WELLINGTON CABLE CAR LIMITED

REVIEW OF 2008/09 ANNUAL REPORT

The Company presents its Annual Report for 2008/09 including unqualified audited financial statements and performance measures.

Highlights for the year

- The Company achieved an operating profit before tax of $250k, representing a return on equity of 3.8%. This was 52% below the record result in 2008 (which was driven by one-off third party work), but was 25% above the original budgeted figure of $200k.
- Total passenger numbers for the year were just under 1.15m; 2% ahead of budget and 3% ahead of last year – the number of trips purchased has increased for the sixth year in a row.
- The cable car achieved reliability of over 99% for the year.
- The Company started to address the backlog of maintenance on the overhead trolley bus network – spending $3.7m versus $1.9m in 2008.

Performance

1. Financial

A review of the Company's financial statements highlights the following points:

- Revenue from operations increased by $2.1m, largely driven by the increase in overhead trolley bus network maintenance work of $1.8m.
- Despite the challenging economic environment, fare income from the cable car operations was 9% above budget for the year.
- The Company completed the significant Riddiford St overhead network development (some of which was also undertaken in 2007/08) and increased revenue from other third party services.
- Operations and general costs increased by $2.2m, also largely relating to the increase in overhead trolley bus network maintenance of $1.8m.
- The balance of the operations and general costs increase is a result of repairs, maintenance and marketing for the cable car, higher external project costs, and legal and financial fees incurred related to the development of pole user charges and the implications for the Company's financial structure.

Statement of Financial Performance

$ '000	FY Actual	FY Budget	2007/08 Actual
Income	6,112	5,697	4,005
Expenditure	(5,862)	5,498	(3,486)
Operating Surplus	250	200	519
Taxation	(34)	-	45
Net Surplus	216	200	564

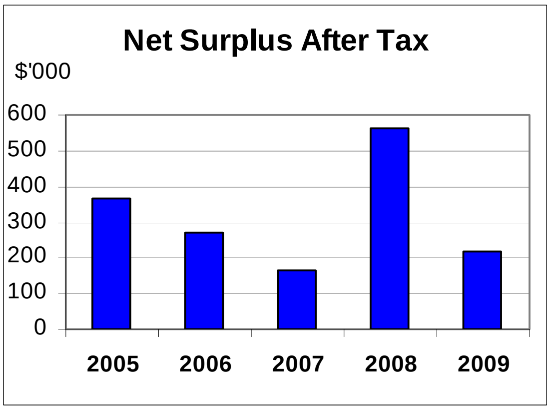
Statement of Financial Position

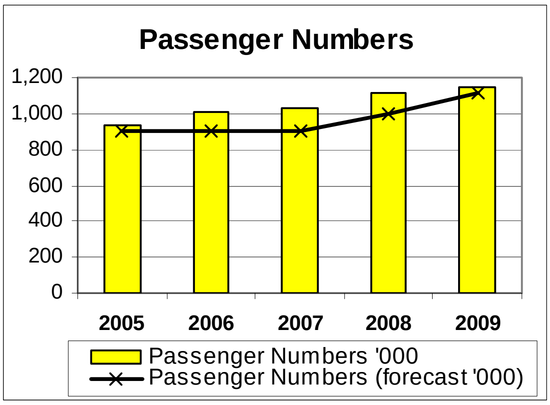
$ '000	FY Actual	FY Budget	2007/08 Actual
Current assets	2,143		1,876
Non current assets	6,217		6,397
Current liabilities	1,085		913
Non current liabilities	747		735
Equity	6,528		6,625
Current ratio	2.0 : 1		2.1 : 1
Equity ratio	78%		80%

Statement of Cash Flows

$ '000	FY Actual	FY Budget	2007/08 Actual
Operating	784		227
Investing	(68)		(137)
Financing	(336)		(3)
Net	380		87
Closing balance	837		457

Note: the Company's financial statements have been prepared using NZ IFRS.





2. KPIs

The annual KPIs have all been achieved including operational standards, adherence to Board policy and resident satisfaction levels.

