

CHAIRMAN'S REPORT



Sir Dryden

[Chairman since 1999]

Financial Highlights

2003 has been a successful year for WEL. For the year ended 30 June 2003 the Company achieved an after tax surplus of \$12.7 million compared with \$23.9 million for the year ended 2002. This year's result has been impacted by the introduction of a substantial discount. The 2002 result included a number of one-off transactions. Adjusting both years gives \$19.1 million in 2003 compared with \$17.6 million in 2002. This underlying growth in value has been achieved through cost efficiencies and a 4.6% growth in electricity volumes.

Dividend

The Company has declared a total dividend of \$7.3 million to our shareholder the WEL Energy Trust. This level of dividend has enabled the Trust to continue to support community organisations and initiatives whilst leaving sufficient funds in the Company to ensure continued enhancement of the reliability and security of the electricity network.

Pricing

The Company has continued its ongoing trend of price reductions as shown in the graph below. This year we introduced and paid a discount, with the average customer receiving a reduction in their line charges of 23%. This year's result has contributed to customers benefiting by a 41% reduction in real terms to their line charges since 1998.

Quality of Supply

I am pleased to record the benefits of the Company's active campaign to improve its security and reliability of supply. Last year WEL had its best ever year for reliability with 70 minutes of SAIDI, down 10 minutes from the previous year. I am delighted that WEL has achieved this result while also substantially reducing its prices. WEL is continuing to drive better performance in both of these areas, targeting best practice coupled with very competitive pricing.

Trust Relationship

I'm delighted to welcome the new Trust Chairman Garry Mallett, Deputy Tania Hennebry and new trustees; John Easto, David Laird, Ewan Wilson and Brad Chibnall and would like to congratulate Margaret Evans and John Gallagher who were re-elected to the Trust for another term.

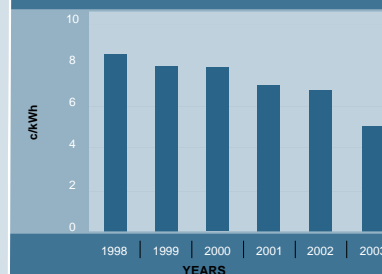
Entering an industry with complex issues is a challenge. I would like to acknowledge the positive and constructive way in which the new trustees have met this challenge.

Comparison With Previous Year

	2003 \$m	2002 \$m
Reported Surplus after tax	12.7	23.9
Discount	9.6	-
Interest on Loan to WETSL*	-	(6.2)
Tax effect of above adjustments	(3.2)	2.0
Tax loss from WETSL	-	(2.1)
Revised Surplus after Tax	19.1	17.6

* WEL Energy Trust Shareholding Limited

WEL Real Domestic Price





Regulation

I am disappointed to report that once again regulatory matters dominated the direction of the electricity industry during the past year. This constant and unending regulation and reform has serious impacts on investment in our asset intensive industry.

It is of concern that it is taking yet another year of energy shortages to stimulate investment in generation. Electricity is a critical enabler to New Zealand's economic development and it is unacceptable to have energy shortages due to a lack of investment. A major contributor to the lack of capacity has been the uncertainty of the future of the regulation and governance of the electricity industry. New Zealand has significant energy resources but unless new generating capacity is installed, then New Zealand will run a serious risk of ongoing shortages.

In spite of significant improvements in price, quality and service, both in WEL and throughout the lines industry, the Government has seen fit to require the Commerce Commission to impose a regulatory regime on lines companies. This has proven both to be a time consuming and expensive exercise. The result of this level of intervention will be to seriously limit the industry's capacity to take account of growth and innovation opportunities.

It was frustrating that a proposed low cost, simple concept of industry self-governance has grown in bureaucracy, complexity and cost to the extent that the industry inspired and led Electricity Governance Board was not supported by the industry. We at WEL opposed this initiative even though we were strong supporters of the concept at its inception.

We will be examining very closely the proposed governance and workings of the new Electricity Commission and, while we welcome the easing of generation constraints on lines companies that have been flagged, there is as yet insufficient detail to assess the potential of the new Commission.

Clearly WEL is making significant improvements in its reliability of supply and its prices, both of which have a visible and positive benefit to customers. We have also been systematically reducing our controllable costs. It is therefore incongruous that the regulatory process which is designed to improve efficiency is adding significantly to our cost structure. These costs, together with the proposed Electricity Commission costs, look like adding well over \$400,000 per annum or \$6 per customer in direct costs plus the management cost of compliance and the distraction from our goal of delivering further improvements.

Directors

I would like to farewell long-standing board member Shane Solomon and thank him for his valued input since 1996.

I welcome John Birch who joined the Board in December 2002. John brings a wealth of experience in major construction and I'm sure he will be an active and valuable contributor to the Board.

In conclusion, I would like to thank Chief Executive Mike Underhill and the staff of WEL Networks for another successful year of support and achievement.