERRY OUTDOOR EDUCATION TRUST (POET)

2016/17 FUNDING RECEIVED **$15,000**

Another top priority for action in our community highlighted by the 2016 Waikato Vital Signs research is the importance of developing better education and development pathways for our youth. Working together to improve community connectedness as well as taking care of our natural environment are also highlighted as top priorities.

POET aims to equip low decile Waikato secondary schools to develop young people through outdoor experiences by building capability and sustainability in the school through professional development, mentoring of teachers and direct funding to ensure no student is excluded through a lack of financial means.

Where possible experiences take place close to home, are low cost and help build connections between students and their local environments and communities.

A key principle is that outdoor programmes are facilitated by teachers. Positive relationships between teachers and students are promoted in recognition of the importance of these relationships in engaging students to learn in the classroom. The long-term sustainability of the programme in the school is more likely when schools can deliver programmes themselves. POET also supports schools in developing their systems to ensure quality outcomes are achieved consistently and experiences are safely managed.

"The generous support of WEL Energy Trust enables us (the board and staff) to focus all our energies on the outcomes for young people instead of being distracted from our work by financial pressures brought on by on-going funding issues."

Karen Singers, Manager POET

WAIKATO ENVIRONMENT CENTRE

2016/17 FUNDING RECEIVED

Environment Centre Operations

$25,000

Kaivolution Food Rescue

$20,000

Waikato Environment Centre's vision is for healthy environments supported by thriving communities. They strive to be a voice for the environment, a centre for learning and a catalyst for change, raising awareness of environmental issues and solutions, and providing information and opportunities for individuals, groups, and businesses to live and act with lower environmental impact, building stronger and more resilient communities in the process.

"With WEL Energy Trust's help our Centre is open 30 hours a week, with staff providing sustainable living information and advice. We've supported dozens of smaller environmental groups and promoted hundreds of environmental events online and in our weekly newsletter to 800+ people. We've diverted 29 tonnes of e-waste from landfill, and redistributed more than 180 tonnes of food to people in need."

Sonia Fursden, General Manager,
Waikato Environment Centre.

CELEBRATING AN AMAZING MILESTONE:
In November 2016, Kaivolution food rescue celebrated the 200 tonne milestone, for food rescued since the service began. Their Chairperson Pamela Storey was a speaker at the 2016 TEDx Ruakura event, sharing the story behind Kaivolution. She reprised her talk at our inaugural Kaivolution fundraising dinner in November.

What they say about it….

"…great place full of enthusiasm, energy, knowledge and inspiration for everybody and any kind of environmental project!"

Zamla Ekinereb

"Thank you Tania, Simon and the rest of the Kaivolution team for the eggs and bread today. It makes so much difference for those that have very little. The Koha Shed Huntly thanks you all for the awesome work you all do."

SMART WAIKATO TRUST

2016/17 FUNDING RECEIVED **$32,000**

Vital Signs research confirms that developing better education and development pathways for our youth is a top community priority for action. Smart Waikato does just that through its Secondary School Employer Partnerships (SSEPs).

The goal of SSEPs, supported by Waikato Means Business, Ministry of Education and WEL Energy Trust, is to improve student retention, achievement and education-to-employment transitions, beginning with younger secondary school students and progressing to senior students, empowering Waikato youth through education to employment pathways. This will ultimately contribute to addressing future workforce gaps and skills issues in the Waikato.

"WEL Energy Trust funding has helped us get the initiative underway in five pilot schools, develop resources, measure outcomes and contribute to the continuation of the programme into the second year with seven new schools involved."

Mary Jensen, CEO of Smart Waikato.

What they say about it….

"I think this will encourage me to do better in school"
Fairfield College student

"The science experiences were all an amazing opportunity for us students to learn how science is applied in companies on a daily basis. I really enjoyed it."

Morrinsville College student

"I very much enjoyed visiting the business. Physically seeing many of the activities that they did rather than them coming into our school was a greater experience and I was able to learn heaps from looking."
HBHS IT student

"It helps me keep up to date with what is going on in industry" HBHS Metal Tech teacher

"Greater connection to what is being taught in schools and how this could impact students coming through into our industry. Building a stronger partnership with the school and its staff leading to other activities to help support the students." Employer Partner

WEL ENERGY TRUST CONVENING AND ORGANISATIONAL DEVELOPMENT FUND

The Convening and Organisational Development fund can provide support outside the main grants rounds and is designed to support organisations to better achieve their objectives, thereby contributing to increased impact in the community.

Evaluation and impact measurement costs associated with a Trust grant are an example of how this fund can be used. In March 2017 WEL Energy Trust allocated $7,000 from this fund to Waikato Regional Council to partner with Waikato Means Business in producing an evaluation and business plan for the SSEP pilot programme. The resulting plan provides a blueprint to help take this successful pilot programme to scale, and to make a truly transformational impact in our region.

ZEAL EDUCATIONAL TRUST (ZEAL)

2016/17 FUNDING RECEIVED **$37,500**

Zeal Hamilton aims to enable young people to discover, develop and express their unique creativity, by providing communities of belonging and access to creative education programmes.

Zeal provides Hamilton's young people with communities of belonging through an after-school drop-in, regular all-ages events, street-based youth work, creative courses, and mentoring.

"Funding from WEL Energy Trust has been integral in enabling us to do what we do. They have provided the foundations of our fundamental programmes and responses to the wants and needs of young people in Hamilton.

WEL Energy Trust has further helped us to partner with the Great Potentials Foundation to launch MATES, the Mentoring and Training Education Scheme, in the Waikato. We partner Year 13 students from low-decile schools with high-achieving university-student mentors, aiming to empower these young people to see the potential they have in achieving educational success at school and in further education or training."

Lehi Duncan, Regional Manager, Zeal

What they say about it….

"Zeal is my happy place – they have been really helpful in expanding my knowledge in photography, which I'm really passionate about."

"Zeal is my second home."

"Zeal is a non-judgemental, loving place, an awesome space for us young people to be ourselves."

WEL ENERGY TRUST STRATEGIC OUTCOME AREAS

Promoting "Flourishing Families and Liveability" is close to our hearts at WEL Energy Trust. Our objective is to support connectedness, provide healthy activities, encourage participation and support disadvantaged groups in the community. Projects that will prevent problems from arising are a priority area for the Trust.

More information about WEL Energy Trust's strategic outcome areas can be found in the 2015 to 2019 Community Investment Strategy on www.welenergytrust.co.nz

PREMIER EVENTS

The Trust is proud to be a long term supporter 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 low or no cost to participants. The annual grants for these events are amongst the largest the Trust makes.

Embrace Positive Change and Seek Constant Improvement

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

HAMILTON GARDENS ARTS FESTIVAL

Hamilton Gardens Summer Festival Foundation)

2016/17
FUNDING
RECEIVED

$80,000

Plus a Community Lloan

The Festival vision is to deliver a nationally recognised, community accessible pan genre Arts festival, while promoting awareness of the Hamilton Gardens.

"WEL Energy Trust support of the Community Programme is vital to our success, and to our ability to deliver an accessible event where cost is not a barrier to entry."

Nick Chambers, HGAF Operations Manager.

In 2016 the Trust also supported the purchase of a share of the wonderful 'Pacific Crystal Palace' Speigletent through its community loans scheme.

The Palace, a portable building constructed on Governors' Lawn over five days prior to the Festival, seated an audience of up to 320 guests and proved invaluable in delivering events with certainty in all weather conditions. During the onslaught of rain on the Festival's opening night, two action-packed events were hosted in the Palace; new acrobatic circus act 'Perhaps Hope' and Beatles hit blasters 'Helter Skelter', which received rave reviews from dry and happy audiences.

"We have had such an amazing response to the 2017 Festival. We are excited to have the Pacific Crystal Palace back next year, and to further leverage this venue to bring top talent from New Zealand and the world to Hamilton. As we further grow and develop as an organisation, we strive to continue delivering unique, high quality arts experiences for our community - thank you WEL Energy Trust for your ongoing support."
Nick Chambers, HGAF Operations Manager.

What they say about it…
Feedback from the Audience Survey was overwhelmingly positive with 'Love' being the #1 'Most Important Word/Phrase' used and 93.66% of audience Very Likely, or Likely to recommend the Festival to others.

"Look forward to attending as many events for myself and my family including grandchildren each February... Love the variety of arts we can explore and celebrate... never have enough :-)"

Audience Survey HGAF2017

"Always great, great community vibe"

Audience Survey HGAF2017

"We appreciated the many free, public events and often, there was a nice sense of community in the crowds gathered for the shows. Definitely returning next year."

Audience Survey HGAF2017

ABOUT WEL ENERGY TRUST COMMUNITY LOANS

The community loans scheme was established by WEL Energy Trustees in 2013 to enable viable community projects to succeed faster. The loans can also be used to help organisations purchase critical assets and income-generating businesses with strong social benefit.

WEL Energy Trust will look at lending up to $500,000 over a maximum 10-year term. Loans can be made any time and staff are always available to talk to groups about potential applications.

BALLOONS OVER WAIKATO TRUST

2016/17 FUNDING RECEIVED **$80,000**

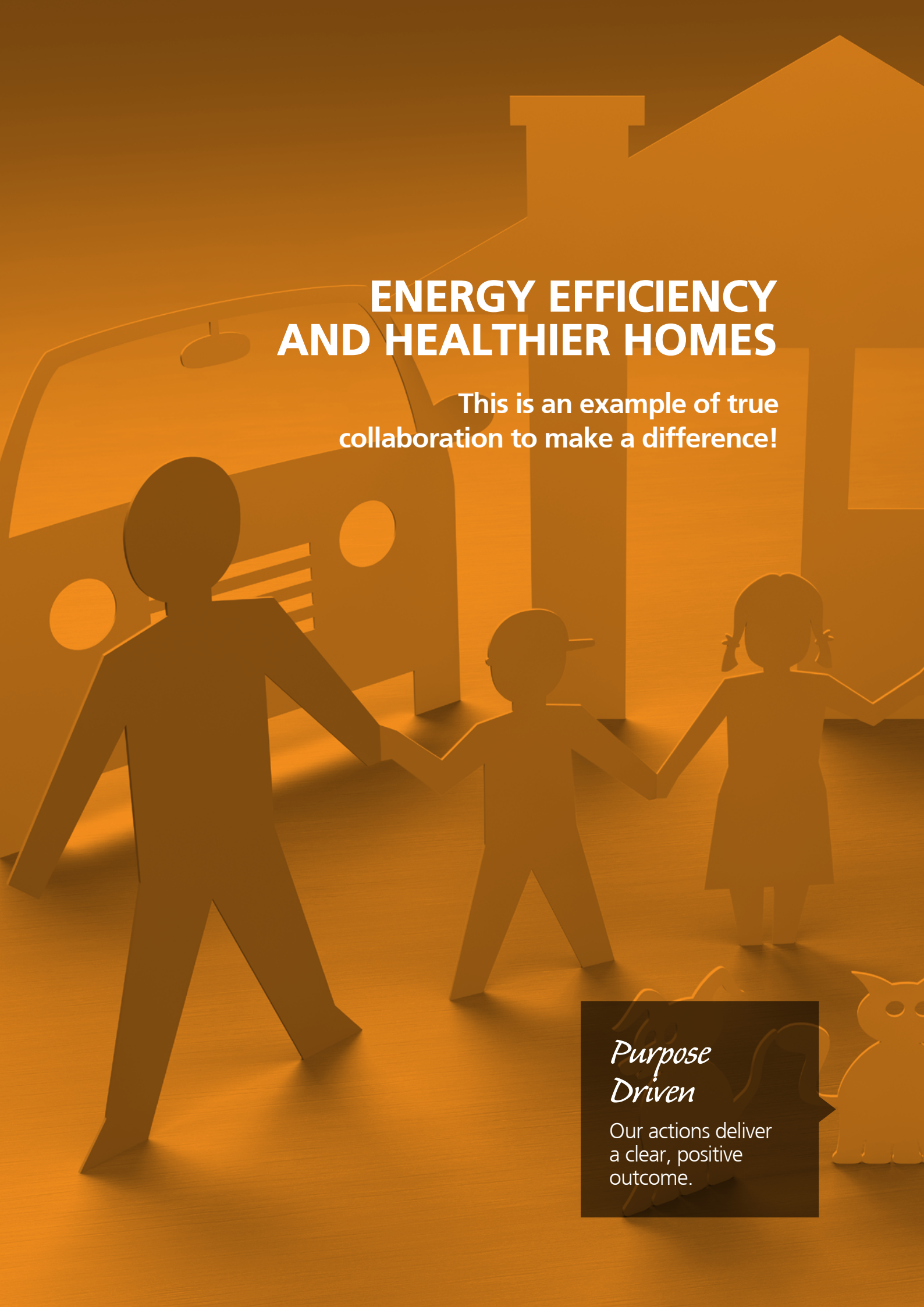
The Balloons over Waikato Trust is a not-for-profit organisation and has been successfully running this event for the previous 14 years. The Festival is a major iconic event for the public on the annual calendar in both Hamilton and the Waikato Region.