Below are the audited measures for the year:

Performance Measures:

Performance Indicator	**Measure**	**Result**
Cable car vehicles, track, tunnels, bridges, buildings and equipment are maintained to required safety standards	Approval by NZTA	Approval granted (see Operations section for further comment)
Cable car service reliability	Greater than 99%	99.86%
Inspection, maintenance and repair of trolley bus overhead network are carried out to provide appropriate levels of reliability	No network failures due to inadequate maintenance	None from current maintenance activities; however, because of the backlog of maintenance it will take a considerable period before this result is satisfactory across the board
Poles identified as requiring urgent and critical replacement are programmed	Pole replacement programme completed	104 of 125 poles programmed replaced – some time was lost when poling contractor went into liquidation
Overhead components identified as requiring replacement or repair are programmed	Component programme completed	Achieved
Trolley bus overhead pole occupants have formal contracts and appropriate rentals are being paid	Number of pole occupants not paying rentals	No progress pending legislative changes – may take 2-3 years to achieve
Compliance with appropriate regulations and statutes	No adverse comments from relevant regulatory authorities	Achieved
Budgetary requirements approved by the WCCL Board are met	Within 10% or Board approved variance	Achieved
Board delegations are adhered to	Board and management approvals of commitments and expenditure are in accordance with policy	Achieved
Company risks and vulnerabilities are maintained at an acceptable limit and identified in the Risk and Vulnerability register	No risks and vulnerabilities not identified (and where possible mitigated to an acceptable limit)	Achieved

Passenger Numbers per Quarter:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Estimated passenger numbers on the Cable Car - 2009	253,501	249,962	371,637	244,817	1,119,918
Actual passenger numbers on the Cable Car - 2009	262,695	275,370	361,603	246,428	1,146,097

Residents Satisfaction Survey:

Question	Target	Actual
Have you used the Cable Car in the last 12 months?	30%	48%
How do you rate the standard and operational reliability of the Cable Car? – Good/Very Good	90%	94%

3. Operations

A formal funding agreement has yet to be finalised with GWRC; however, this did not prevent GWRC providing adequate funding and allowing the backlog of maintenance work to start to be addressed on the overhead trolley bus network. The Company spent $3.7m on the network versus $1.9m in 2008. It is budgeting to spend $4.6m in 2010.

The Company has carried out the maintenance and repair activities detailed in the first year of the 10 year Asset Management Plan. In addition, a significant number of unplanned maintenance items were dealt with as a result of the backlog of maintenance work and damage caused by third parties.

As foreshadowed by the Company, there were some network challenges arising from the introduction of the new trolley buses by NZ Bus. Accordingly, Wellington Electricity Lines have undertaken a review of their system. The Company is awaiting the results of that review.

In relation to the cable car operation, it should be noted that the NZTA has recently changed its approach to its safety assessments and has raised a number of matters as ‘non-compliance’ issues, but has granted the cable car’s annual operating licence. The Company is in correspondence with the NZTA as they believe there are no safety concerns in relation to the majority of these issues. However, there is a potential safety issue with the Everton Bridge over the cable car track; the Company is currently working with Council officers to resolve this issue. In addition, the Kelburn terminal roofing requires attention.

As of 30 September 2009, Brian Brown has retired as CEO and has been replaced by Des Laughton.

Governance

The Directors during the year were:

Roger Drummond (Chair) (reappointed from 1 January 2009)
Jeremy Ward
Christine Southey

There are no directors due for reappointment in 2009/10.

Key issues going forward

Forecast results for cable car revenue are somewhat dependent on achieving visitor number targets. Although historically the Company's actual visitor numbers have been higher than forecast, a difficult economic and/or tourism environment increases the risk that these targets may not be met.

It should also be noted that the change in the NZTA approach discussed above redevelopment work undertaken on the safety assessments may have an impact on the timing of any maintenance or redevelopment work in respect of the relevant assets (e.g. the Kelburn terminal). If significant maintenance or upgrade work is required, the Company may require additional funding from the Council.

1. Dividend

The Company's strong financial performance will enable them to pay a dividend to Council. Subsequent to the annual report, the Board has agreed to pay a dividend in line with its agreed policy of 60% of after tax profits in relation to the 2008/09 year (i.e. $130k).

2. Overhead trolley bus network

A significant focus for the 2009/10 year will be the continuing negotiations on a funding agreement with GWRC and the development of a policy to generate further revenue from third parties for the use of the overhead network.

Conclusion

The Company had a satisfactory year with continually increasing visitor numbers contributing to a better than forecast financial return despite the challenging economic conditions. The Company maintained its strong public safety focus and was able to begin working through the backlog of maintenance work required for the overhead trolley bus network.