

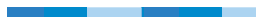


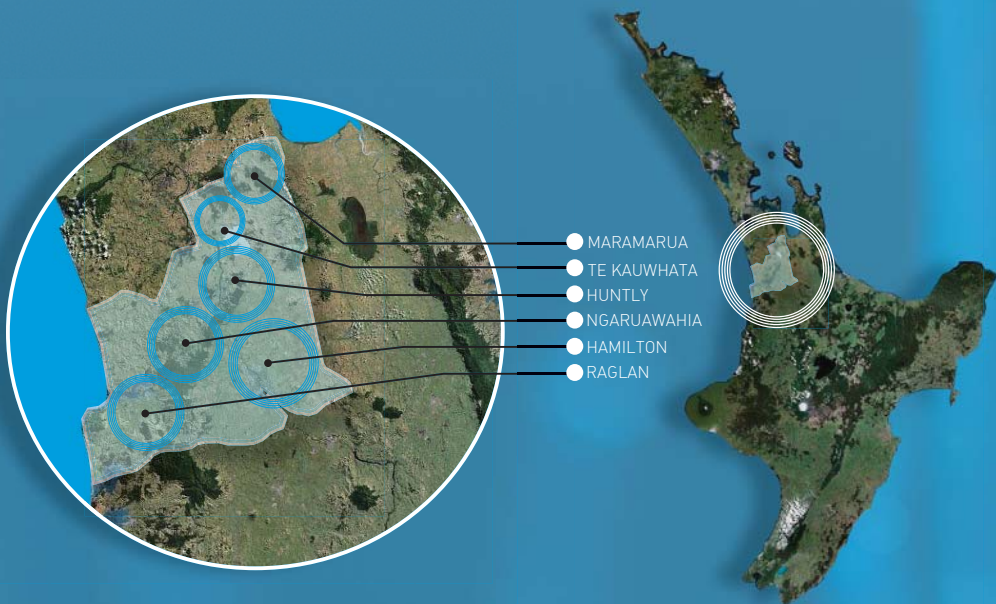
WEL NETWORKS LIMITED AND SUBSIDIARIES
WEL 2011
WEL NETWORKS HALF YEARLY REPORT



OUR VISION

Providing best practice,
reliable services,
valued by customers
whilst protecting our
community





COMPANY PROFILE

WEL Networks Limited (WEL) is the provider of electricity infrastructure, for the distribution of energy to over 84,000 homes, businesses and organisations throughout the Waikato region.

Our network includes more than 5,100 kilometres of lines and has an annual throughput of over 1,230GWh. WEL has assets totalling in excess of \$468 million. Hamilton City is at the centre of our coverage area which extends to Maramarua in the north and across to the west coast. The towns of Huntly, Raglan, Te Kauwhata and Ngaruawahia are incorporated.

The company is very proud to have won the contract to roll out ultrafast broadband via a fibre network to not only the Waikato but also to parts of the Bay of Plenty and Taranaki regions. The five year build programme will see; Hamilton, Cambridge, Te Awamutu, New Plymouth, Wanganui, Tauranga, Hawera and Tokoroa provided with an ultrafast broadband fibre network. Ultrafast Fibre Limited, a subsidiary of WEL, will carry out the construction of this infrastructure network which will have a value in excess of \$300 million.

WEL is committed to providing high quality, reliable infrastructure at good prices while maintaining a focus on community safety.

WEL continues to investigate alternative power generation to complement its core business and to help achieve the national target of 90% renewable energy generation by 2025.

Our most significant achievement to date is the Te Uku wind farm near Raglan which was constructed in alliance with electricity generator and retailer Meridian Energy Limited. The wind farm was complete and fully operational in early 2011. Meridian owns and operates the 28 2.3MW turbines while WEL owns and operates the transmission lines, substation and associated infrastructure. This infrastructure transports the power that is generated back through to the local network. The total project, valued at \$200 million, is of national significance and is a major contributor to security of supply for the region, generating enough electricity for around 30,000 average New Zealand homes.

As a result of the company's annual discount programme which was established in 2003, discounts of approximately \$169 million (incl. GST) have been disbursed to customers over the past nine years.

The company employs 206 staff based at WEL's premises in Te Rapa, Hamilton.

