

CHAIRMAN'S REPORT

John L Spencer | Chairman Since 2009



FINANCIAL RESULTS

The net profit after tax was \$18.4 million compared to the profit achieved in the 2008/09 financial year of \$18.7 million. This result was very good given the global economic situation. The result was helped by a cold winter and additional revenue resulting from prior year reconciliations with Genesis. Last year WEL's profit after tax included a one off \$3.2 million profit from the sale of the Te Uku Wind Park consent.

REGULATORY

The Commerce Commission determined that the Default Price Path for those companies subject to price and quality control shall be price rises of CPI. WEL Networks is exempt from this type of regulation and only subject to information disclosure due to being 100% trust owned. However, we remain committed to maintaining our price and quality performance in line with the regulated companies.

PRICING

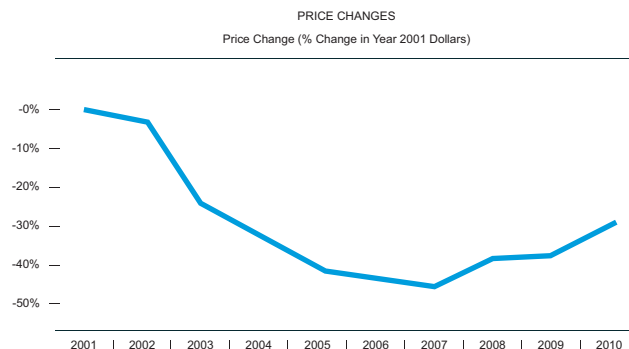
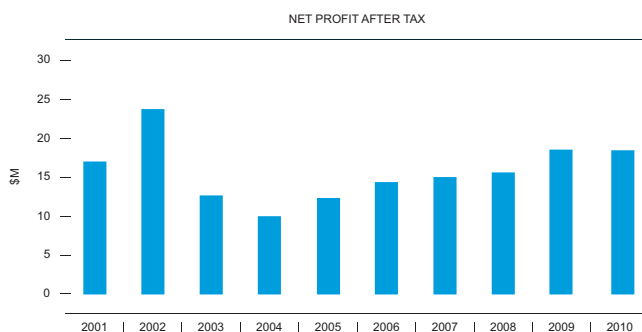
As indicated we announced a price increase of 1.7% to apply from 1 April 2010, this being below the level of CPI inflation and also at the lower end of those announced by the electricity distribution sector.

DISCOUNTS

WEL was expecting, and had indicated, a significant reduction in discounts for the 2009/10 year. It has been pleasing to be able to announce a discount of \$20.8 million (including GST), compared to \$22.9 million the previous year. While this represents a 9.2% drop it is an acceptable result given the prevailing economic conditions.

WIND PARK

On 15 October 2009 WEL and Meridian jointly announced that they would proceed with the Te Uku Wind Park. The project is expected to cost \$200 million and will have a capacity of 64 Megawatts, which will generate enough power to supply the equivalent of 30,000 New Zealand homes. Meridian is constructing the wind turbines while WEL is constructing the transmission line which links the Wind Park to the network.



Construction on site has commenced as has the construction of the 33kV lines to the site. Generation is expected to commence late in 2010. Progress on site has been good with excellent environmental controls put in place. Meridian is expecting the first turbines to arrive in October 2010.

CAPITAL RESTRUCTURE

One of the objectives identified in the strategic review undertaken by the WEL Energy Trust was the wish to become self-sufficient in relation to its operational expenditure with a greater level of certainty on the income required to achieve this. Uncertainty looking forward was increasing due to the existing convertible note structure with WEL Networks expiring in 2012.

A review of the capital structure of the Trust and the Company identified an option for the Trust to invest in new convertible notes. The new notes will provide greater certainty of income to the Trust due to the five year fixed interest rate plus the right to extend the notes' maturity for further five year periods.

WEL ENERGY TRUST

The Trust has had two Chairpersons resign, both due to other personal commitments that arose during the year. Mark Ingle has been appointed Chairperson and Denise Harding Deputy Chairperson. We look forward to maintaining the excellent working relations we have with the WEL Energy Trust and Chairperson Ingle.

