

22 May 2008

REPORT TO THE MONITORING SUBCOMITTEE FOR THE THIRD QUARTER OF 2007/08

FINANCE

Cable Car & Trolleybus System Income

Cable Car fare income is 11.6% above budget and 11.6% ahead of the same quarter in 2006/07.

The monthly GWRC contract payments to cover the cost of inspection, maintenance, and repairs of the trolleybus overhead system have been received to date. However, GWRC made a budgetary allocation of \$1.53M without reference to WCCL while WCCL's business plan required payments of \$1.87M to deal with urgent and critical maintenance. GWRC have advised that the budget allocation would soon be used up. WCCL have advised GWRC of the estimated shortfall in income and a response has yet to be received. Furthermore, WCCL has completed tender processes for the trolley bus overhead maintenance contract and has awarded the contract at a cost significantly higher than has been experienced in the past. In addition, WCCL has completed inspections which give a far greater level of detail on the condition of the assets with the results that the level of urgent and critical maintenance is much higher than previously understood. This means that the funding requirements from GWRC for the 2008/09 year have increased from \$1.87M to around \$4M. GWRC have been advised of the situation and a response is awaited.

Income from Miscellaneous work

Pole and trolley bus overhead project income is well above budget for the quarter due to WCCL carrying out unplanned work related to modifying or replacing the network because of roading or other work initiated by third parties. The Riddiford Street improvements are in an advanced stage of planning to be completed during the current financial year.

Income and Expenditure Overview 2007/08

The operating surplus for the March 2008 quarter is \$616,813 compared with a budgeted surplus of \$190,762 and \$155,747 surplus for the third quarter in the previous year. The favourable position is primarily due to higher than expected cable car fare revenue and miscellaneous income from pole rentals and pole work coupled with lower than expected overhead expenses. The final position at the end of the 2007/08 year is critically dependant on the funding received from GWRC with the potential for a deficit being incurred if the level of funding is not increased.

Accordingly, no interim dividend has been proposed to date.

Expenses

Cable Car Operation

The cable car operation and maintenance expenses are 12.5% over budget due to higher than expected depreciation and R&M costs. These are primarily related to higher than expected costs incurred in the repair and painting of Salamanca station.

Trolley Bus Overhead

The overall expenditure for the trolley bus overhead system is below budget due to timing issues and the lack of resources provided by the maintenance contractor to carry out maintenance work during the Christmas period. In general pole replacements are being carried out to plan to address urgent and critical maintenance requirements resulting from the many years of under-spending. The commencement of the new contractor Transfield will increase the spending to the end of the year.