Admission to this fabulous community event is free-of-charge.

"WEL Energy Trust's support is invaluable in ensuring this event remains free to the thousands that attend. This year WEL Energy Trust's support of the Free Breakfast was especially important as we were able to supply the first 2000 people to Innes Common with a free breakfast."

Michelle Connell, Balloons over Waikato.

Most Hamiltonians will have experienced the awesome spectacle of a hot air balloon floating over their home, workplace, or school in event time. The festival is iconic for the city and the region and helps to put Hamilton on the map!



ENERGY EFFICIENCY AND HEALTHIER HOMES

This is an example of true collaboration to make a difference!

Purpose Driven

Our actions deliver a clear, positive outcome.

WAIKATO HEALTH TRUST

WHARE ORA WAIKATO HEALTHY HOMES PROGRAMME

2016/17 FUNDING RECEIVED **$95,000**

WEL Energy Trust and Whare Ora Waikato Healthy Homes Programme agreed a goal to complete 150 homes in a 12-month period. This agreement was for the funding of healthy home products to the amount of $95,000. Whare Ora achieved and exceeded the 12-month target with 155 homes.

The funding for healthy home products has enabled the group to purchase beds and bedding for 112 families.

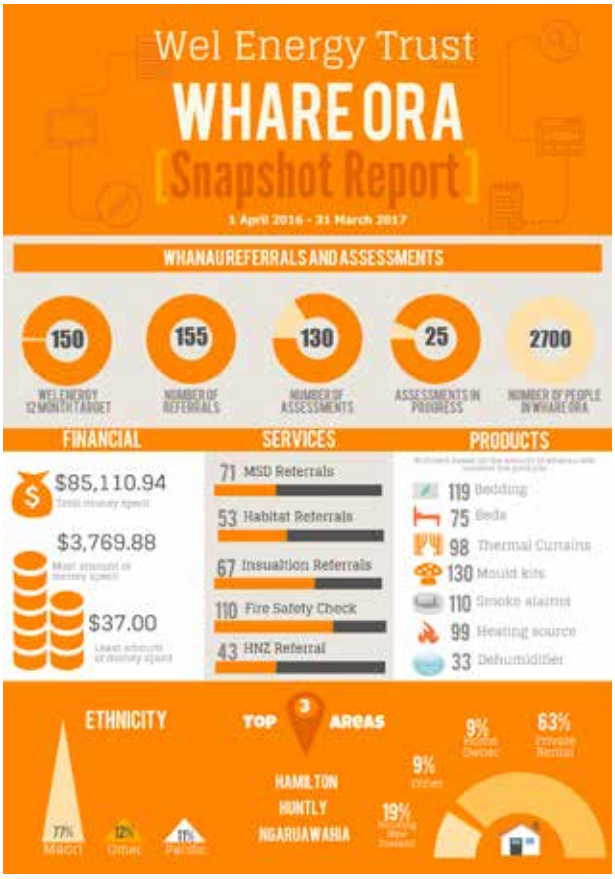
From 1 April 2016 to 31 March 2017 the following products and services were provided:

SERVICES

- 71 MSD Referrals
- 53 Habitat Referrals
- 67 Insulation Referrals
- 110 Fire Safety Checks
- 43 HNZ Referrals

PRODUCTS

- 119 Bedding
- 75 Beds
- 98 Thermal Curtains
- 130 Mould kits
- 110 Smoke alarms
- 99 Heat source
- 33 Dehumidifiers



SUCCESSES

Families are referred to the Whare Ora Programme based on the hospital admission of child family members with respiratory problems.

Out of 470 children in the Whare Ora Healthy Home Programme only seven children have gone back to hospital – that's a 1.48% readmission rate.

Through this programme over 1800 children have been positively affected.

GRANTS APPROVED

ORGANISATION NAME	FUNDING ALLOCATION
A Rocha Aotearoa NZ	$6,000
Age Concern Hamilton	$5,000
Alf's Imperial Fifth Waikato Dragoons Incorporated	$4,000
Alzheimers Waikato Charitable Trust	$18,000
Amputee Society Waikato Bay of Plenty and Districts Inc.	$1,500
Arts for Health Community Trust	$10,000
Arum Aikido Club	$1,200
Ashurst Park Playcentre	$1,500
Asthma and Respiratory Services (Waikato) Incorporated	$22,500
Athletics Waikato-Bay of Plenty	$5,000
Autism New Zealand Inc	$15,000
Balloons over Waikato	$80,000
Bangladeshi Community of Waikato Inc	$1,500
Big Buddy Mentoring Trust	$4,000
Birthright Waikato Te Whanautanga Tika Charitable Trust	$17,500
Brain Injury Waikato Inc	$17,500
Cantando Choir, Incorporated	$1,500
CanTeen Waikato	$5,000
Catholic Family Support Services	$10,000
Child Flight Charitable Trust	$3,000
Citizens Advice Bureau Hamilton Inc	$5,000
City Hope Charities Trust	$15,000
Clarence Street Theatre Trust	$25,000
Cochlear Implant Foundation of New Zealand	$4,000
Community & Enterprise Leadership Foundation	$16,000
Community Development Trust	$3,000
Community Link Trust	$6,000