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

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

CHAIRMAN'S REPORT

John L. Spencer | Chairman

"WEL net profit after taxation for six months to 30 September 2011 was \$11.9 million".. John L. Spencer | Chairman

FINANCIAL RESULTS

The net profit after taxation for the six months to 30 September 2011 was \$11.9 million compared to \$10.7 million for the six months to 30 September 2010. Our electricity line sales, while higher than last year, are slightly behind budget for the first six months of the financial year due to a very warm start to the winter. The increase in net profit from last year includes the high line sales plus additional revenue from the Te Uku wind farm transmission line.

PRICING

As indicated last year, WEL increased its pricing from 1 April 2011. The increases were contained within CPI which was set as the allowable price increase by the Commerce Commission. WEL was also required to passthrough transmission cost increases from Transpower. It remains likely that WEL will need to continue to adjust its prices in line with inflation next year. Transpower have also indicated that their prices will increase significantly next year (by around 20%) due to the large levels of new investment they are making.

DISCOUNTS

In April 2011, WEL paid a total discount of \$20.8 million (including GST) relating to the 2010/11 year. This level of discount was the same as the previous year at an average of \$244 (including GST) per household.



REGULATORY ENVIRONMENT

While not being subject to price control, WEL remains committed to keeping our price and quality performance in line with that set by the Commerce Commission for regulated companies.

NETWORK RELIABILITY

WEL's reliability result for the first six months of the year was a SAIDI of 37 minutes against a target of 39 minutes (average time that customers were without electricity). Our reliability improvement projects continue to deliver significant dividends. The number of rural consumers with more than eight outages per annum has improved from over 1600 three years ago to less than 200 now. The repeated outage target will continue to be a focus of the company.

BROADBAND

WEL's special purpose vehicle, Ultrafast Fibre Limited, commenced the building of the Ultrafast Broadband fibre network for Hamilton, Tauranga and Wanganui. The remainder of our coverage areas, Hawera, Tokoroa, Te Awamutu, Cambridge, and New Plymouth will commence next year. Progress to date has been to budget and the rate of deployment is meeting expectation.

SMART GRIDS AND SMART METERING

WEL has joined with 12 other lines companies to form Smartco to deliver scale and purchasing benefits for the deployment of smart meters. WEL has placed orders for smart boxes and communication equipment. Deployment in our northern area and in Raglan is due to commence in November.

WEL ENERGY TRUST

The WEL Energy Trust elections returned largely the same team to the Trust with the addition of two new trustees; David Kneebone and Kathryn Williams. Mark Ingle remains as Chairman and Denise Harding as Deputy Chairman. We look forward to maintaining the excellent working relationship we have with the WEL Energy Trust and Chairman Ingle.

DIRECTORS

On 30 September 2011 myself, as Chairman, and Richard Prebble were reappointed to the Board for a further three years.

MANAGEMENT

The management team and staff under the guidance of Dr Julian Elder have performed admirably over the past six months and I thank them for their contribution.

WELNETWORKS

SIX MONTHS TO 30 SEPTEMBER 2011



Consolidated Income Statement
For the half year ended 30 September 2011

	Note	September 2011 Unaudited (\$000)	September 2010 Unaudited (\$000)	March 2011 Audited (\$000)
Revenue	3	49,048	44,847	83,465
Other net gains/(losses)	4	15	23	39
Operating expenses	5	(32,474)	(29,724)	(60,252)
Net operating profit		16,589	15,146	23,252
Finance costs		(583)	-	-
Net profit before income tax		16,006	15,146	23,252
Income tax expense		(4,080)	(4,480)	(6,250)
Net profit for the period		11,926	10,666	17,002
Net profit attributable to:				
Equity holders of the company		11,926	10,666	17,002
		11,926	10,666	17,002

Consolidated Statement of Comprehensive Income
For the half year ended 30 September 2011