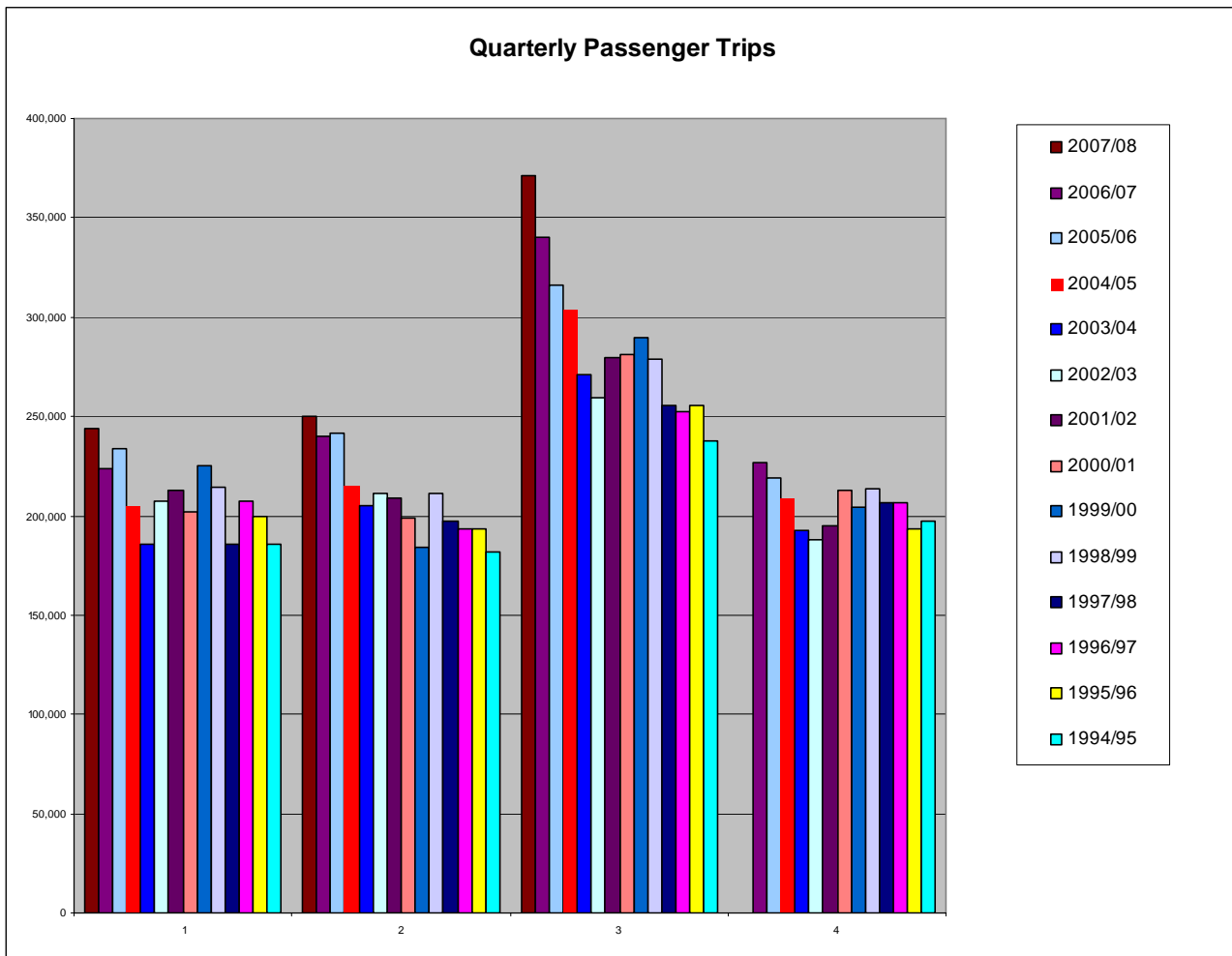
Administration

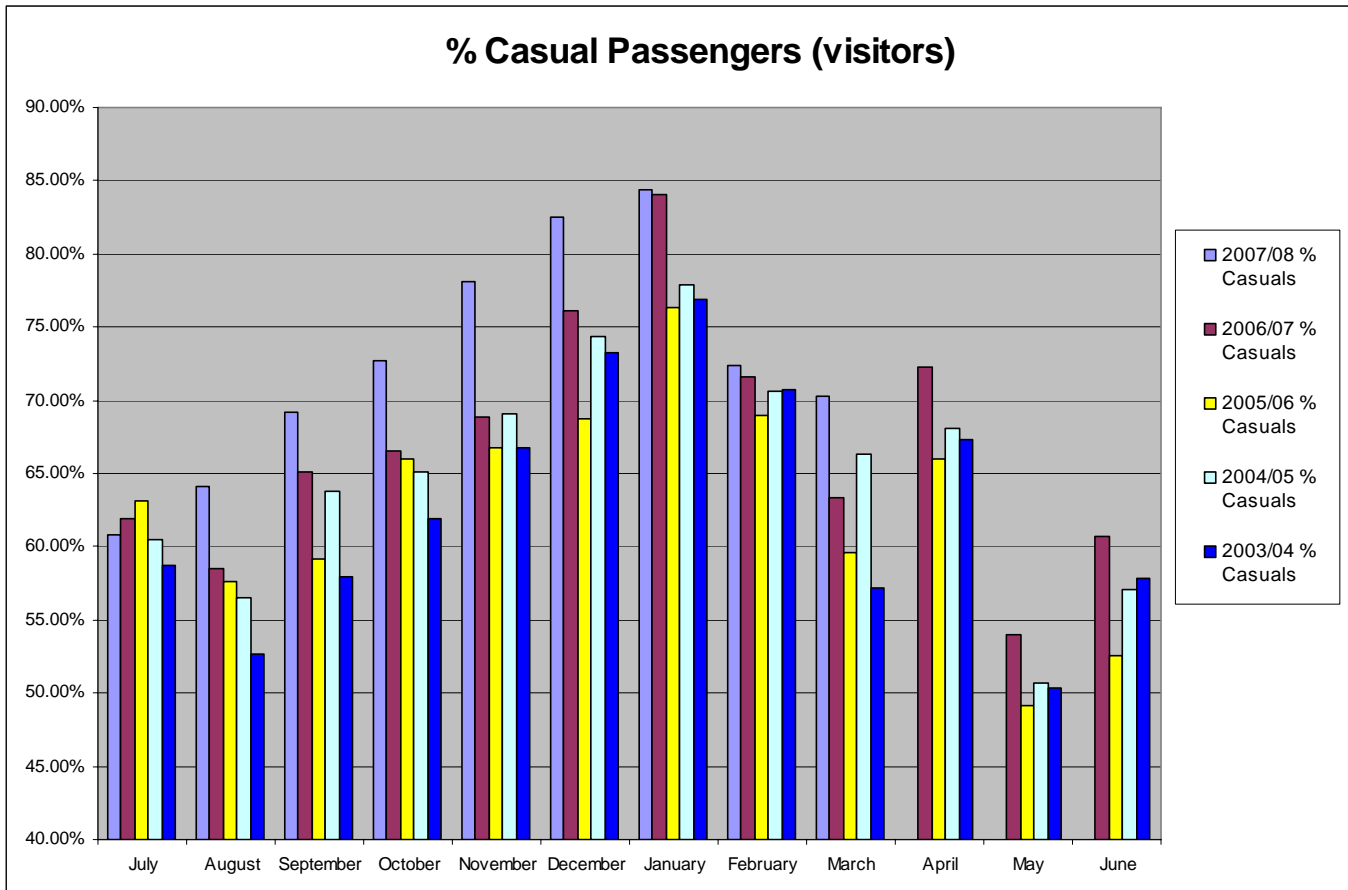
The various administration expenses are 11.0% over budget for the quarter and 7.0% for the nine months until March 31 2008 primarily due to legal fees incurred in establishing the new contracts for maintenance and pole rental agreements and an increase in Directors fees.