Country Section New Zealand Indian Association $2,000

Creative Waikato Trust $32,500

Desert Spring Ministries Trust $10,000

Diabetes New Zealand Inc Waikato Branch $3,500

Dinsdale Playcentre $1,416

Diversity Counselling New Zealand $10,000

Draw Inc Charitable Trust $3,500

Dress for Success Hamilton Trust $6,000

Eastlink Badminton Society Inc $4,000

Eastlink Cricket Club (Inc) $1,800

Epilepsy Waikato Charitable Trust $10,000

EVolocity $42,500

Fairfield College $4,000

Fairfield Swim Club $5,000

Families Autism Support Trust $12,500

Fitness Action Charitable Trust $2,500

Flyers Basketball Club $1,000

Friendship House (Huntly) Community Charitable Trust $12,000

Glenview Community Centre $12,000

Gordonton Pony Club Inc $5,000

Gordonton School PTA $2,000

Gordonton Woodlands Trust $2,685

Grandview Community Garden Trust $5,000

Habitat for Humanity Central North Island Ltd $15,000

Hamilton BMX Club Incorporated $3,240

Hamilton Children and Families Trust $3,500

Hamilton Chorale Incorporated $900

Hamilton Christian Combined Foodbank Trust $10,000

Hamilton Christian Nightshelter Trust $15,000

Hamilton Christian Schools Inc $10,000

Hamilton Christmas Charitable Trust $15,000

Hamilton City Hawks Athletics Inc $2,000

Hamilton City Tigers Senior Rugby League Club $1,200

Hamilton Community Centre of Music $40,000

Hamilton Community Men's Shed Trust $3,500

Hamilton Cricket Association Incorporated $10,000

Hamilton Disability Pride Film Festival $2,000

Hamilton Ethnic Women's Centre Trust $22,500

Hamilton Film Society $2,500

Hamilton Gardens Summer Festival Foundation $80,000

Hamilton Group Riding for the Disabled $7,500

Hamilton Inline Hockey Club inc $3,500

Hamilton Life Education Trust Hamilton $12,500

Hamilton Masters Swim Club $2,000

Hamilton Methodist Social Services Trust $18,000

Hamilton Multicultural Services Trust $5,000

Hamilton Operatic Society Inc $12,500

Hamilton Playbox Rep Soc Inc $1,500

Hamilton South Community Centre Association Inc. $10,000

Hamilton Squash & Tennis Club Inc. $8,000

Hamilton United Womens Bowling Club $2,000

Hillcrest Amateur Swimming Club $6,800

Hukanui Golf Club Inc $2,000

Huntly College Old Boys Rugby Football Club Inc $2,200

Huntly Kids Kitchen $2,000

Huntly Ngaruawahia Driver Education Programme $2,000

Huntly West School $5,000

Incedo Incorporated $3,000

Indian Ink Trust $1,500

Kiwiwatch Community Patrol Charitable Trust $1,500

Link City Trust $4,000

Link House Trust $17,500

Macular Degeneration New Zealand $2,500

Male Support Services Waikato $5,000

Male Voices Waikato (Inc)..... $1,800

Maramarua Golf Club Inc $2,500

Maramarua School $6,500

MATES Trust NZ..... $10,000

Maungatautari Ecological Island Trust $87,000

McKenzie Centre Trust $20,000

Mental Health Foundation of New Zealand..... $12,500

Meremere Community
Development Committee Inc..... $4,750

Momentum Waikato
Community Foundation..... $10,000

MS Waikato Trust $5,000

Muscular Dystrophy Northern..... $2,500

Netball Waikato Bay of Plenty Zone Inc $20,000

Neurogenesis Trust $5,000

New Zealand AIDS Foundation (NZAF) $2,000

New Zealand Paramedic
Education and Research Charitable Trust $1,500

New Zealand Parkour Association Inc. $5,000

New Zealand Russian Waikato Friendship $2,000

Nga Rau Tatangi Ltd $10,000

Ngaruawahia Community Care
and Crisis Support Trust..... $10,000

Ngaruawahia Community House Inc..... $5,000

Ngaruawahia Community
Youth Holiday Programme $12,000

Ngaruawahia Golf Club Inc $3,000

Ngaruawahia High School $5,000

Ngaruawahia Matariki Collective..... $4,000

Ngaruawahia RSA Memorial
Club Incorporated..... $3,000

North Waikato Blue Light $5,000

North Waikato Transport Trust..... $5,000

Orchestras Central Trust $37,500

Pacific Community Service..... $1,500

Pacific Rose Festival Trust $5,000

Para Kore Marae Incorporated..... $1,500

Parent to Parent Waikato..... $10,000

Parents Centre New Zealand Incorporated..... $2,500

Parkinson's Waikato $8,000

Pasifika by Nature Trust $5,000

Patricia Avenue School..... $5,000

Peachgrove Playcentre $2,000

Perry Outdoor Education Trust $15,000

Pirongia Forest Park Lodge Inc..... $1,500

Positive Change Programmes
Charitable Trust $5,000

Prison Care Ministries $5,000

Project Litefoot Trust..... $15,000

Pukeko Preschool Trust Board $10,000

Puketaha School $2,700

Raaga Hamilton $750

Raglan & District Museum Inc Soc $4,000

Raglan Community House
Society Incorporated $13,500

Raglan Community Patrol
Charitable Trust $2,500

Raglan Community Radio..... $6,000

Raglan Events and Multisport Trust $3,500

Raglan Junior Soccer..... $2,000

Raglan Surf Life Saving Club Inc. $14,000

Rainbow Chinese Community
Centre Charitable Trust..... $3,000

Raleigh St Christian Centre Inc $4,000

Rape and Sexual Abuse Healing Centre $10,000

Rauawaawa Kaumatua Charitable Trust $18,000

RAW 2014 Limited $15,000

Riding for Disabled Waikato
Group Incorporated $10,000

River Downs Playcentre..... $2,500

Riverlea Theatre & Arts Centre Inc. $20,000

Rostrevor House Incorporated $10,000

Smart Waikato Trust..... $32,000

Society of St Vincent de Paul - Hamilton..... $20,000

South East Kirikiriroa Community Association Inc. $10,000

Sport Waikato Education Trust $3,500

Sri Lanka Friendship Society Waikato Inc $2,000

St Albans Church Waingaro $5,000

StarJam Charitable Trust $6,000

Storytime Foundation Trust Board $5,000

Stroke Foundation Hamilton $1,500

Surfside Christian Life Centre $5,000

Swim Waikato Incorporated $16,000

Tainui Waka Cultural Trust $1,500

Taki Rua Productions Society Incorporated $5,000

Tamil Society Waikato Incorporated $1,000

Taupiri Bowling Club Inc $930

Taupiri Youth Group Charitable Trust $2,500

Te Akau Waingaro Community Inc $3,000

Te Awa River Ride Charitable Trust $40,000

Te Kauwhata and Districts Information and Support Centre Inc $12,000

Te Kauwhata Health Awareness Society $15,000

Te Kauwhata Retirement Trust Board $1,500

Te Kauwhata Rugby Sports Club $15,000

Te Kohao Health Ltd $10,000

Te Pahu School PTA $2,350

Te Puna Oranga $95,000

Te Rongopai Community Trust $12,500

Te Whakaruruhau 2013 Incorporated $55,000

Te Whanau Putahi Trust $12,500

The Care Community Trust $3,500

The Community Waikato Trust $24,480

The Crosslight Trust $5,000

The Dyslexia Association of Waikato $3,000

The Great Pumpkin Carnival Inc $2,500

The Hamilton and Cambridge Farmers' Market Trust $3,000

The Hamilton Chinese Learning Centre Charitable Trust $3,000

The House of Grace Trust $7,500

The Institute for Child Protection Studies $20,000

The One Victoria Trust Board Inc $27,500

The Order of St John Central Region Trust Board $6,000

The Parenting Place $4,000

The Refugee Orientation Centre Trust $20,000

The Salvation Army Hamilton Community Ministries $17,500

The Scout Association of NZ - St Peter's Sea Scouts Group $5,000

The Taiohi Toa Trust $10,000

The Waikato Chapter of Barbershop Harmony NZ Inc. $4,000

The Waikato Society of Potters Inc $1,000

True Colours Children's Health Trust $22,500

Tui Trust $10,000

U Leisure Limited $8,000

Volunteering Waikato $15,000

Waerenga Hall Society Incorporated $3,000

Waikato Agricultural and Pastoral Association Inc $2,000

Waikato Area Girls Brigade $1,780

Waikato Christian Social Services Village Trust $10,000

Waikato Combined Equestrian Group Incorporated $5,000

Waikato Community Broadcasting Charitable Trust $4,800

Waikato Compassion Meditation Trust $2,000

Waikato Environment Centre Trust $45,000

Waikato Ethnic Family Services Trust $10,000

Waikato Hispano Latino Cultural Charitable Trust $2,500

Waikato Hockey Charitable Trust $20,000

Waikato Institute for Leisure & Sport Studies $10,000

Waikato Japanese Community Trust $2,000

Waikato Multicultural Council Inc $2,500

Waikato Paraplegic and Physically Disabled Association $12,500

Waikato Playcentre Association $22,500

Waikato Queer Youth Trust..... $5,000

Waikato Refugee Resettlement Society Inc..... $2,500

Waikato Regional Council $167,000

Waikato Regional Science
and Technology Fair..... $1,000

Waikato RiverCare Incorporated..... $1,200

Waikato Rocks Trust $4,000

Waikato Senior Indian Citizens Association Inc... $2,000

Waikato Society of Arts Inc. $2,000

Waikato Valley Cricket Association..... $3,000

Waikato Winter Show Association $2,000

Waikato Youth Empowerment Trust..... $22,500

Wakatoo Boxing Club Inc $5,000

Wanderers Sports Club Inc $5,000

West Hamilton Night Owls Rotary Trust $5,000

Western Community Association $17,500

Whaingaroa Environment Centre..... $15,000

Whitikahu Hall Committee $5,000

Xtreme Zero Waste..... $12,500

YMCA of Auckland Incorporated $5,000

Young Women's Christian
Association of Hamilton Inc. $12,000

Zeal Education Trust $37,500

TOTAL FUNDS ALLOCATED $2,499,981

PERFORMANCE MEASURES AGAINST TRUST DEED

ANNUAL PLAN

Clause 16.14 of the Trust Deed requires that a draft Annual Plan be prepared and issued for public submissions before the final Annual Plan is adopted.

The Annual Plan for 2016-17 was approved at the Trust meeting held 22 March 2016 after a draft was issued for public consultation on 24 February 2016 (13 submissions received).

2015-2019 Community Investment Strategy

The three key strategies from this five-year document were included in the Annual Plan:

- To maximise long term impact by being strategic and transformative
- Expand support beyond grantmaking
- Govern the Trust effectively and efficiently to be responsive to our community

OUTCOME AREAS:

Effective Community Investment

Refine and embed the new Community Investment Model.

- Quick Response rounds and Community Support rounds held (eight rounds in total in 2016/17)
- One new community loan initiated (Hamilton Gardens Summer Festival Foundation)
- Average grant size increased by 11% and number of grants reduced by 16%

Increase emphasis on supporting initiatives that enhance the image of the region and instil pride in the Waikato as a place to invest, work, live, play and study.

- Funding target exceeded for the Enhancing Image and Building Community Pride distributions focus area

Work with organisations to increase impact through organisational and leadership development and collaboration.

- Four Convening and Organisational Development grants allocated (Community & Enterprise Leadership Foundation, The Community Waikato Trust, Momentum Waikato Community Foundation, Waikato Regional Council/Waikato Means Business)
- Two participants supported to attend the 2016-17 CELF Programme

Sustainability

Communicate with the Company regarding Trust strategies and income streams including convertible note and the dividend.

- Two dividends received ($777,064 net and $350,000 net) during the period
- Convertible Note remains unchanged
- Quarterly meetings held with the Company to discuss progress against strategic objectives

Review of Investment in the Company and Valuation of the Company conducted as per the Trust Deed.

- Review of Investment undertaken by KPMG and presented to the Trust in December 2016
- Valuation of the Company undertaken by KPMG and presented to the Trust in March 2017

Develop a Statement of Investment Policy and Objectives for the Trust (SIPO)

- The SIPO, developed as a key governance document to guide investment decisions, was adopted at the Trust meeting held 23 August with Strategic Asset Allocations added in December 2016.

Engagement

Deliver 2016-17 Communications plan, including emphasis on highlighting the stories and successes of groups and organisations supported by the Trust.

- Fourteen newsletters/updates emailed to community groups during 2016-17 (including Vital Signs Report rollout)
- Eleven organisations highlighted in the Trust's 2015-16 Annual Report presented at the AGM
- Survey Monkey surveys of perceptions of applicant organisations and development of round table reporting – in planning
- New website went live December 2016
- Participation at Community Funding Expo held on 8 March 2017

Initiate Strategic Planning and community engagement process for Trust Five-Year Strategic Plan.

- Five-Year Strategic Plan adopted at Trust meeting held 28 February 2017
- Participation in Vital Signs community consultation hui on community priorities during May 2016 and attendance at launch event in October 2016

Partnership and Collaboration

Actively develop partnership and collaboration through (Multi-Year) Partnership grants.

- Ten organisations selected for multi-year grants which were approved at the Trust meeting held 13 December 2016
- Multi-year grants increased from 19% of usual distributions to 27%

Partner with Momentum Waikato Foundation and others in production of first Vital Signs Report in the Waikato.

- Vital Signs panels released in stages over six weeks from late August 2016 with official launches of the Report held at four Waikato venues in October 2016

Research different models of philanthropy with a view to continuing to embrace best practice.

- Grants Manager is continuing to work towards report

Implement Energy Efficiency Initiative in partnership with WEL Networks to promote the use of electric vehicles in the Waikato.

- The Company has led this initiative, installing four fast chargers in the region

The 2017-18 Annual Intentions Plan was approved at the Trust meeting held 28 March 2017 after a draft was issued for public consultation on 1 March 2016 (five submissions received).

ANNUAL REPORT

Clause 16.15 of the Trust Deed requires that an Annual Performance Report be prepared.

The 2015-16 Annual Report was adopted on 12 July 2016 and presented at the Annual General Meeting held 28 July 2016, where PwC (Hamilton office) was appointed Auditors of the Trust for the year ended 31 March 2017.

CHANGES TO THE TRUST DEED

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

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 (eg, changes to the election provisions) also require use of a public consultative (notice and submission) procedure.

There were no changes to the Trust Deed between 1 April 2016 and 31 March 2017.

The Trust Deed is available to view on the Trust's website under Trust Documents.

REVIEW OF INVESTMENT

Clause 8.1 of the Trust Deed requires that the Trustees regularly review their investment in WEL Networks Ltd. Clause 16.15 of the Trust Deed requires that the Annual Report includes the results of this review of investment.

For the period covered by this Annual Report, the Trust established the 2016-17 Annual Plan which contained the following performance measure under Performance Against Trust Deed:

- Conduct annual review of the operation and performance of the Directors of WEL Networks Ltd and review the Trust's investment in the Company in accordance with clauses 8 and 16.15 of the Trust Deed.

A summary of the key findings from the review is provided below. In carrying out the review, the Trust has considered the requirements of clauses 8.1, 8.2, 14.3 and 16.2 of the Trust Deed.

Information Used and Matters Covered

The Company's Annual Report for the 12 months ended 31 March 2016 was received 2 June 2016 and a full review of the Trust's investment in WEL Networks Ltd was presented to the Trust at the December 2016 Trust meeting. This review prepared by KPMG was comprehensive and analysed the following key areas

- Historical and forecast financial performance and position
- Key Drivers and KPIs
- Industry Outlook
- Capital Structure

The results of the review are as follows:

Group

- Financial Performance
  - The financial performance of the Group (as measured by return on invested capital and return on book equity) is below those of comparable companies due to the investment in Ultrafast Fibre (UFF), which has generated operating losses for the Group.
  - These comparator companies have not invested in UFF and are therefore not directly comparable.
- Consumer Discount
  - The IRD is currently reviewing consumer discounts. The Trust will keep a watching brief on this area.
- Gearing
  - As at FY16, WEL Networks Ltd has a moderate level of gearing when compared to other companies in the sector. This is expected to increase over the next year as the Company funds the connection costs associated with the roll out of the UFF network.

Electricity Distribution Business (EDB)

- Financial Performance
  - The accounting returns generated by the EDB are in line/slightly above those of other lines companies in New Zealand (after adjustment for the consumer discount).
- Non-Financial Performance
  - The non-financial performance of the EDB is above average when compared to other electricity distributors, and slightly ahead of targets set by WEL Networks for SAIDI and SAIFI YTD.
- Industry Outlook - Electricity
  - The Trust has received advice from an external

consultant on the impact of alternative technologies, and the impact for its investment and the Trust.

- WEL Networks Ltd has several strategic initiatives in process to position the EDB for changes arising from alternative technologies.

Ultrafast Fibre

- Construction
  - The construction of the fibre network was completed (as at 31 December 2015) ahead of schedule. The focus of the Company is now on connecting customers.
- Connections
  - The demand for connections to the fibre network has exceeded initial expectations.
  - FY17 is projected to be the most significant year yet for new connections to the UFF network, with the penetration rate expected to exceed 50% by the end of FY17.
- Financial Performance
  - Waikato Networks Ltd (WNL) is forecast to make losses (expressed on a Net Profit After Tax basis) for the next two years as it connects customers, and services borrowings used to build the network.
  - The Company is forecast to be profitable at an operating level (EBIT) from FY17.
- Non-Financial Performance
  - Crown Fibre Holding's review of UFF's operating performance concluded that it is within target performance measures for FY15.
- Future Investment Requirements
  - Waikato Networks Ltd will require further investment of approximately $276million over the next three years. This will be funded by way of shareholder loans.
- Future UFF Investments (UFB2)
- WEL Networks Ltd submitted a proposal for the provision of the rural ultrafast broadband with the aim of maximising shareholder return.
- Acquisition of Crown Fibre Holdings Share in UFF
  - WNL acquired.

A review of Directors was completed in November 2016 using the Institute of Directors Better Board evaluation model. The overall evaluation demonstrated good alignment within the Board and the results also reflected an ongoing commitment to continuous improvement.

STRATEGIC DIRECTION, TARGETS AND MEASURES

Clause 16.2 of the Trust Deed requires that the Trust monitors the performance of the Directors of the Company with respect to WEL Networks Ltd's Strategic Direction, Targets and Measures document. WEL Networks Ltd submits this document to the Trust each year for comment and approval.

The document is prepared and agreed to ensure that the Directors and Management of WEL Networks Ltd are directing the Company in a manner that is aligned with the goals of the Trust as owner. It incorporates both longer term strategic direction and shorter term annual objectives.

The Trust has reviewed WEL Networks Ltd's performance against its Strategic Direction, Targets and Measures and is satisfied that the targets are being substantially met. The document for 2016-17 was endorsed by the Trust at its meeting on 28 June 2016.