	September 2011 Unaudited (\$000)	September 2010 Unaudited (\$000)	March 2011 Audited (\$000)
Net profit for the period	11,926	10,666	17,002
Other comprehensive income			
Gains on revaluation of property, plant and equipment, net of deferred tax	-	-	11,520
Fair value gains and (losses), net of tax - distribution system	-	66	-
Movement in deferred tax on revaluation	211	71	-
Effect of the change in corporate tax rate on revaluation reserve	-	4,153	-
Total comprehensive income for the period	12,137	14,956	28,522
Attributable to:			
Equity holders of the company	12,137	14,956	28,522

Consolidated Balance Sheet

As at 30 September 2011

	Note	September 2011 Unaudited (\$'000)	September 2010 Unaudited (\$'000)	March 2011 Audited (\$'000)
ASSETS				
Non-current assets				
Property, plant and equipment		457,042	422,776	448,438
Intangible assets		9,946	5,166	8,550
Trade and other receivables		194	83	172
Investment in Ultrafast Broadband Limited		800	-	100
Goodwill		2,961	-	-
		470,943	428,025	457,260
Current assets				
Cash and cash equivalents		2,333	1,423	2,030
Trade and other receivables		15,448	9,424	9,558
		17,781	10,847	11,588
TOTAL ASSETS		488,724	438,872	468,848
EQUITY				
Capital and reserves				
Share capital		111,142	111,142	111,142
Convertible notes	7	39,000	39,000	39,000
Revaluation reserve		157,793	151,455	158,335
Retained earnings		57,127	41,132	46,012
TOTAL EQUITY		365,062	342,729	354,489
LIABILITIES				
Non-current liabilities				
Borrowings	6	-	-	6,000
Deferred income tax liabilities		68,124	63,523	67,407
Deferred income		1,839	1,562	1,527
Provisions		504	458	481
		70,467	65,543	75,415
Current liabilities				
Trade and other payables		11,881	9,602	20,152
Provisions		52	93	88
Current income tax payable		1,708	521	54
Customer discount payable		10,054	10,384	18,650
Borrowings	6	29,500	10,000	-
		53,195	30,600	38,944
TOTAL LIABILITIES		123,662	96,143	114,359
TOTAL EQUITY AND LIABILITIES		488,724	438,872	468,848


John Spencer, Chairman
 23 November 2011


Margaret Devlin, Director
 23 November 2011

Consolidated Statement of Changes in Equity

For the half year ended 30 September 2011

	Note	Attributable to equity holders of the Company				
		Share capital (\$000)	Convertible notes (\$000)	Revaluation reserve (\$000)	Retained earnings (\$000)	Total equity (\$000)
Balance at 1 April 2010		111,142	39,000	147,467	31,728	329,337
Comprehensive income						
Net profit for the period		-	-	-	10,666	10,666
Other comprehensive income						
Fair value gains and (losses), net of tax:						
- distribution network		-	-	(236)	302	66
Movement in deferred tax on revaluation		-	-	71	-	71
Effect of the change in corporate tax rate on revaluation reserve		-	-	4,153	-	4,153
Net income recognised directly in equity			-	3,988	302	4,290
Total comprehensive income		-	-	3,988	302	4,290
Transactions with owners						
Convertible note interest paid		-	-	-	(1,564)	(1,564)
Total transactions with owners		-	-	-	(1,564)	(1,564)
Balance at 30 September 2010 (Unaudited)		111,142	39,000	151,455	41,132	342,729
Balance at 1 April 2010		111,142	39,000	147,467	31,728	329,337
Comprehensive income						
Net profit for the year		-	-	-	17,002	17,002
Other comprehensive income						
Fair value gains and (losses), net of tax:						
- land and buildings		-	-	-	-	-
- distribution network		-	-	9,590	652	10,242
Movement in deferred tax on revaluation		-	-	(2,869)	-	(2,869)
Effect of the change in corporate tax rate on revaluation reserve		-	-	4,147	-	4,147
Net income recognised directly in equity		-	-	10,868	652	11,520
Total comprehensive income		-	-	10,868	17,654	28,522
Transactions with owners						
Interest on convertible note	7	-	-	-	(3,120)	(3,120)
Dividends paid		-	-	-	(250)	(250)
Total transactions with owners		-	-	-	(3,370)	(3,370)
Balance at 31 March 2011 (Audited)		111,142	39,000	158,335	46,012	354,489