DIRECTORS

On 30 September 2009 Chairman Rodger Fisher and Director Jeff Williams completed their term on the Board. I would like to thank Rodger and Jeff for the contribution they have made to the Company.

Rodger was appointed to the Board as Deputy Chairman during the year 1999 and was appointed to the role of Chairman in 2005. Rodger saw the Company through a time of considerable change in the industry and led the strategy that developed WEL Networks into one of the top performing electricity distribution businesses in New Zealand today.

I was subsequently appointed Chairman and John Birch Deputy Chairman. Two new Directors have joined the Board; Mark Franklin who is very experienced in the electricity industry, most notably as former Chief Executive of Vector, and Paul McGilvary, Chief Executive of Tatura Dairy Company.

Both Directors have settled in well and I welcome the contributions they are making to the governance of the Company.

MANAGEMENT AND STAFF

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

LOOKING FORWARD

The current difficult economic conditions have resulted in the strong growth that WEL had been experiencing in recent years coming to a stop, however we are seeing some signs of recovery and are budgeting for some growth in the coming year compared to the 2009/10 year.

WEL has, and will, continue to invest in its core network to ensure it continues to deliver quality services to all of our customers.

The Electricity Industry Bill, once enacted, will bring some changes to the electricity industry. For WEL there are two significant matters; one is the call for more standardised tariffs which we hope will not mean poorer price signals and reduced choice for consumers, and the other is the opportunity for distribution companies to get back into retail electricity. At this stage we consider that there are insufficient reasons for WEL to become a retailer again.

CHIEF EXECUTIVE'S REPORT

Dr Julian M Elder | Chief Executive Since 2007

OPERATIONAL HIGHLIGHTS

We started the year with concerns over the economic situation and took a precautionary approach to expenditure; a heightened focus on efficiency and costs by the staff was particularly effective. Even with this focus it was pleasing to see that we were able to continue to move forward with our two new strategic initiatives. The first; smart meters and networks, is aimed at delivering better services to our consumers and giving us options to better manage the network in the future. The second is the Government's broadband initiatives which we see are not only a natural fit with our core business but key infrastructure for the economy in our region.

Another significant milestone was the final decision to proceed with construction of the Te Uku Wind Park. The WEL team has done an outstanding job in getting this project consented and bringing it to the economically viable stage it is now at. Meridian's first turbines are expected to begin generating into our network before the end of 2010.

HEALTH AND SAFETY

Staff and public safety are of the highest priority at WEL. It has been encouraging to see the Electrical Engineers Association commence a pilot programme to see if we can come up with better tools to help predict health and safety performance. WEL is participating in this pilot as tools that help us look forward to improvement and reduce the risk of failure in this area are welcomed.

NETWORK DEVELOPMENT

Work continues on the strengthening of our network. The economic downturn provided an opportunity to review a number of our growth projects, and some work has been deferred as we expect reduced levels of growth for a period of time. Existing projects continue, some of these are a result of the ongoing pressure of new load connections caused by recent high levels of growth (for example the Cobham substation project is a direct response to increased hospital and CBD demand increases).



The Te Uku Wind Park project was reviewed last year and a decision made to adopt a 33kV configuration, instead of the consented 110kV line. We have commenced construction of a new 33kV line out to Te Uku and the strengthening of the existing line from Whatawhata to Te Uku. These projects will strengthen the subtransmission network between the Transpower Te Kowhai substation and the area to our west and to Raglan. Construction of the new substation at Raglan will also commence in the coming year.

Our capital projects profile for the next ten years calls for an average of \$31 million of expenditure per annum. Provision for growth continues to dominate our works programme, with continued expansion around the peripheries of Hamilton, as well as ongoing development along the Waikato expressway corridor to the north of the city. Our network development projects in the pipeline include seven new zone substations, five zone substation transformer capacity upgrades, and strengthening of our 33kV subtransmission network.