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 2017 are as follows:

Trust 2016 Actual $000		Trust 2017 Actual $000	Trust 2017 Budget $000
	Income		
3,048	Interest	2,877	2,975
351	Dividends	1,127	350
-	Other	230	-
-	Gains/(losses) on the investment portfolio	(160)	-
3,399		4,074	3,325
	Operating Expenditure		
368	Management and administration	392	388
-	Election	2	-
18	Communications	13	24
269	Representation	246	265
31	WEL Network shareholding	112	83
20	Special projects & trust deed policy	-	18
20	Distribution expenses	19	32
726	**Total Operating Expenditure**	784	810
2,673	*Net Operating Profit*	3,290	2,515
(25)	Gain/(Loss) on revaluation of loan to fair value	(2)	14
2,648	*Profit/(Loss) before Distributions*	3,288	2,529
2,636	**Distributions**	2,468	2,500
12	*Net Profit/(Loss) before Tax*	820	29
33	Taxation	32	-
45	***Adjusted Net Profit/(Loss) after Tax**	**852**	**29**

(b) Trust Capital Fund and Trust Income Fund

The movements in the Capital Fund and Income Fund against budget for the year ended 31 March 2017 are as follows:

Trust 2016 Actual $000		Trust 2017 Actual $000	Trust 2017 Budget $000
	CAPITAL FUND		
52,067	Vested Capital	52,067	52,067
52,067	**Total Capital Fund**	52,067	52,067
	INCOME FUND		
86,207	Opening Retained Earnings	86,252	86,383
45	*Adjusted Net Surplus for the Period	852	29
86,252	**Total Income Fund**	87,104	86,412
138,319	**Total Equity**	**139,171**	**138,479**

* Adjusted net profit/(loss) includes gains / losses on the investment portfolio which are presented in Other Comprehensive Income in the Financial Statements

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 to five years. The last review was undertaken in June 2015 and no changes were made.

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 advertised for the public to attend, and agendas and minutes are also available on the Trust's website under Trust Documents. 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 meetings.

A copy of the guidelines can be found on the Trust's website under Trust Documents.

Six requests for information were received in 2016-17.


THE PACIFIC
CRYSTAL PALACE
CRYSTAL PALACE
furniture.com
in dog we trust
PAPER SHAPER
DON JUAN
24/25 FEB
Arts Festival
17-26 FEB
2017
GET YOUR TICKETS NOW!

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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

The financial statements report on both the WEL Energy Trust as the Trust 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

Chair
11 July 2017

Deputy Chair
11 July 2017

FINANCIALS

STATEMENTS OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017 $'000	Group 2016 $'000	Trust 2017 $'000	Trust 2016 $'000
Revenue and other income	4	**177,530**	204,812	**4,234**	3,399
Expenses, excluding finance costs	5	**(143,650)**	(179,851)	**(784)**	(726)
Loss on loans advanced	13	**(2)**	(25)	**(2)**	(25)
Grants		**(2,468)**	(2,636)	**(2,468)**	(2,636)
Finance income/(costs)	6	**(8,866)**	(7,247)	**-**	-
Operating surplus/(deficit) before tax and share of equity accounted investments		**22,544**	15,053	**980**	12
Share of net profits/revaluations of existing interest in associates		**87,234**	(2,160)	**-**	-
Surplus before tax		**109,778**	12,893	**980**	12
Income tax (expense)/credit	7	**(6,477)**	(4,774)	**32**	33
Surplus after tax		**103,301**	8,119	**1,012**	45
Other comprehensive revenue and expense					
Items that may be reclassified to surplus/(deficit)					
Cash flow hedges (net of tax)	18	**2,452**	(4,439)	**-**	-
Gain/(loss) on the fair value of financial instruments	18	**(160)**	-	**(160)**	-
		2,292	(4,439)	**(160)**	-
Items that will not be reclassified to surplus/(deficit)					
Disposal of property, plant and equipment (net of tax)	18	**566**	773	**-**	-
Total other comprehensive revenue and expenses		**2,858**	(3,666)	**(160)**	-
Total comprehensive revenue and expense		**106,159**	4,453	**852**	45
Surplus is attributable to:					
Equity holders of the Group and Trust		**91,181**	9,753	**1,012**	45
Non-controlling interest		**12,120**	(1,634)	**-**	
		103,301	8,119	**1,012**	45
Total comprehensive revenue and expense attributable to:					
Equity holders of the Group and Trust		**94,039**	6,087	**852**	45
Non-controlling interest		**12,120**	(1,634)	**-**	-
		106,159	4,453	**852**	45

The above statements of comprehensive revenue and expense should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2017

		Group		Trust	
	Note	**2017 $'000**	2016 $'000	**2017 $'000**	2016 $'000
ASSETS					
Current assets					
Cash and cash equivalents		**6,731**	16,494	**1,119**	12,445
Trade and other receivables	8	**19,876**	24,301	**12**	272
Current tax receivables		**2,554**	581	**41**	41
Loans advanced	13	**97**	92	**97**	92
Construction work in progress	10	**-**	32,062	**-**	-
Total current assets		**29,258**	73,530	**1,269**	12,850
Non-current assets					
Derivative financial instruments	23	**892**	-	**-**	-
Property, plant and equipment	9	**987,785**	578,085	**13**	17
Intangible assets	11	**81,445**	17,770	**8**	5
Investment in associate		**-**	134,455	**-**	-
Investment in subsidiaries	22	**-**	-	**124,797**	124,797
Loans advanced	13	**917**	925	**917**	925
Deferred tax assets	17	**53**	20	**53**	20
Available for sale financial assets	12	**12,322**	-	**12,322**	-
Total non-current assets		**1,083,414**	731,255	**138,110**	125,764
Total assets		**1,112,672**	804,785	**139,379**	138,614
LIABILITIES					
Current liabilities					
Trade and other payables	14	**10,994**	37,672	**208**	295
Loan from non-controlling interest	20	**63,336**	30,455	**-**	-
Provisions	15	**3,811**	2,282	**-**	-
Deferred income		**8,952**	-	**-**	-
Customer discount payable		**17,391**	18,836	**-**	-
Total current liabilities		**104,484**	89,245	**208**	295
Non-current liabilities					
Derivative financial instruments	23	**5,457**	7,972	**-**	-
Borrowings	16	**381,707**	199,859	**-**	-
Provisions	15	**481**	567	**-**	-
Deferred tax liabilities	17	**82,715**	75,280	**-**	-
Deferred income		**974**	1,167	**-**	-
Total non-current liabilities		**471,334**	284,845	**-**	-
Total liabilities		**575,818**	374,090	**208**	295
Net assets		**536,854**	430,695	**139,171**	138,319
Net assets/equity					
Contributed equity	18	**52,067**	52,067	**52,067**	52,067
Accumulated funds	18	**373,417**	280,212	**87,264**	86,252
Reserves	18	**102,586**	101,752	**(160)**	-
Total equity attributable to the equity holders of the Group and Trust		**528,070**	434,031	**139,171**	138,319
Non controlling interest		**8,784**	(3,336)	**-**	-
Total net assets/equity		**536,854**	430,695	**139,171**	138,319

Chair

11 July 2017

Deputy Chair

11 July 2017

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

FINANCIALS

STATEMENTS OF CHANGES IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

Group	Contributed equity $'000	Reserves $'000	Accumulated funds $'000	Total $'000	Non-controlling interest $'000	Total net assets/equity $'000
Balance as at 1 April 2015	52,067	108,178	267,699	427,944	(1,702)	426,242
Comprehensive revenue and expenses						
Surplus or deficit for the year	-	-	9,753	9,753	(1,634)	8,119
Movement in revaluation from disposal of distribution network assets (net of tax)	-	(1,987)	2,760	773	-	773
Cash flow hedges (net of tax)	-	(4,439)	-	(4,439)	-	(4,439)
Total comprehensive revenue and expenses	-	(6,426)	12,513	6,087	(1,634)	4,453
Balance as at 31 March 2016	52,067	101,752	280,212	434,031	(3,336)	430,695
Balance as at 1 April 2016	52,067	101,752	280,212	434,031	(3,336)	430,695
Comprehensive revenue and expenses						
Surplus or deficit for the year	-	-	91,181	91,181	12,120	103,301
Movement in revaluation from disposal of distribution network assets (net of tax)	-	(1,458)	2,024	566	-	566
Cash flow hedges (net of tax)	-	2,452	-	2,452	-	2,452
Gain/(loss) on the fair value of available for sale financial instruments	-	(160)	-	(160)	-	(160)
Total comprehensive revenue and expenses	-	834	93,205	94,039	12,120	106,159
Balance as at 31 March 2017	52,067	102,586	373,417	528,070	8,784	536,854
Trust						
Balance as at 1 April 2015	52,067	-	86,207	138,274	-	138,274
Comprehensive revenue and expenses						
Surplus or deficit for the year	-	-	45	45	-	45
Total comprehensive revenue and expenses	-	-	45	45	-	45
Balance as at 31 March 2016	52,067	-	86,252	138,319	-	138,319
Balance as at 1 April 2016	52,067	-	86,252	138,319	-	138,319
Comprehensive revenue and expenses						
Surplus or deficit for the year	-	-	1,012	1,012	-	1,012
Gain/(loss) on the fair value of available for sale financial instruments	-	(160)	-	(160)	-	(160)
Total comprehensive revenue and expenses	-	(160)	1,012	852	-	852
Balance as at 31 March 2017	52,067	(160)	87,264	139,171	-	139,171

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

STATEMENTS OF CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2017

	Note	Group 2017 $'000	Group 2016 $'000	Trust 2017 $'000	Trust 2016 $'000
Cash flows from operating activities					
Receipts from customers		**165,239**	203,550	**-**	-
Payments to employees and suppliers		**(116,865)**	(138,497)	**(742)**	(759)
Interest received		**670**	636	**3,119**	3,092
Income tax paid		**(3,927)**	(2,527)	**-**	(29)
Dividends received		**-**	-	**1,127**	351
Grants paid		**(2,592)**	(2,685)	**(2,592)**	(2,685)
Loan principal payments received		**100**	127	**100**	127
Loans advanced		**(80)**	(500)	**(80)**	(500)
Net cash flow from operating activities	27	**42,545**	60,104	**932**	(403)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(78,099)**	(42,648)	**-**	(2)
Purchase of intangible assets		**(3,753)**	(2,588)	**(8)**	-
Purchase of investments		**(176,871)**	(74,418)	**(12,250)**	-
Net cash flow from investing activities		**(258,723)**	(119,654)	**(12,258)**	(2)
Cash flows from financing activities					
Proceeds from borrowings		**215,281**	74,893	**-**	-
Interest paid		**(8,866)**	(8,739)	**-**	-
Net cash flow from financing activities		**206,415**	66,154	**-**	-
Net (decrease)/increase in cash and cash equivalents		**(9,763)**	6,604	**(11,326)**	(405)
Cash and cash equivalents at the beginning of the year		**16,494**	9,890	**12,445**	12,850
Cash and cash equivalents at the end of the year		**6,731**	16,494	**1,119**	12,445

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

1 Statement of accounting policies for the year ended 31 March 2017

1.1 Reporting entity

WEL Energy Trust, a Trust as defined in its Trust Deed, is the holding entity of WEL Networks Limited, a 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 also delivers 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 Limited operates as a successful business, as well as having regard to consumer interest in the regulation of the electricity and fibre industries and distributing surplus income in accordance with its Trust Deed.

The Trust has designated itself and the Group as public benefit entities (PBEs) for financial reporting purposes.

The financial statements of the Trust and Group are for the year ended 31 March 2017. The financial statements were authorised for issue by the Trust on 11 July 2017.

Once issued the Trustees do not have the power to amend these financial statements.

2 Summary of significant accounting policies

2.1 Statement of compliance and basis of preparation

Statement of compliance

The financial statements of the Trust and of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with Public Benefit Entity Standards (PBE Standards) and authoritative notices that are applicable to entities that apply PBE Standards.

The Group is classified as a Tier 1 reporting entity and it applies full PBE Standards. These standards are based on International Public Sector Accounting Standards.

Measurement base

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of land and buildings, certain infrastructural assets and certain financial instruments (including derivative instruments).

Standards, amendments to existing standards adopted

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2016 which the Group has adopted in preparation of its March 2017 financial statements.

Disclosure initiative (Amendments to PBE IPSAS 1) (Effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted). The amendments are to specify further disclosure requirements and guidance on making disclosures. The initiative did not result in any significant change to financial statement disclosure.

2015 Omnibus Amendments to PBE Standards (Effective for annual periods beginning on or after 1 January 2016. Early adoption is permitted). The amendments make a number of further clarifications across a number of standards. There was no significant impact to the financial statements.

Standards, amendments to existing standards that are not effective

Amendments and interpretations effective subsequent to year end 31 March 2017 are not expected to have a significant impact on disclosures in subsequent reporting periods.