Consolidated Statement of Changes in Equity continued

For the half year ended 30 September 2011

	Note	Attributable to equity holders of the Company				
		Share capital (\$000)	Convertible notes (\$000)	Revaluation reserve (\$000)	Retained earnings (\$000)	Total equity (\$000)
Balance at 1 April 2011		111,142	39,000	158,335	46,012	354,489
Comprehensive income						
Net profit for the period		-	-	-	11,926	11,926
Other comprehensive income						
Fair value gains and (losses), net of tax:						
- land and buildings		-	-	-	-	-
- distribution network		-	-	(753)	753	-
Movement in deferred tax on revaluation		-	-	211	-	211
Effect of the change in corporate tax rate on revaluation reserve		-	-	-	-	-
Net income recognised directly in equity		-	-	(54)	753	211
Total comprehensive income		-	-	(542)	12,679	12,137
Transactions with owners						
Convertible note interest paid	7	-	-	-	(1,564)	(1,564)
Dividends paid		-	-	-	-	-
Total transactions with owners		-	-	-	(1,564)	(1,564)
Balance at 30 September 2011 (Unaudited)		111,142	39,000	157,793	57,127	365,062

Consolidated Cash Flow Statement
For the half year ended 30 September 2011

	Note	September 2011 Unaudited (\$'000)	September 2010 Unaudited (\$'000)	March 2011 Audited (\$'000)
Cash flows from operating activities				
Receipts from customers		38,809	35,505	82,341
Payments to employees and suppliers		(22,028)	(20,493)	(41,353)
Interest received		82	-	2
Interest paid		(583)	-	-
Income tax paid		(1,497)	(2,319)	(3,619)
Net cash from operating activities	10	14,753	12,693	37,371
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		157	114	275
Purchases of property, plant and equipment		(33,254)	(21,570)	(35,530)
Purchases of intangible assets		(2,619)	(1,321)	(5,687)
Purchase of investments		(700)	-	(100)
Net cash used in investing activities		(36,416)	(22,777)	(41,042)
Cash flows from financing activities				
Proceeds from borrowings		23,500	10,000	6,000
Interest on convertible notes		(1,564)	(1,564)	(3,120)
Dividend paid		-	-	(250)
Net cash from financing activities		21,936	8,436	2,630
Net increase / (decrease) in cash and cash equivalents		303	(1,648)	(1,041)
Cash and cash equivalents at the beginning of the period		2,030	3,071	3,071
Cash and cash equivalents at the end of the period		2,333	1,423	2,030

Notes To The Financial Statements

For the half year ended 30 September 2011

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in New Zealand. The address of its registered office is 114 Maui Street, Hamilton.

These consolidated interim financial statements have been approved and authorised for release by the Board of Directors on 23 November 2011.

The structure of the Company consists of:

Operating entities

WEL Networks Limited

Ultrafast Fibre Limited

Velocity Group Holdings Limited (subsidiary of Ultrafast Fibre Limited)

Velocity Networks Limited (subsidiary of Ultrafast Fibre Limited)

Velocity Infrastructure Limited (subsidiary of Ultrafast Fibre Limited)

Hamilton Fibre Networks Limited (subsidiary of Ultrafast Fibre Limited)

Non-operating entities

WEL Electricity Limited

WEL Energy Group Limited

Waikato Electricity Limited

WEL Power Limited

WEL Generation Limited

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements for the half year to 30 September 2011 have been prepared in accordance with International Accounting Standards (IAS 34) Interim Financial Reporting and New Zealand equivalents to International Accounting Standards (NZ IAS 34) and are unaudited. They should be read in conjunction with the 31 March 2011 audited financial statements.

The principal accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 March 2011. There are no new international financial reporting standards applicable during the period which have a significant impact on WEL Networks Limited.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group:

NZ IFRS 9 Financial Instruments (effective for periods beginning on or after 1 January 2013). The standard replaces part of NZ IAS 39 and establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification dependent on an entity's business model and the contractual cash flow characteristics of the financial asset. The Group is in the process of evaluating the potential effect of the standard.

Changes in Accounting Policy

There have been no other changes in accounting policies applied during the period under review.