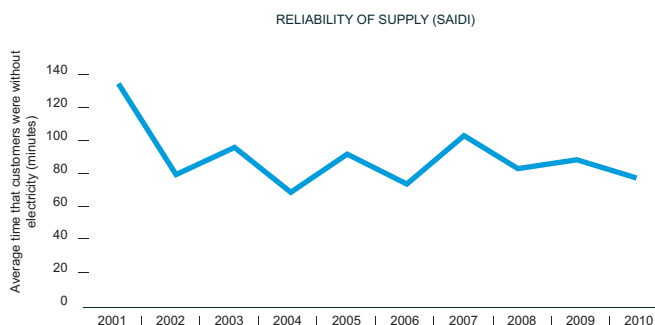
In addition we will need to invest in a new Transpower point of supply for Hamilton. The level of investment on the planning horizon provides an opportunity for us to review our asset management strategy and take our planning and design to a new level of sophistication. The convergence of telecommunications and electricity infrastructure technologies provides the opportunity to "smarten" up our network. We are actively looking at the introduction of smart grid technology to monitor and control our network, and to provide a more interactive approach to consumer demand management.

RELIABILITY

The annual result was 75 SAIDI minutes. This was a significant improvement over the 84 SAIDI minutes of the previous year, particularly as we had a large number of planned SAIDI minutes this year to allow us to carry out work on equipment on our network. Our reliability projects continue and we have made changes in our vegetation management area to get ahead of the growing issue of trees impacting on the reliability of the network.

TREE SERVICES

A decision was made during the year to in-source our vegetation management services. This area has been a growing cost to the business with the impact of trees on lines not diminishing. Our crews have been up and running since August and we are now achieving nearly 30% additional work for the same cost.



SMART METERING

Our trialing of smart metering has confirmed that this technology is essential to our future management of the network. Implementing the full range of benefits from smart meters will result in more consumer choice, better service to consumers and an ability to better manage our network. We continue to lead initiatives in this area and are committed to ensuring that this technology does bring benefits to our consumers. Introduction of smart metering and network automation technologies is a logical progression to the implementation of our network management system. The key to this is the implementation of a two way communications network that enables better communications with consumers and supports the improvement in the way we manage load flows across our network.

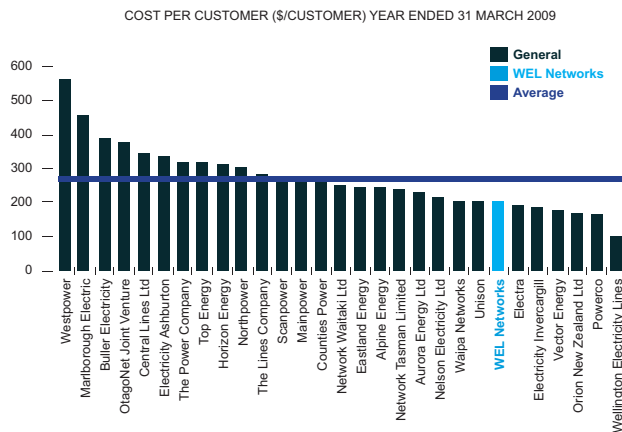
NATIONAL BROADBAND INITIATIVES

We are supportive of the Government's initiatives to bring faster broadband to New Zealand. This type of infrastructure is a natural fit with our current business and, like electricity; we see it as a critical enabler of the economy. WEL has submitted a bid to become a preferred partner in the government's Ultra Fast Broadband Initiative rolling out fibre to premises in the urban areas. Of course we are just as interested in our rural consumers as our urban ones and will be responding to the Rural Broadband Initiative once that is released.

LOOKING FORWARD

We continue to focus on how to do business better and have initiated the Kaizen approach to look to reduce waste and improve efficiency within the business. This has already resulted in improvements in the vegetation and new connections side of the business and we look forward to similar results elsewhere.

Better consumer service and downwards pressure on future cost increases are critical to our smart meter and smart network initiatives. We will continue to be very focussed on bringing these benefits to our area.



The timing of the national benchmarking means this graph relates to the 2008/09 performance figure. WEL continues to perform well in terms of cost per customer compared with other lines companies.