2 Summary of significant accounting policies (continued)

PBE conceptual framework

In May 2016, the NZASB issued a new Public Benefit Entity Conceptual Framework (PBE Framework). The PBE Framework is based on the Conceptual Framework issued by the International Public Sector Accounting Standards Board (IPSASB) with some modifications to make it suitable for application by PBEs in New Zealand. In particular, the NZASB has:

- added a definition of equity for completeness;

- retained the potential to recognise 'other resources and obligations' that do not meet the definition of an asset or liability pending the IPSASB's completion of its project on non-exchange revenue and expenses, but noted that the NZASB would carefully consider the suitability for New Zealand of any requirements the IPSASB establishes in respect of such items;

- tailored some of the wording to make it suitable for public sector and not-for profit PBEs in a New Zealand context.

The PBE Framework does not result in an immediate change to accounting requirements, but it will provide the foundation for and influence the development of PBE Standards based on IPSAS.

The accounting policies have been applied consistently throughout the financial year.

2.2 Consolidation

Subsidiaries

The Group 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 2017 and the results of WEL Energy Trust and WEL Networks Limited and its subsidiaries for the year then ended. The Trust's subsidiary WEL Networks Limited and its other 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.

Acquisition-related costs are expensed as incurred.

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

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

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.

Changes in ownership interests in subsidiaries without change of control

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

2 Summary of significant accounting policies (continued)

2.3 Revenue

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

Exchange revenue

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

Sale of fibre network access services
The Group recognises revenue as it provides services to retail service providers. Billing for network access services are made on a monthly basis. Unbilled revenue from the date of connection to the billing cycle date is recognised in the month of service. Revenue is deferred in respect of the portion of the fixed monthly charges that have been billed in advance. Revenue from installations and connections are recognised upon completion of the installation or connection.

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.

Operating lease revenue
An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as income on a straight-line basis over the lease term.

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

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

2.4 Income tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years.

Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable surplus.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled,based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

2 Summary of significant accounting policies (continued)

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting surplus or deficit nor taxable surplus.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive revenue and expense or directly in net assets/equity.

2.5 Cash and cash equivalents

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

2.6 Trade and other receivables

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

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

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss component of the statements of comprehensive revenue and expenses within 'other expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'other expenses' in the profit and loss component of the statement of comprehensive revenue and expenses.

2.7 Loans advanced

Concessionary loans given below market rate are recognised initially at fair value and subsequently measured at amortised cost. Effective interest and associated transaction costs are charged to the surplus or deficit component of the statements of comprehensive revenue and expenses over the term of the loan.

2.8 Impairment of non financial assets

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

Value in use for non-cash-generating assets

Non-cash-generating assets are those assets that are not held with the primary objective of generating a commercial return. For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Value in use for cash-generating assets

Cash-generating assets are those assets that are held with the primary objective of generating a commercial return. The value in use for cash-generating assets and cash-generating units is the present value of expected future cash flows.

2 Summary of significant accounting policies (continued)

2.9 Property, plant and equipment

Land and buildings are recorded at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The electricity distribution and fibre networks are also measured at fair value on the basis of an independent valuation prepared by expert valuers using a discounted cash flow method on at least a triennial period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads. Borrowing costs are capitalised in respect of qualifying assets. For the Electricity Network qualifying assets are valued at $200,000 or more and which take more than three months to construct, for the Fibre Network qualifying assets relate to the construction of the fibre network.

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

Labour is capitalised against network, connection and software assets. Labour costs are capitalised in the period in which they are incurred and are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Land is not depreciated and assets under construction are not depreciated until the asset is ready for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	35 years
Distribution network	6 - 70 years
Fibre network	5 - 40 years
Computer hardware	2 - 4 years
Plant and equipment	3 - 20 years
Motor vehicles	4 - 20 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within expenses in the statement of comprehensive revenue and expenses.

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

2 Summary of significant accounting policies (continued)

2.10 Intangible assets

Goodwill
Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

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

Leasehold Interest
Long term leasehold interest in substation land has been recorded at fair value. The assets will be amortised over the period of the leases on a straight line basis.

2.11 Investments and other financial assets

The Group classifies its financial assets in the following categories: available for sale, at fair value through surplus or deficit 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.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise ‘trade and other receivables’, ‘cash and cash equivalents’, and 'loans advanced' in the balance sheet.

2 Summary of significant accounting policies (continued)

Available-for-sale financial assets

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The Trust and Group includes in this category:

- investments that it intends to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

On derecognition, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity to the surplus or deficit.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date which is the date on which the Group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the surplus or deficit component of the statement of comprehensive revenue and expenses. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value are presented through the surplus or deficit component of the statement of comprehensive revenue and expenses within expenses in the period in which they arise. Dividend income from financial assets at fair value is recognised in the surplus or deficit component of the statement of comprehensive revenue and expenses as part of other income when the Group's right to receive payments is established.

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

Impairment of financial assets

Assets carried at amortised cost

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

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

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

2.12 Financial liabilities

Other financial liabilities at amortised cost.

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

2 Summary of significant accounting policies (continued)

2.13 Fair value estimation

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

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

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

2.14 Trade and other payables

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

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

2.15 Employee benefits

Wages, salaries, annual leave and sick leave

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

Termination benefits

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

Employee benefits

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.16 Interest bearing liabilities

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

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

2 Summary of significant accounting policies (continued)

2.17 Borrowing costs

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

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

2.18 Grant expenditure

The Trust's grant expenditure is discretionary. The Trust has no obligation to award on receipt of the grant application. The grants are recognised as expenditure in 'Grants' in the surplus or deficit component of the statements of comprehensive revenue and expenses when approved by the Trust, and the approval has been communicated to the applicant, and to the extent that the applicant is expected to meet the substantive conditions attached. A number of grants are for a multi-year period where the grant will be reviewed annually and the Trust has no obligation to continue the grant funding for each subsequent annual period. Where this is the case, a liability is not recognised until the conditions are met by the recipient. Where the recipient has not utilised the funding as expected and returns the grant, the Trust recognises a deduction to 'Grants' in the surplus or deficit component of the statements of comprehensive revenue and expenses.

2.19 Derivatives

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

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

- hedges of a net investment in a foreign operation (net investment hedge).

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 24. Movements on the hedging reserve in other comprehensive revenue and expenses come are shown in note 18 . The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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 revenue and expenses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss component of the statement of comprehensive revenue and expenses within expenses.

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

2 Summary of significant accounting policies (continued)

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

2.20 Equity

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

- Contributed equity
- Accumulated funds
- Reserves

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

Reserves
These reserves relate to the: property plant and equipment revaluation reserve and the cash flow hedge reserve.

Property revaluation reserve
This reserve relates to the revaluation of property, plant, and equipment to fair value.

Cash flow hedge reserve
This reserve comprises the effective portion of the cumulative net change in the fair value of derivatives designated as cash flows hedges.

Available for sale financial assets reserve

This reserve comprises the net change in the fair value of financial assets designated as available for sale financial assets.

2.21 Investments in subsidiaries

Investments in subsidiaries in the Trusts' financial statements are stated at cost less impairment.

2.22 Dividend distribution

Dividend distribution to the Trust is recognised as a receivable in the Trust's financial statements in the period in which the dividends are approved.

2.23 Foreign currency transactions

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

2 Summary of significant accounting policies (continued)

2.24 Provisions

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

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

2.25 Convertible notes

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

Interest payments on convertible notes are recorded as a distribution through the statement of movements in equity. The interest rate is 6.28% for the period 1 April 2016 to 31 March 2020.

2.26 Goods and services tax

The surplus or deficit component of the statements of comprehensive revenue and expenses has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

2.27 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 surplus or deficit component of the statements of comprehensive revenue and expenses on a straight line basis over the period of the lease

2.28 Changes in accounting policies

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

2.29 Contract work in progress

For the five months of the financial year up to the date of acquisition of Ultrafast Fibre Limited, contract work in progress was stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts and an allocation of general overhead expenses incurred by the Group's contract operations.

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

Construction contract revenue is calculated on an average cost per premise connected and is recognised when the network is ready to be used by Ultrafast Fibre Limited.

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.

Estimated fair value of electricity lines distribution and fibre network assets, substation land and buildings.

The Group estimates the fair value of the distribution network, substation land and buildings and fibre network by using independent valuers. 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. Refer to note 9.

Estimated lives of electricity lines and fibre network assets

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 to the underlying assumptions of the valuation in the future could have a material effect on the carrying amount of the distribution network. Refer to note 9.

Impairment testing of Goodwill

The Group is required to test goodwill and other non-amortising intangible assets at least annually for impairment. Determining the receivable amount for impairment testing purposes requires the use of judgement and estimation in relation to future forecast performance of the underlying cash generating unit. Refer to note 11.

Deferred tax asset

Included in the balance sheet at 31 March 2017 is deferred tax liability of $16.9 million arising principally from the recognition of tax on the revaluation of the network assets and recognition of tax losses in Ultrafast Fibre Limited. PBE IAS 12 Income Taxes requires the recovery of the losses to be probable in order to be recognised in the balance sheet. For the losses to be recoverable the Group requires to have, within prescribed limits, continuity of ownership through to the period in which the losses are utilised and foreseeable profits to use against.

The shareholders agreement provided for joint and equal control between Crown Fibre Holdings and Waikato Networks Limited throughout the concession period and control is not determined by the number of A shares held. This view was submitted to the Inland Revenue Department together with Enable, Northpower and Crown Fibre Holdings and a nonbinding indicative view was received. The purchase of CFH's A shares by WNL is a 50% change in shareholding, and therefore the minimum 49% shareholder continuity requirement has been maintained. On this basis the Group has continued to recognise the total deferred tax asset associated with these losses on the basis that recovery of the losses is probable. Refer to note 17.

Acquisition of Ultrafast Fibre Limited

The acquisition of Ultrafast Fibre Limited involves significant judgement and estimation in determining the fair value of the previously held equity interest as well as the fair value of assets acquired and liabilities assumed. Refer to note 21.

The Group has adopted the provisions of PBE IFRS 3 Business Combinations which permits presenting the acquisition of Ultrafast Fibre Limited on a provisional basis.

4 Revenue and other income

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Rendering of services				
Gross line revenue	**121,185**	117,677	**-**	-
Discount	**(17,344)**	(18,590)	**-**	-
Net line revenue	**103,841**	99,087	**-**	-
Fibre revenue	**23,113**	-	**-**	-
Third party contributions	**10,179**	5,096	**1**	-
Contracting sales	**32,414**	94,021	**-**	-
Operating lease revenue	**2,826**	2,805	**-**	-
Other income	**4,730**	3,211	**230**	-
Interest				
Interest on investments	**365**	532	**365**	532
Interest on community loans	**62**	60	**62**	60
Interest on convertible notes	**-**	-	**2,449**	2,456
Dividends				
Dividend received	**-**	-	**1,127**	351
	73,689	105,725	**4,234**	3,399
	177,530	204,812	**4,234**	3,399

5 Expenses, excluding finance costs

Transmission charges	**29,528**	28,601	**-**	-
Contracting cost of sales	**29,310**	97,159	**-**	-
Employee benefits	**33,201**	27,255	**250**	233
Capitalised labour	**(20,224)**	(20,403)	**-**	-
Materials and services	**7,589**	6,716	**-**	-
Premise networking costs	**4,273**	-	**-**	-
Net loss on disposal of property, plant and equipment	**3,031**	2,633	**1**	4
Operating leases	**883**	298	**41**	41
Directors and Trustee fees	**596**	512	**189**	215
Bad debts written off	**225**	523	**-**	-
Change in provision for impaired receivables	**42**	(138)	**-**	-
Other expenses	**20,676**	11,986	**294**	222
Depreciation and amortisation expense	**34,520**	24,709	**9**	11
	143,650	179,851	**784**	726

Surplus before income tax includes the following specific expenses:

Depreciation by asset class:				
Fibre network	**9,973**	-	**-**	-
Motor vehicles	**208**	847	**-**	-
Buildings	**149**	148	**-**	-
Plant and equipment	**3,569**	3,824	**4**	6
Distribution network	**17,408**	16,597	**-**	-
Computer hardware	**738**	387	**-**	-
Total depreciation	**32,045**	21,803	**4**	6

5 Expenses, excluding finance costs (continued)

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Amortisation of intangible assets:				
Easements and consents	**93**	121	**-**	-
Computer software	**2,382**	2,568	**5**	5
Total amortisation	**2,475**	2,906	**5**	5
Total depreciation and amortisation	**34,520**	24,709	**9**	11
Auditors' fees				
(a) Remuneration of auditors (PwC)				
Amounts paid or payable to the auditors of WEL Energy Trust and Group				
Audit financial statements	**205**	168	**25**	21
Half year review	**44**	22	**-**	-
Assurance procedures on disclosure information	**75**	37	**-**	-
Other reviews	**-**	8	**-**	-
Total remuneration for assurance services	**324**	235	**25**	21
(b) Taxation services - PwC				
Tax advice	**-**	49	**-**	-
Total remuneration for taxation services	**-**	49	**-**	-
(c) Other services - PwC				
Provision of licence for financial reporting software	**28**	14	**-**	-
Other advisory services	**6**	67	**-**	9
Total remuneration for other services	**34**	81	**-**	9
	358	365	**25**	30

Auditors' fees are recognised within 'other expenses'.