3. REVENUE

	September 2011 Unaudited (\$000)	September 2010 Unaudited (\$000)	March 2011 Audited (\$000)
Gross line revenues	51,157	48,597	88,332
Discount	(9,807)	(10,142)	(18,400)
Net line revenues	41,350	38,455	69,932
Third party contributions	3,539	3,323	6,768
Contracting revenue	1,401	1,488	2,553
Operating lease revenue	1,392	-	646
Rental income	6	6	25
Interest on investments	82	0	2
Other income	1,278	1,575	3,539
Total revenue	49,048	44,847	83,465

4. OTHER NET GAINS/(LOSSES)

Amortisation of deferred income on Government grants	15	15	31
Fair value movements in derivatives	-	8	8
	15	23	39

5. OPERATING EXPENSES

Transmission costs	10,679	10,259	20,554
Wages and salaries	2,958	2,884	5,932
Materials and services	3,614	3,556	6,876
Contracting cost of sales	1,026	1,387	2,198
Depreciation of property, plant and equipment	8,965	7,861	16,279
Amortisation expense	1,242	323	1,297
Directors' fees	135	135	270
Net loss on disposal of property, plant and equipment	1,712	1,024	2,251
Impairment on property, plant and equipment	-	-	11
Research and development	144	196	428
Bad debts written off	139	104	257
Change in provision for impaired receivables	7	16	5
Rental and operating lease payments	283	277	988
Ultra fast broadband investigations	-	219	261
Other expenses	1,570	1,483	2,645
Total operating expenses	32,474	29,724	60,252

6. BORROWINGS

Non-current			
Convertible Note	-	-	6,000
	-	-	6,000
Current			
Bank borrowings	29,500	10,000	-
	29,500	10,000	-

7. CONVERTIBLE NOTES

On 31 March 2010 the Company repaid convertible notes of \$18.7 million and paid a special dividend of \$20.3 million to its 100% shareholder, WEL Energy Trust. On the same day the Company issued \$39.0 million of new convertible notes to the WEL Energy Trust. The Notes are subordinated to all other forms of debt. They are unsecured and bear fixed interest of 8.0% p.a. until 31 March 2015, accrued monthly. The Notes are convertible into a fixed number of non-participating redeemable shares (NPRS) equal to the face value of the Notes and are therefore classified as equity under NZ IFRS. 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. As the convertible note is classified as equity the interest on convertible note is therefore shown in the statement of movements in equity.

8. CONTINGENCIES

There were no contingent liabilities as at 30 September 2011 (September PY2010: Nil, March FY2011: Nil).

9. COMMITMENTS

Capital commitments as at 30 September 2011 are estimated at \$6,589,461 (September 2010: \$17,216,000, March 2011: \$3,804,000).

	September 2011 Unaudited (\$'000)	September 2010 Unaudited (\$'000)	March 2011 Audited (\$'000)
10. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES WITH SURPLUS AFTER TAXATION			
Net profit after tax	11,926	10,666	17,002
Adjustments for items not involving cash flows:			
Depreciation	8,965	7,861	16,279
Amortisation	1,242	323	1,297
Impairment	-	-	11
Loss/(gain) on sale of property, plant and equipment	1,987	1,024	2,251
Net movements in provision for liabilities and charges	312	(27)	(153)
Deferred tax asset	928	1,190	2,128
Goodwill	(2,961)	-	-
Changes in working capital:			
Trade and other receivables	(2,328)	(1,728)	(812)
Work in progress	(3,584)	15	(974)
Trade and other payables	5,238	514	(161)
Customer discount payable	(8,596)	(8,116)	-
Current income tax liabilities	1,654	971	503
Net cash inflow from operating activities	14,783	12,693	37,371

11. RELATED-PARTY TRANSACTIONS

The ultimate parent of WEL Networks Limited is the WEL Energy Trust which owns 100% of its shares. Other than the payment of directors fees (refer note 5) the Group has not entered into any transactions with Directors. No related party debts were forgiven or written off during 2011 or 2010.

