



Rodger Fisher

2007/08 CHAIRMAN'S REPORT

Chairman Since 2005

Financial Highlights

WEL Networks Ltd (WEL) produced another very good result for the financial year ended 31 March 2008 with profit of \$15.8 million (this includes a one-off profit of \$950K from the sale of WEL House) (2006/07 \$15.1 million). WEL has moved to an annual revaluation of the distribution assets which has resulted in a \$13 million increase in assets for the year ended 31 March 2008. All numbers are adjusted for the adoption of NZ IFRS.

Adoption of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)

WEL adopted NZ IFRS for the financial reporting period beginning 1 April 2007. The new reporting standards change how certain asset, liability, revenue and expense items are treated. We have described the significant impacts of the adoption of NZ IFRS in the notes to our financial statements. We have included a full set of new accounting policies that reflect the impact of adopting these new accounting standards.

Prices

Depreciation increased during the year by \$4 million as a result of the 31 March 2007 asset revaluation process where the asset base of WEL increased by \$50 million, taking the total to \$334 million. We continue to see significant increases in labour and material costs, with the cost of carrying out capital works increasing by over 8%. With lower growth than forecast, even though we experienced a large increase in peak loads on the network, WEL was forced to raise its prices for the first time in 9 years. A price increase of 6.2% was introduced effective from 1 October 2007.

Transpower reached a settlement with the Commerce Commission and has advised its price increases effective from 1 April 2008. For WEL the Transpower cost increase is 17.8%. While this is lower than originally proposed by Transpower it is still very significant and we have had to pass this on, it is included in our published tariffs, effective 1 April 2008. This cost pass through represents an average increase in lines charges of 3.4%.

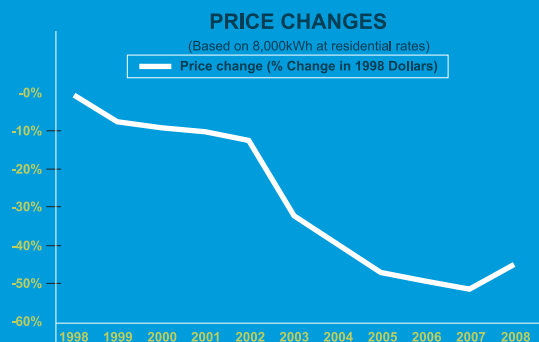
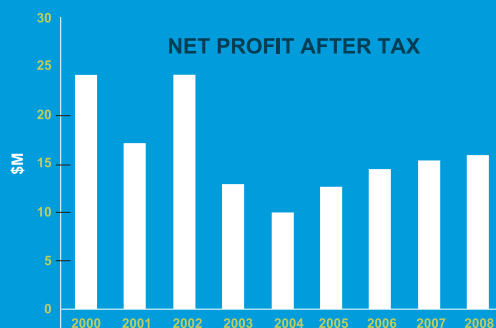
Discounts

Following consultation with the WEL Energy Trust, the Company increased the discount by 3% to an average of \$275 per household, with the total paid out reaching \$22.9 million (incl. GST). The discount was paid from April 2008.

Renewable Generation Developments

In addition to the 1MW landfill gas generation plant that we currently operate, WEL continues to investigate renewable energy projects within the Waikato area. Our largest initiative to date is the proposed Te Uku Wind Park. The hearing on our resource consent application has now been completed and we are waiting for the Commissioners' decision. While support is very high for this project we do expect that some objectors will appeal a favourable decision. We continue to believe in the appropriateness of this project and the significant benefits that will result from its operation. The project will strengthen the security of supply to Raglan and the western Waikato. Once implemented the Te Uku Wind Park alone will help New Zealand to avoid approximately 190,000 tonnes per annum of carbon emissions.

The economics of wind generation continue to be sensitive to equipment costs and the value of carbon emissions. WEL will be re-evaluating the economics prior to making a final decision to proceed.



Regulatory Issues

This year has seen the Commerce Commission commence its process leading to the Threshold Reset to be effective from 1 April 2009. This is the process that will set the rules applying to price and quality for Electricity Lines Businesses (ELB's) for the next 5 year period. At the same time the Ministry of Economic Development (MED) has been continuing its review of the Commerce Act parts 4, 4A and 5 which are the parts that currently apply to ELB's and under which the current thresholds have been set.

WEL led submissions to the MED to argue that trust-owned lines businesses have very strong incentives to meet the needs of their communities and consumers. The argument was that local community pressure will provide a more efficient and lower cost mechanism of ensuring the behaviour of lines companies is in the best interest of the local customers than central government regulation. We have been successful in this approach being included in the draft bill which is in the process of going to the Select Committee.

The WEL Energy Trust

I am pleased to report that the company has continued to maintain an excellent relationship with the WEL Energy Trust and I thank the Trustees for their support during this year.

Acknowledgements

In September Brian Walsh, who had been a Director since 1999, retired from the Board and has been replaced by Margaret Devlin. I take this opportunity to thank Brian for his contribution, both as a Director and also as Chairman of the Audit Committee and welcome Margaret to the Board.

Chief Executive

With the resignation of Mike Underhill in April 2007 Dr Julian Elder was appointed Chief Executive. Julian has settled into the job well and I thank him and his management team and staff for a very good performance during the 2007/08 financial year.

Looking Forward

The Waikato has experienced very strong economic growth in recent years. While this has slowed to some degree in the past few months, WEL needs to continue to make significant investment in the network.

We will continue to focus on improving reliability of supply, and we are committed to ensuring WEL continues to deliver a quality service to all our customers, while maintaining a good level of profitability.