6 Finance income/(costs)

Interest income - term deposits	**(119)**	(114)	**-**	-
Interest and finance charges paid/payable	**15,485**	9,654	**-**	-
Capitalised interest	**(6,500)**	(2,293)	**-**	-
Net finance costs	**8,866**	7,247	**-**	-

7 Income tax

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current tax	**1,760**	2,890	**1**	(25)
Deferred tax	**4,717**	1,884	**(33)**	(8)
Tax expense	**6,477**	4,774	**(32)**	(33)
Relationship between tax expense/(credit) and accounting surplus				
Surplus before tax	**109,778**	12,893	**980**	12
Tax calculated at 28% and 33%	**30,738**	3,610	**323**	4
Tax effect of:				
Non-deductible expenditure	**444**	912	**429**	810
Non-taxable income	**(24,235)**	41	**39**	41
Grants distributed	**(813)**	(869)	**(824)**	(869)
Prior year adjustment	**141**	475	**1**	(19)
Share loss of joint venture	**202**	605	**-**	-
Tax expense/(credit)	**6,477**	4,774	**(32)**	(33)

The tax on the Group's and Trust's surplus before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to surplus.

The Trust's income tax rate is 33% and its subsidiaries are at the company tax rate of 28% (2016: 33% and 28%).

(d) Imputation credits

Imputation credits available for subsequent reporting periods based on a tax rate of 28% (2016: 28%)	**32,231**	30,389	**-**	-
	32,231	30,389	**-**	-

8 Trade and other receivables

Exchange transactions				
Net trade receivables				
Trade receivable	**18,798**	10,144	**1**	-
Amounts due from customer for contract work	**173**	193	**-**	-
Provision for doubtful receivables	**(505)**	(308)	**-**	-
	18,466	10,029	**1**	-
Related party receivables (note 20)	**210**	13,219	**-**	-
Interest receivable on short term deposits	**-**	263	**-**	263
Prepayments	**1,200**	790	**11**	9
Total net trade and other receivables from exchange transactions	**19,876**	24,301	**12**	272
Total net trade and other receivables from non-exchange transactions	**-**	-	**-**	-
Total net trade and other receivables	**19,876**	24,301	**12**	272

8 Trade and other receivables (continued)

(a) Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 24.

(b) Impaired receivables

As of 31 March 2017, trade receivables for the Group of $1.7 million (2016: $0.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of all trade receivables, net of provisions is as follows:

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Current	**16,832**	9,337	**-**	-
Less than one to three months	**174**	73	**-**	-
Three to six months	**1,460**	2	**-**	-
Over six months	**-**	617	**-**	-
	18,466	10,029	**-**	-

9 Property, plant and equipment

Group	Electricity Distribution network $'000	Fibre Network $'000	Land and buildings $'000	Plant and equipment $'000	Motor vehicles $'000	Computer hardware $'000	Assets under construction $'000	Total $'000
Year ended 31 March 2016								
Opening net book amount	506,276	-	11,866	26,317	4,358	1,062	7,727	557,606
Additions	35,875	-	-	7,680	1,044	165	1,333	46,097
Disposals	(3,294)	-	-	(170)	(273)	(78)	-	(3,815)
Depreciation charge (note 5)	(16,597)	-	(148)	(3,824)	(847)	(387)	-	(21,803)
Closing net book amount	522,260	-	11,718	30,003	4,282	762	9,060	578,085
At 31 March 2016								
Cost	660,588	-	12,236	42,609	6,762	2,235	9,060	733,490
Valuation	-	-	-	-	-	-	-	-
Accumulated depreciation	(138,328)	-	(518)	(12,606)	(2,480)	(1,473)	-	(155,405)
Net book amount	522,260	-	11,718	30,003	4,282	762	9,060	578,085
Year ended 31 March 2017								
Opening net book amount	522,260	-	11,718	30,003	4,282	762	9,060	578,085
Additions	31,079	35,354	531	6,551	4,479	562	11,483	90,039
Disposals	(4,320)	-	(473)	(2,850)	(4,035)	(17)	(8,461)	(20,156)
Acquired through business combination	-	366,780	-	-	-	912	4,170	371,862
Depreciation charge (note 5)	(17,408)	(9,973)	(149)	(3,569)	(208)	(738)	-	(32,045)
Closing net book amount	531,611	392,161	11,627	30,135	4,518	1,481	16,252	987,785
At 31 March 2017								
Cost	686,419	402,134	12,293	44,814	7,740	3,328	16,252	1,172,980
Valuation	-	-	-	-	-	-	-	-
Accumulated depreciation	(154,808)	(9,973)	(666)	(14,679)	(3,222)	(1,847)	-	(185,195)
Net book amount	531,611	392,161	11,627	30,135	4,518	1,481	16,252	987,785
Trust								
Year ended 31 March 2016								
Opening net book amount	-	-	-	24	-	-	-	24
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	(1)	-	-	-	(1)
Depreciation charge (note 5)	-	-	-	(6)	-	-	-	(6)
Closing net book amount	-	-	-	17	-	-	-	17
At 31 March 2016								
Cost	-	-	-	59	-	-	-	59
Valuation	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	(42)	-	-	-	(42)
Net book amount	-	-	-	17	-	-	-	17
Year ended 31 March 2017								
Opening net book amount	-	-	-	17	-	-	-	17
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation charge (note 5)	-	-	-	(4)	-	-	-	(4)
Closing net book amount	-	-	-	13	-	-	-	13
At 31 March 2017								
Cost	-	-	-	50	-	-	-	50
Valuation	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	(37)	-	-	-	(37)
Net book amount	-	-	-	13	-	-	-	13

The amount of interest capitalised was $6,500,394 (2016: $952,368).

9 Property, plant and equipment (continued)

Revaluations and impairment review
The key assumptions used in the valuation of the electricity distribution network as at 31 March 2016 include growth assumptions and the discount rate.

Description	Valuation assumptions adopted	Low	High	Valuation impact *
WACC	6.5%	7%	6%	+/- $22m
CPI	2.0%	1.5%	2.5%	+/- $24m
Real Growth	2.25%	1.75%	2.75%	+/- $4m

* impact between the adopted assumption and the low/high assumption.

Revaluations and impairment review

Land and buildings were revalued to market value for highest and best use on a value in use basis, on 31 March 2013 by independent valuers, Telfer Young (Waikato) Ltd Registered Valuers using a comparable sales approach.

The Group's electricity distribution network was revalued as at 31 March 2016 to fair value by Deloitte. The fair values were established in accordance with PBE IPSAS 17 Property, Plant and Equipment. The valuation was prepared using discounted cash flow methodology.

If the assets were measured using a historical cost basis they would be recorded as follows:

	Land and buildings $'000	Distribution network $'000	Fibre network $'000
Group			
Cost	10,020	513,016	-
Accumulated depreciation	(518)	(168,050)	-
Net book amount at 31 March 2016	9,502	344,966	-
Cost	9,600	536,607	402,134
Accumulated depreciation	(666)	(177,955)	(9,973)
Net book amount at 31 March 2017	8,934	358,652	392,161

The key assumptions used in the valuation of the Fibre Network as at 31 August 2016 include the following assumptions:

The Group's fibre network was revalued as at 31 August 2016 by Ernst & Young. The fair values were established in accordance with NZ IFRS-3 Business combinations and were deemed cost to WEL Networks Limited. The valuation was prepared using discounted cash flow methodology.

Key Assumptions include:

- Weighted Average Revenue Per User (ARPU) of $48.75 in 2016/2017 increasing to $50.81 in 2023 and beyond.

- New Connections of 100,000 over the next 40 years

- Uptake terminal penetration of 70% reached by 2022.

- Weighted average connection costs of $1,492 in 2016/2017, increasing by inflation over the next 40 years.

10 Construction work in progress

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Amounts expected to be recovered within 12 months	-	29,492	-	-
Amounts expected to be recovered after more than 12 months	-	2,570	-	-
Net amount due from customers	-	32,062	-	-
Made up of:				
Layer one	-	23,062	-	-
Layer two	-	(10,812)	-	-
Connections	-	19,812	-	-
	-	32,062	-	-
Analysed as:				
Contract costs incurred	-	312,689	-	-
Less: progress billings	-	(280,627)	-	-
	-	32,062	-	-
Revenue from construction contracts	-	82,576	-	-

11 Intangible assets

Group	**Goodwill $'000**	**Assets under construction $'000**	**Computer software $'000**	**Easements and consents $'000**	**Leasehold interest $'000**	**Total $'000**
Year ended 31 March 2016						
Opening net book amount	5,182	1,367	5,251	4,921	107	16,828
Additions	2,961	-	2,339	249	-	5,549
Disposals	-	(822)	(879)	-	-	(1,701)
Impairment charge	-	-	(2,785)	(121)	-	(2,906)
Closing net book amount	8,143	545	3,926	5,049	107	17,770
At 31 March 2016						
Cost	8,143	545	20,017	7,233	107	36,045
Accumulated amortisation and impairment	-	-	(16,091)	(2,184)	-	(18,275)
Net book amount	8,143	545	3,926	5,049	107	17,770
Year ended 31 March 2017						
Opening net book amount	8,143	545	3,926	5,049	107	17,770
Additions	-	43	3,526	184	-	3,753
Disposals	(116)	-	(223)	-	-	(339)
Acquired through business combination	59,446	-	3,290	-	-	62,736
Amortisation charge	-	-	(2,382)	(93)	-	(2,475)
Closing net book amount	67,473	588	8,137	5,140	107	81,445
Cost	67,473	588	25,888	7,417	107	101,473
Accumulated amortisation and impairment	-	-	(17,751)	(2,277)	-	(20,028)
Net book amount	67,473	588	8,137	5,140	107	81,445

11 Intangible assets (continued)

Trust	Computer software	Total
Year ended 31 March 2016		
Opening net book amount	11	11
Additions	4	4
Disposals	-	-
Amortisation charge	(10)	(10)
Closing net book amount	5	5
At 31 March 2016		
Cost	46	46
Accumulated amortisation and impairment	(41)	(41)
Net book amount	5	5
Year ended 31 March 2017		
Opening net book amount	5	5
Additions	8	8
Disposals	-	-
Amortisation charge	(5)	(5)
Closing net book amount	8	8
At 31 March 2017		
Cost	54	54
Accumulated amortisation and impairment	(46)	(46)
Net book amount	8	8

11 Intangible assets (continued)

Goodwill

Goodwill arose on the orginal acquistion of the WEL Networks Group by the Trust. During the year ended 31 March 2017, a further $62 million of goodwill was recognised in Waikato Networks Limited through the acquisition of Ultrafast Fibre Limited.

Orginal acquisition of the WEL Networks Group by the Trust	$5 million
Acquisition of UFF by Waikato Networks Limited	$62 million

Goodwill impairment reviews are undertaken annually for each of the cash generating units above. The goodwill recoverable was determined using the fair value less cost to sell approach by reference to an independent valuation of the Ultrafast Fibre Limited business of $407 million and the WEL Networks Group, including Ultrafast Fibre Limited, of $1.1 billon.

12 Non-current assets - available for sale financial assets

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Global bond funds	**6,150**	-	**6,150**	-
Global opportunity funds	**6,172**	-	**6,172**	-
	12,322	-	**12,322**	-

13 Loans advanced

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Opening loan balance	**1,017**	655	**1,017**	655
Loans advanced during the year	**80**	500	**80**	500
Gain/(loss) on inception taken to surplus or deficit	**(2)**	(20)	**(2)**	(20)
Effective interest received	**20**	9	**20**	9
Repayments made	**(101)**	(127)	**(101)**	(127)
Carrying amount	**1,014**	1,017	**1,014**	1,017
Current	**97**	92	**97**	92
Non Current	**917**	925	**917**	925
	1,014	1,017	**1,014**	1,017

The nominal value of loans advanced at balance date was $11,010,000 (2016: $10,930,000).