12. RELATED-PARTY TRANSACTIONS continued

	September 2011 Unaudited (\$000)	September 2010 Unaudited (\$000)	March 2011 Audited (\$000)
Related party transactions with WEL Energy Trust			
Third party contributions	-	-	250
Contracting revenue	99	56	161
Other income	-	24	73
Sale to related parties	99	80	484
Smart metering grant	-	(10)	-
Interest expense	-	-	-
Payments to related parties	-	(10)	-
Trade receivables	43	50	-
Trade payables	32	159	21
Convertible notes - equity (note 8)	39,000	39,000	39,000
Interest on convertible note	(1,564)	(1,564)	(3,120)

No dividends have been paid for September 2011 (September 2010: \$0 million, March 2011: \$0.25 million)

13. BUSINESS COMBINATIONS

(a) Acquisition of subsidiaries

(i) Acquisition of Hamilton Fibre Networks Limited

On 26 August 2011 Ultrafast Fibre Limited (UFL) acquired 70% of the issued share capital of Hamilton Fibre Networks Limited for a consideration of \$1,842,013 and thereby obtained control over this entity. The acquisition has increased the Group's market share in the fibre broadband industry. The following table summarises the consideration paid and the fair value amounts of the assets acquired and liabilities assumed at the acquisition date.

	Group 2011 (\$000)
Consideration	
Cash	1,842
Fair value of shares issued	-
Total purchase consideration	1,842
Minority Interests:	
Velocity Group	(682)
Assets and liabilities acquired	
Inventories	1
Property, plant and equipment	2,524
Net identifiable net assets acquired	2,525
Goodwill	-
Net assets acquired	1,843

13. BUSINESS COMBINATIONS continued

(ii) Acquisition of Velocity Group Holdings Limited

On 26 August 2011 Ultrafast Fibre Limited (UFL) acquired 100% of the issued share capital of Velocity Group Holdings Limited for a consideration of \$3,407,987 and thereby obtained control over this entity and its wholly-owned subsidiaries Velocity Networks Limited and Velocity Infrastructure Limited. Velocity Group Holdings Limited owns the remaining 30% shareholding in Hamilton Fibre Networks Limited, making the Group's total interest in Hamilton Fibre Networks Limited 100%. The acquisition has increased the Group's market share in the fibre broadband industry. The following table summarises the consideration paid and the fair value amounts of the assets acquired and liabilities assumed at the acquisition date. The acquisition accounting will be finalised by 31 March 2012 as further information is obtained.

	Group 2011 (\$000)
Consideration	
Cash	3,408
Fair value of shares issued	-
Total purchase consideration	3,408
Assets and liabilities acquired	
Cash and cash equivalents	3
Trade receivables	39
Property, plant and equipment	154
Intangible assets: Intellectual property	19
Investment in Hamilton Fibre Networks Limited	682
Trade payables	(133)
Other payables	(73)
Term Liabilities	(244)
Net identifiable net assets acquired	447
Goodwill	2,961
Net assets acquired	3,408

14. SUBSEQUENT EVENTS

On the 1 November 2011 Waipa Networks Limited (Waipa) acquired a 15% shareholding in Ultrafast Fibre Limited (UFL). The acquisition results from Waipa's involvement in our consortium that was successful in winning the Government Ultra Fast Broadband roll out programme in the Waikato, Bay of Plenty and Taranaki regions. As part of the 15% acquisition Waipa provided a cash injection to UFL of \$1.6m representing their 15% of the UFL loan balance to date.

REGISTERED OFFICE

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Email : connect@wel.co.nz

DIRECTORS HOLDING OFFICE

Chairman
Deputy Chairman

John L Spencer
Margaret P Devlin
Mark X Franklin
Paul D McGilvary
Hon Richard W Prebble
Anthony (Tony) V Steele
Dr Julian M Elder (Alternate)

COMPANY MANAGEMENT

Chief Executive
General Manager
Operations and Customer Delivery

Dr Julian M Elder BE(Elec),
PhD, MIPENZ, CPEng, IntPE(NZ)

William J Hamilton MBA

General Manager
Corporate Services

David E Smith BMS, CA

General Manager
Asset Investment and Growth

John van Brink BE(Elec), ME(Dist), CEng, MIET

ADVISORS

AUDITORS

PricewaterhouseCoopers, Auckland

SOLICITORS

Tompkins Wake, Hamilton
DLA Phillips Fox, Auckland

INSURANCE BROKERS

JLT New Zealand, Auckland