Passenger Numbers

The actual passenger numbers for the third quarter were 371,637 which is 17.5% above budget and above the same quarter in the 2006/07 year. For the nine months to March 31 2007, the actual passenger trips were 10.6% above budget and 9.2% above the same period in 2006/07.

The following graphs indicates that the quarterly volume of passengers and the % of casual passengers which approximates to visitor volumes. It will be noted that the visitor proportion is very high particularly in the summer months.





GENERAL

Cable Car Operation

The cable car has been operated by “in-house” staff and management since 1 April 2007. In general improved customer service has been achieved, except for a few isolated exceptions. Favourable comments have been received from passengers.

The ticketing system teething problems have been resolved with computer and software replacements being carried out.

Cable Car maintenance

The annual survey was carried out in late October during which extraordinary work was carried out including major replacements of the service brake components, electronic power supply and a section of track. There is still some fine tuning to be carried out to achieve the quality of ride that was previously experienced and plans are in hand to replace some components which will address the issue.

The reliability for the quarter was lower than normal, at 99.29% because of a few trips lost during January due to issues with the new power system’s controls. However, the major impact was due to 35 trips lost because of vandalism of the control system aerial connection along the track. Security improvements are being introduced with a view to preventing a re-occurrence of such incidents.

Trolley Bus Overhead

Tenders from four contractors were received for the overhead maintenance contract and Transfield was evaluated as the preferred tenderer. The incumbent contractor was not invited to tender because in a previous registration of interest they indicated a willingness to provide a breakdown service only. This approach was not considered to be cost effective particularly as WCCL intends to improve maintenance and reduce the number of breakdowns

WCCL is in discussions with GWRC in relation to establishing appropriate contract arrangements including adequate funding to meet the company's maintenance requirements. WCCL had developed new contract documents with a view to regularising the commercial arrangements between the parties. However, GWRC provided its own contract documentation which was assessed by WCCL and its legal advisers to be particularly "unbalanced" in favour of GWRC. Discussions have still to be carried out but there are matters of principle which have to be finalised particularly with respect to WCCL's desire to achieve an appropriate return on assets from third parties paying for the use of the network and poles. With this in mind WCCL sought external advice, and in consultation with WCC have developed WCCL's financial structure, which also includes contributions from third parties utilising WCCL's poles. An asset management plan and a budget has been provided to the GWRC for the 2008/09 year and through until 2018 covering the maintenance costs only. This alone is problematic for GWRC given the significant increase in funding necessary to deal with the back-log of urgent maintenance required. WCCL has entered into a three month contract with Transfield in order to meet breakdown and maintenance requirements until the 30 June 2008 pending funding discussions with GWRC. The condition of the assets is such that WCCL as the asset owner must undertake significant replacements however the costs associated with maintenance contract expenditure are unable to be accepted as commitment by WCCL Director's without a commitment to funding by GWRC. Therefore urgent responses have been requested from GWRC.

Roger Drummond

CHAIRMAN OF THE BOARD OF DIRECTORS