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. Subject to the PBE IPSAS 29 the loan is initially recognised at fair value discounted to present value using the effective interest rate method which provides the net present value of the loan. The Trustees have utilised an interest rate of 7% in the calculation which is a risk free rate at the time of inception plus a premium due to the very long term nature of the loan.

Other loans advanced to community groups have terms ranging from three to ten years and are valued using a market based lending rate, typically 1-2% higher than the concession rate in the loan contract.

14 Trade and other payables

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Exchange transactions				
Trade payables	**10,671**	35,677	**53**	20
Sundry creditors and accruals	**32**	1,618	**32**	28
Amounts due to related parties	**-**	15	**-**	-
Total creditors and other payables from exchange transactions	**10,703**	37,310	**85**	48
Non-exchange transactions				
Other taxes	**168**	115	**-**	-
Grants payable	**123**	247	**123**	247
Total trade and other payables from non-exchange transactions	**291**	362	**123**	247
Total trade and other payables from exchange and non-exchange transactions	**10,994**	37,672	**208**	295

15 Provisions

Current portion				
Employee benefits	**1,243**	735	**-**	-
Annual leave	**2,127**	1,410	**-**	-
Other provisions	**441**	137	**-**	-
Total current portion	**3,811**	2,282	**-**	-
Non-current portion				
Employee benefits	**481**	567	**-**	-
Total non-current portion	**481**	567	**-**	-
Total provisions	**4,292**	2,849	**-**	-

16 Borrowings

Term borrowings - bank loans				
Maturing between 2 and 3 years	**72,707**	199,859	**-**	-
Maturing between 3 and 4 years	**250,000**	-	**-**	-
Maturing between 4 and 5 years	**59,000**	-	**-**	-
	381,707	199,859	**-**	-

During the year the Group increased their facility by $200 million to $550 million.

The loans are secured by the assets of the Group. The Group is in compliance with all covenants during the year.

The Group uses interest rate swaps to manage interest rate risk. Derivatives are fair valued using assumptions from observable market data where possible, in combination with the underlying derivative contracts and documentation.

17 Deferred tax liabilities/(assets)

	Tax losses $'000	Accelerated tax depreciation $'000	Revaluation of property, plant and equipment $'000	Provisions and other $'000	Derivative instruments $'000	Total $'000
Group						
Balance at 1 April 2015	-	11,904	61,972	2,505	(505)	75,876
Charged/(credited) to the statements of comprehensive revenue and expenses	-	3,152	-	(1,269)	-	1,883
Charged directly to equity - revaluations	-	-	(773)	-	-	(773)
Charged directly to equity - derivatives	-	-	-	-	(1,726)	(1,726)
Balance at 31 March 2016	-	15,056	61,199	1,236	(2,231)	75,260
Group						
Balance at 1 April 2016	-	15,056	61,199	1,236	(2,231)	75,260
Charged/(credited) to the statements of comprehensive revenue and expenses	(681)	4,325	-	1,073	-	4,717
Charged directly to equity - revaluations	-	-	(566)	-	-	(566)
Acquired through business combinations	(16,165)	2,310	15,548	604	-	2,297
Charged directly to equity - derivatives	-	-	-	-	954	954
Balance at 31 March 2017	(16,846)	21,691	76,181	2,913	(1,277)	82,662
Trust						
Balance at 1 April 2015	-	-	-	(12)	-	(12)
Charged/(credited) to the statements of comprehensive revenue and expenses	-	-	-	(8)	-	(8)
Balance at 31 March 2016	-	-	-	(20)	-	(20)
Trust						
Balance at 1 April 2016	-	-	-	(20)	-	(20)
Charged/(credited) to the statements of comprehensive revenue and expenses	-	-	-	(33)	-	(33)
Balance at 31 March 2017	-	-	-	(53)	-	(53)

18 Equity

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Contributed equity	**52,067**	52,067	**52,067**	52,067
Accumulated funds	**373,417**	280,212	**87,264**	86,252
Reserves	**102,586**	101,752	**(160)**	-
Closing balance	**528,070**	434,031	**139,171**	138,319
Contributed equity				
Opening balance	**-**	52,067	**-**	52,067
Closing balance	**-**	52,067	**-**	52,067

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

Accumulated revenue and expenses				
Opening balance	**280,212**	267,699	**86,252**	86,207
Disposal of distribution network assets	**2,024**	2,760	**-**	-
Surplus/(deficit) for the year	**91,181**	9,753	**1,012**	45
Closing balance	**373,417**	280,212	**87,264**	86,252

Reserves				
Property, plant and equipment revaluation reserve	**106,033**	107,491	**-**	-
Hedging reserve - cash flow hedges	**(3,287)**	(5,739)	**-**	-
Revaluation reserve - available for sale financial assets	**(160)**	-	**(160)**	-
Total reserves	**102,586**	101,752	**(160)**	-

The movements in each type of reserve are disclosed as follows:

Property, plant and equipment revaluation reserve				
Opening balance	**107,491**	109,478	**-**	-
Movement in revaluation from disposal of distribution network assets	**(2,024)**	(2,760)	**-**	-
Deferred tax	**566**	773	**-**	-
Closing balance	**106,033**	107,491	**-**	-
Hedging reserve - cash flow hedges				
Opening balance	**(5,739)**	(1,300)	**-**	-
Fair value gains/(losses) in the year	**3,406**	(6,165)	**-**	-
Deferred tax	**(954)**	1,726	**-**	-
Net fair value gain/(loss) recognised to cash flow hedge reserve	**2,452**	(4,439)	**-**	-
Closing balance	**(3,287)**	(5,739)	**-**	-

19 Commitments

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Capital expenditure contracted for at the year end date but not yet incurred is as follows:				
Property, plant and equipment	**1,060**	21	**-**	-
Intangible assets	**14**	-	**-**	-
Total capital commitments	**1,074**	21	**-**	-

Operating leases commitments
The Trust leases premises and 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:

Not later than one year	**1,100**	1,339	**30**	40
Later than one year and not later than two years	**777**	969	**-**	30
Later than two years and not later than five years	**2,109**	2,696	**-**	-
Later than five years	**10,343**	4,919	**-**	-
Total non-cancellable operating leases	**14,329**	9,923	**30**	70

20 Related party transactions

Trustees & Directors

The Trust has a policy of maintaining a conflict of interest register. 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, B Chibnall, R Hamill, K Williams and C Isaac. All of these persons were also trustees during the year ended 31 March 2016. M Bunting was also a trustee during the 2016 financial year and stood down in February 2016.

The Trust has delegated operational running of the subsidiaries 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: M P Devlin, M X Franklin, P D McGilvary and A V Steele, B S Harris & D R Wright. All of these persons were also directors during the year ended 31 March 2016.

20 Related party transactions (continued)

Transactions with key management personnel

There is one key management personnel in the Trust, alongside 7 trustees for the years ended 31 March 2017 and 31 March 2016. The key management compensation is set out in the table below.

Key management personnel compensation for the Group includes that of the Trust, plus all the 6 (2016: 6) Directors and 10 (2016: 6) key executives of the companies with the greatest authority for the strategic direction and management of the Group for the year ended.

Trustee Remuneration:

Chairperson	$40,243
Deputy Chairperson	$33,270
Trustees	$28,829

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Trustees				
Short term benefits	**188**	215	**188**	215
Directors				
Short term benefits	**307**	297	**-**	-
Executives				
Short term benefits	**3,229**	2,035	**90**	90
Post employment benefits	**109**	69	**-**	-
Other long term benefits	**-**	-	**-**	-
Termination benefits	**-**	-	**-**	-
	3,833	2,616	**278**	305

Other transactions with directors and key management personnel or entities related to them

The Group 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 be taken as a complete list: lease, consent, easement, construction and advisory services.

Related party transactions with WEL Networks Limited

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Interest on convertible note	**-**	-	**2,449**	2,456

Total dividends paid by WEL Networks Limited during the year were $1,127,000 (2016: $351,000). The amount of dividends per share was $0.43. There were no outstanding balances between WEL Networks Limited and the Trust at year end (2016: nil).

Related party transactions between Ultrafast Fibre Limited and Waikato Networks Limited for the 5 months to 31 August 2016 prior to acquisition

Sale of fibre assets and related services	**29,342**	92,138	**-**	-
	29,342	92,138	**-**	-
Fibre access services on Velocity network	**163**	570	**-**	-
Provision of management services	**43**	29	**-**	-
	206	599	**-**	-
Related party trade receivables	**-**	13,009	**-**	-
Related party trade payables	**-**	(15)	**-**	-

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20 Related party transactions (continued)

Related party transactions with Waipa Networks Limited

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Interest expense	**2,097**	1,080	**-**	-
Pole make ready and lease costs	**30**	30	**-**	-
	2,127	1,110	**-**	-
Loan from shareholders	**63,336**	30,445	**-**	-

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

Waipa Networks Limited has a 15% non-controlling interest in Waikato Networks Limited.

Related party transactions with Smartco Limited

Other income	**482**	482	**-**	-
Other expenses	**-**	226	**-**	-
Purchase of plant and equipment	**-**	1,234	**-**	-
Related party trade receivables	**-**	210	**-**	-

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

21 Business combinations

On 31 August 2016, the Group acquired the remaining 65% of A shares not already owned by the Group, obtaining full control over Ultrafast Fibre Limited (UFF) to benefit from future synergies. Goodwill relates to the value of operational efficiencies and opportunities for significant growth of the fibre network and long term profitability.

The following table summarises the provisional consideration and the fair value of assets acquired and liabilities assumed at the acquisition date.

	31 August 2016 $'000
Total consideration transferred	
Consideration paid for remaining A shares acquired	
Cash consideration	**117,942**
	117,942
Provisional fair value of previously held interest	**267,674**
Total provisional consideration	**385,616**
Provisional fair value of asset acquired	
Cash and cash equivalents	**6,282**
Other current assets	**15,082**
Intangible assets	**3,290**
Property, plant and equipment	**371,862**
Current liabilities	**(68,049)**
Deferred tax liability	**(2,297)**
Goodwill	**59,446**
Total identifiable net assets	**385,616**

21 Business combinations (continued)

A gain of $87.9 million has been recorded on remeasurement of the previously held interest.

UFF contributed revenue and (loss) after tax of $17.9 million and $(0.5) million for the 7 months to 31 March 2017. Had they been acquired on 1 April 2016 UFF would have contributed revenue and profit after tax of $28.6 million and $0.3 million for the 12 month period.

A loss of $3.4 million was recorded through expenses relating to amounts unable to be settled on pre-existing contractual relationship with UFF following the acquisition. Offsetting this is the release of a provision for costs associated with the same pre-existing contractual relationship amounting to $4.5 million that are now deemed recoverable.

Transaction costs associated with the acquisition amounted to $3.2 million.

Prior to the acquisition of the remaining A shares, UFF was equity accounted as an associate as follows:

Opening carrying value	**134,455**
Acquisition of shares at cost	**40,846**
Goodwill	**5,139**
(Loss)/gain on deemed disposal of share in joint operation	**220**
Share of loss in associate	**(914)**
Gain on re measurement of previously held interest to fair value	**87,928**
Share of net profits and fair value gain in associate	**87,234**
Derecognition of equity interest on acquisition	**(267,674)**
Total identifiable net assets	**-**

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22 Investments in subsidiaries

	Trust	
	2017	2016
	$'000	$'000
Shares in WEL Networks Limited at cost	**85,797**	85,797
Convertible notes	**39,000**	39,000
	124,797	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 bore fixed interest of 8.0% p.a. until 31 March 2015, accrued monthly. The Notes have been extended until 31 March 2020 at a new interest rate of 6.28% from 1 April 2015. 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.

Shares in WEL Networks Limited

WEL Energy Trust Limited owns 8,153,000 shares (100%) (2016: 8,153,000) of WEL Networks Limited. The shares are fully paid and have no par value.

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

Name of entity	**Principal activity**	**Equity holding**	
		2017	2016
		%	%
Waikato Networks Limited	Construction of fibre network	**85**	85
Ultrafast Fibre Limited **	Construction of fibre network	**85**	60
WEL Services Limited	Construction and maintenance of electricity network	**100**	100

Non Operating Subsidiaries

WEL Electricity Limited

WEL Power Limited

WEL Energy Group 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.
** subsidiary of Waikato Networks Limited

23 Derivative financial instruments

	Group		Trust	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Non-current asset				
Interest rate swaps - fair value hedges	**892**	-	**-**	-
	892	-	**-**	-
Non current liabilities				
Forward foreign exchange contracts - cash flow hedges	**-**	6	**-**	-
Interest rate swaps - fair value hedges	**5,457**	7,966	**-**	-
	5,457	7,972	**-**	-
Total net derivative financial instruments	**(4,565)**	(7,972)	**-**	-

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

Interest Rate Swaps
The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2017 were $200 million (2016: $130 million).

