



CHAIRMAN'S REPORT

Rodger Fisher [Chairman Since 2005]

Financial Highlights

WEL Networks Ltd (WEL) has produced another very good result for the financial year ended 31 March 2007 with profit of \$14.4 million (2005/06 \$14.3 million).

This result was achieved after a significant increase in the discount paid to consumers.

Prices

Last year we reported that Transpower had indicated that it intended to raise its prices by 19% for the 2006/07 year, and that this increase would be followed by further increases of 13% over each of the next four years. The Commerce Commission believed these rises were not justified, and in December 2005 announced its intention to declare control of Transpower's transmission services. Transpower sought an administrative settlement and subsequently rebated its 2006/07 increase and announced price rises of 15.2% effective from 1 April 2007.

As permitted under the Commerce Commission pricing threshold regime, WEL had increased its prices to pass the increase through from 1 April 2006. While an agreement between Transpower and the Commerce Commission has not been formally resolved, WEL has now passed this increase back to retailers, including interest.

We are concerned that the administrative settlement talks are still underway. We believe that issues that affect the wider industry to this extent should be dealt with swiftly to provide a greater level of certainty to all parties, including of course the final customer.

Discounts

Following consultation with the WEL Energy Trust, the Company increased the discount by 9% to \$22.2 million (incl. GST). This was paid in April 2007. The average residential customer received a discount of \$272 (incl. GST) or 36% of their annual line charges.

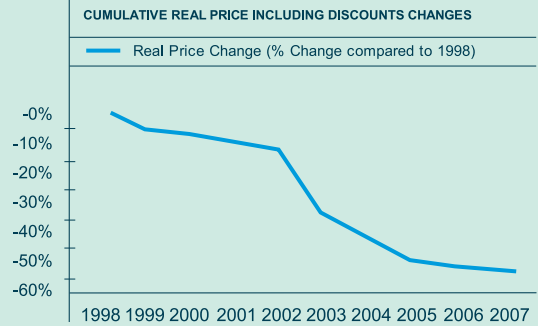
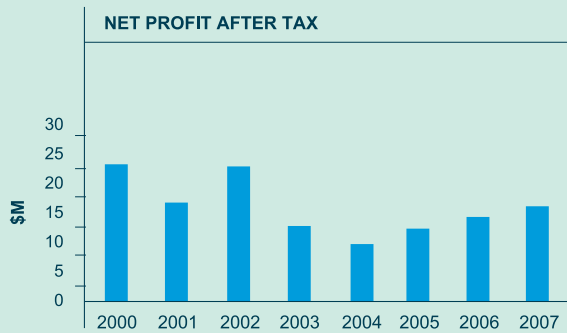
Wind Farm Developments

WEL has continued to investigate wind farm sites in the Waikato area. A consent application for a 28 hectare site near Te Uku was lodged with Waikato District Council and Environment Waikato in mid March and WEL expects to know the outcome of this application by the middle of 2007. This site has the potential for 28 x 3MW wind turbines capable of providing energy to supply over 30,000 homes. This will strengthen the security of supply to Raglan and the western Waikato. If resource consent is granted and the government implements a sufficient initiative scheme for renewable generation, WEL hopes to begin construction in the 2008/2009 summer with commissioning of the wind farm late in 2010.

At this stage the project needs recognition of the value of carbon to be commercially viable. WEL has made submissions to the Government's New Zealand Energy Strategy calling for decisions to be made about carbon taxes/pricing regimes. We believe that an economically efficient regime is essential if New Zealand is to unlock its considerable renewable potential.

If implemented, the Te Uku wind farm alone will help New Zealand to avoid approximately 190,000 tonnes per annum of carbon emissions.





Regulatory Issues

This year has been dominated by the Commerce Commission taking action against Unison and Vector as a result of them breaching their pricing thresholds. We believe that these actions, and the resultant uncertainty, leave considerable room for improvement within the current regulatory structure.

The Government has called for a review of the Commerce Act, Parts 4, 4A and 5, which relate to the control regime that lines companies are subject to. WEL will prepare a submission on this review with the intention of seeking a more transparent regulatory regime.

We believe that WEL, and many similar Trust-owned lines companies have very strong local incentives to meet the needs of the community and the customers. This local community pressure will provide a more efficient and lower cost mechanism of ensuring the behaviour of lines companies is in the best interests of the local customers than central government regulation.

New Chief Executive

I welcome Dr Julian Elder as the new Chief Executive effective 4 May 2007. Dr Elder has a PhD in Electrical Engineering and has had more than 25 years in the water and electrical engineering industries, working in Singapore, Australia and New Zealand.

He has been involved in a wide variety of electricity generation and distribution projects and has held senior management positions in consulting, contracting and utility businesses.

The WEL Energy Trust

I am pleased to report that the Company has continued to maintain an excellent relationships with the WEL Energy Trust. My thanks to their Chairman Garry Mallet, Deputy Chair Tania Henneby and Trustees for their support during the year.

Acknowledgements

I would like to thank Brian Walsh, Chair of the Audit Committee and my other Directors for their strong support during the year.

I would also like to thank Chief Executive, Mike Underhill and his management team and staff for another very good year.

Mike has resigned to take up a role as Chief Executive of EECA and I would like to record my thanks for his contribution to WEL over the previous 8 years as Chief Executive and wish him well in his new role.

Looking Forward

In support of the strong economic growth being experienced in the Waikato, WEL is continuing to make very significant investments in the network. We are also placing considerable emphasis on reliability of supply, to ensure that WEL provides a "top-class" level of service to the consumers in the region. There is an ongoing focus on efficiencies within the business to ensure that WEL continues to deliver a cost effective service and maintain profitability.