At 31 March 2017, the fixed interest rates vary from 2.25% to 4.18% (2016: 3.905% to 4.18%), and the main floating rate is BKBM. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 March 2017 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings.

Forward foreign exchange contracts
The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2017 were $19,840 (2016: $991,635).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 March 2017 are recognised in the surplus or deficit component of the statements of comprehensive revenue and expenses in the period or periods during which the hedged forecast transaction affects the statements of comprehensive revenue and expenses. This is generally within 12 months of the end of the reporting period unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset (5 to 10 years).

24 Financial instruments

The Group's activities expose it to a variety of financial risks (market risk, liquidity risk and credit risk). The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps and forward foreign exchange contracts to hedge certain risk exposures.

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

24 Financial instruments (continued)

(a) Market risk

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

At 31 March 2017 if the currency had weakened / strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been nil (2016: $67,822).

Cash flow and fair value interest rate risk

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

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

The swaps are for the duration of the borrowing term.

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

	31 March 2017		31 March 2016	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Interest rate swaps (notional/principal amounts)	**4.40**	**(200,000)**	3.85	(130,000)
Interest bearing liabilities	**4.17**	**381,707**	4.86	199,859
Loan from non-controlling interest	**4.17**	**63,336**	4.86	30,455
Net exposure to cash flow interest rate risk		**245,043**		100,314

24 Financial instruments (continued)

(a) Market risk (continued)

Sensitivity analysis

The tables below illustrate the potential surplus and deficit and equity (excluding accumulated funds) impact from possible market movements, with all other variables held constant, based on the Group's or Trust's financial instrument exposures at balance date.

Group		**Interest rate risk +/- 1%**	
31 March 2017	Carrying amount $'000	**Profit $'000**	**Equity $'000**
Financial assets			
Cash and cash equivalents	6,731	67	-
Trade and other receivables	18,676	-	-
Loans advanced	1,014	-	-
Derivative financial instruments	892	-	-
Available for sale financial assets	12,322	-	123
Financial liabilities			
Trade and other payables	10,994	1	-
Borrowings	381,707	1,817	-
Derivative financial instruments	5,457	-	-
Loan from non-controlling interest	63,336	633	-
Customer discount payable	17,391	-	-
		2,518	123
31 March 2016			
Financial assets			
Cash and cash equivalents	16,494	164	-
Trade and other receivables	23,511	-	-
Loans advanced	1,017	-	-
Financial liabilities			
Trade and other payables	37,672	1	-
Borrowings	199,859	698	-
Derivative financial instruments	7,972	-	-
Loan from non-controlling interest	30,455	403	-
Customer discount payable	18,836	-	-
		1,266	-

24 Financial instruments (continued)

(a) Market risk (continued)

Trust		Interest rate risk +/- 1%	
31 March 2017	Carrying amount $'000	**Profit $'000**	**Equity $'000**
Financial assets			
Cash and cash equivalents	1,119	11	-
Trade and other receivables	1	-	-
Loans advanced	1,014	-	-
Available for sale financial assets	12,322	-	123
Financial liabilities			
Trade and other payables	208	-	-
		11	123
31 March 2016			
Financial assets			
Cash and cash equivalents	12,445	124	-
Trade and other receivables	263	-	-
Loans advanced	1,017	-	-
Financial liabilities			
Trade and other payables	295	-	-
		124	-

(b) Credit risk

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

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

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

The Group has in excess of 22% (2016: 36%) 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 Trustees 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 believe that the possibility of non performance by these financial institutions is remote on the basis of their financial strength.

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

24 Financial instruments (continued)

(c) Liquidity risk

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

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

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 3 years $'000	Between 3 and 5 years $'000	Total contractual cash flows $'000	Carrying Amount (assets)/ liabilities $'000
Group 31 March 2017						
Non-derivative financial instruments						
Interest bearing liabilities	16,739	15,726	83,939	301,565	417,969	381,707
Trade and other payables	10,994	-	-	-	10,994	10,994
Customer discount payable	17,391	-	-	-	17,391	17,391
Loan from non controlling interest	63,336	-	-	-	63,336	63,336
Total non derivatives	108,460	15,726	83,939	301,565	509,690	473,428
Derivative financial instruments						
Interest rate swaps						
- Inflow	(8,620)	(8,354)	(7,329)	(11,554)	(35,857)	-
- Outflow	8,803	8,593	7,784	12,589	37,769	4,565
Total derivatives	183	239	455	1,035	1,912	4,565
Group 31 March 2016						
Non-derivative financial instruments						
Interest bearing liabilities	9,896	9,896	9,896	220,392	250,080	199,859
Trade and other payables	37,672	-	-	-	37,672	37,672
Customer discount payable	18,836	-	-	-	18,836	18,836
Loan from non controlling interest	30,455	-	-	-	30,455	30,455
Total non derivatives	96,859	9,896	9,896	220,392	337,043	286,822
Derivative financial instruments						
Interest rate swaps						
- Inflow	(6,318)	(6,318)	(6,318)	(6,318)	(25,272)	-
- Outflow	6,354	6,354	6,354	6,354	25,416	7,972
Foreign exchange contracts - outflow	6	-	-	-	6	6
Total derivatives	6,360	6,354	6,354	6,354	25,422	7,978

24 Financial instruments (continued)

(d) Fair value estimation

For those instruments recognised at fair value in the statements of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the statements of financial position:

	Total $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
31 March 2017 - Group				
Financial assets				
Interest rate swaps	892	-	892	-
Total assets	892	-	892	-
Financial liabilities				
Interest rate swaps	5,457	-	5,457	-
Total financial liabilities	5,457	-	5,457	-
31 March 2016 - Group				
Financial liabilities				
Interest rate swaps	7,972	-	7,972	-
Foreign exchange contracts	-	-	-	-
Total financial liabilities	7,972	-	7,972	-

(e) Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of discount provided to consumers or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'net assets/equity' as shown in the consolidated statement of financial position plus net debt. In both years the Group is within its predefined limits.

Unsecured borrowings are issued at floating rates of interest, with interest rates reset quarterly based on the 90 day bank bill rate plus a margin for credit risk.

The Group is required to ensure that the following financial covenant ratios for unsecured borrowings are achieved during the financial year:

- the ratio of EBITDA to net interest expense will be greater than or equal to 2.75 times.

- the percentage of net debt to net debt plus equity will be less than or equal to 60%.

24 Financial instruments (continued)

- the Group undertakes to ensure that the Guarantor Group will comprise no less than 85% of EBITDA and no less than 85% of total assets.

The unsecured borrowings become repayable on demand in the event these covenants are breached or if the Group fails to make interest and principal payments when they fall due. The Group has complied with all covenants and borrowing repayment obligations during the financial year.

	Group	
	2017	2016
	$'000	$'000
Total borrowings	**381,707**	199,859
	63,336	30,455
Less: cash and cash equivalents	**(6,731)**	(16,494)
Net Debt	**438,312**	213,820
Total equity	**536,854**	430,695
	975,166	644,515
Gearing ratio	**45 %**	33 %

(f) Financial instrument categories

Financial assets as per balance sheet	**Derivatives used for hedging $'000**	**Available for sale assets at fair value through other comprehensive revenue and expenses $'000**	**Loans and receivables $'000**	**Total $'000**
Group				
31 March 2017				
Cash and cash equivalents	-	-	6,731	6,731
Trade and other receivables (excluding prepayments)	-	-	18,676	18,676
Loans advanced	-	-	1,014	1,014
Available for sale financial assets	-	12,322	-	12,322
Derivative financial instruments	892	-	-	892
Total assets	892	12,322	26,421	39,635
31 March 2016				
Cash and cash equivalents	-	-	16,494	16,494
Trade and other receivables (excluding prepayments)	-	-	23,511	23,511
Loans advanced	-	-	1,017	1,017
Total assets	-	-	41,022	41,022

24 Financial instruments (continued)

(f) Financial instrument categories(continued)

Financial assets as per balance sheet	Derivatives for hedging $'000	Available for sale assets at fair value through other comprehensive revenue and expenses $'000	Loans and receivables $'000	Total $'000
Trust				
31 March 2017				
Cash and cash equivalents	-	-	1,119	1,119
Trade and other receivables (excluding prepayments)	-	-	1	1
Loans advanced	-	-	1,014	1,014
Available for sale financial assets	-	12,322	-	12,322
Total assets	-	12,322	2,134	14,456
31 March 2016				
Cash and cash equivalents	-	-	12,445	12,445
Trade and other receivables (excluding prepayments)	-	-	263	263
Loans advanced	-	-	1,017	1,017
Total assets	-	-	13,725	13,725

24 Financial instruments (continued)

(f) Financial instrument categories(continued)

Liabilities	Derivatives used for hedging $'000	Measured at amortised cost $'000	Total $'000
Group			
31 March 2017			
Interest bearing liabilities	-	381,707	381,707
Loan from non controlling interest	-	63,336	63,336
Customer discount payable	-	17,391	17,391
Derivative financial instruments	5,457	-	5,457
Trade and other payables	-	10,994	10,994
Total liabilities	5,457	473,428	478,885
31 March 2016			
Interest bearing liabilities	-	199,859	199,859
Loan from non controlling interest	-	30,455	30,455
Customer discount payable	-	18,836	18,836
Derivative financial instruments	7,972	-	7,972
Trade and other payables	-	37,672	37,672
Total liabilities	7,972	286,822	294,794
Trust			
31 March 2017			
Trade and other payables	-	208	208
Total liabilities	-	208	208
31 March 2016			
Trade and other payables	-	295	295
Total liabilities	-	295	295

25 Events occurring after the balance date

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

26 Contingencies

The Trust and Group have contingent liabilities which relate to the Trust's support of the community through multi-year grants to a range of organisations in the area covered by the Trust. The total amount committed to multi-year grants at 31 March 2017 was $683,500 (2016: $351,000).

27 Reconciliation of net surplus/(deficit) after tax to net cash flow from operating activities

	Group		Trust	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Surplus/(deficit) after tax	**103,301**	8,119	**1,012**	45
Depreciation and amortisation expense	**34,520**	24,709	**9**	11
(Gains)/losses on loans	**2**	25	**2**	25
Loss on sale of property, plant and equipment	**3,031**	2,633	**1**	4
Deferred tax asset	**4,523**	1,894	**(32)**	(8)
Loss/(gain) on disposal of share in joint venture	**(87,957)**	(1,357)	**-**	-
Share of loss of joint venture	**723**	3,517	**-**	-
Effective interest on loans advanced	**(20)**	(20)	**(20)**	(20)
Net movement in amortised loan costs	**-**	4	**-**	4
Investment income reinvested	**(1)**	-	**(1)**	-
Gain/(loss) on translation of foreign currency	**(230)**	-	**(230)**	-
Finance costs	**8,866**	7,361	**-**	-
Add/(less) movements in working capital items				
(Increase)/Decrease in trade and other receivables	**(3,905)**	(3,511)	**260**	72
(Increase)/Decrease in construction work in progress	**(32,062)**	2,785	**-**	-
Increase /(Decrease) in trade and other payables	**13,706**	14,703	**(90)**	(126)
Increase /(Decrease) in income tax payable	**(1,973)**	(396)	**-**	(48)
(Increase) /decrease in loan advanced	**21**	(362)	**21**	(362)
Net cash inflow/(outflow) from operating activities	**42,545**	60,104	**932**	(403)

Independent auditor's report

To the Trustees of WEL Energy Trust

WEL Energy Trust's consolidated financial statements comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive revenue and expense for the year then ended;
- the statement of changes in net assets/equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of WEL Energy Trust (the Trust), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of advisory services. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Trustees are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material

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misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Trustees for the consolidated financial statements

The Trustees are responsible, on behalf of the Trust, for the preparation and fair presentation of the consolidated financial statements in accordance with Public Benefit Entity Standards, and for such internal control as the Trustees determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Trustees are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

Who we report to

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 to them in an auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Julian Prior.

For and on behalf of:

Chartered Accountants
11 July 2017

Hamilton

Clear, Constructive Communication

We create understanding through open and informative engagement.

WEL ENERGY TRUST

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