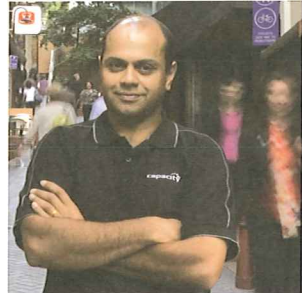
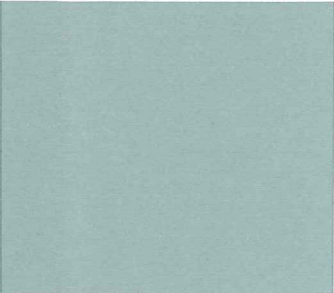




# Quarterly Report to Shareholders

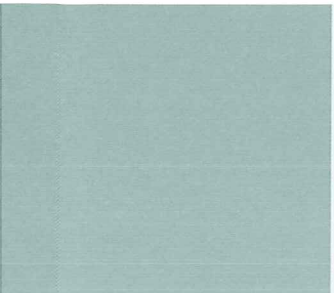
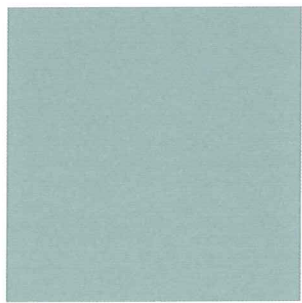
Capacity Infrastructure Services Limited  
trading as Capacity

For the three month period ended 30 September 2009



30 October 2009

CONFIDENTIAL



# Capacity Infrastructure Services Limited

## Quarterly Shareholders Report for 30 September 2009

### Contents

INTRODUCTION	3
FINANCIAL RESULTS	3
<b>Income</b> .....	<b>3</b>
<b>Expenditure</b> .....	<b>3</b>
<b>Employee Remuneration</b> .....	<b>3</b>
<b>Net Surplus / Deficit before Taxation</b> .....	<b>4</b>
FINANCIAL STATEMENTS	4
<b>Statement of Financial Performance</b> .....	<b>4</b>
<b>Statement of Movements in Equity</b> .....	<b>5</b>
<b>Statement of Financial Position</b> .....	<b>6</b>
<b>Statement of Cash Flows</b> .....	<b>7</b>
KEY PERFORMANCE TARGETS FOR CAPACITY 2009/10	8
1. <i>Develop and Complete Asset Management Plans for the client councils annually</i> .....	8
2. <i>Deliver budgeted capital expenditure projects for respective Councils</i> .....	8
3. <i>Deliver budgeted operating and maintenance activities for respective Councils</i> .....	8
4. <i>Manage and operate Capacity within its 2009/10 budget</i> .....	8
5. <i>Manage Capacity labour productivity rate to be 80 per cent or more at year end</i> .....	9
6. <i>Achieve total annual savings of \$432,000 for Wellington City Council</i> .....	9
7. <i>Annual increases in operating costs per property benchmarks for Hutt City Council's three-water networks are at or below Auckland Water Industry averages</i> .....	9
8. <i>Meet key performance measures as set out in Service Level Agreements (SLAs)</i> .....	9
9. <i>Comply with financial, technical and regulatory standards</i> .....	9
10. <i>Complete a Business Plan by 30 June 2009</i> .....	9

## Introduction

Capacity is a Council Controlled Trading Organisation that manages water, storm water and wastewater infrastructure services for Wellington City Council, Hutt City Council and Upper Hutt City Council.

Following is Capacity's financial results and progress on key performance indicators as set out in the Statement of Intent 2009-2010 for the period from 1 July 2009 to 30 September 2009. The financial results included income and expenditures from the Capacity operations, Upper Hutt contracted services and the joint venture design office with GHD, but excludes all holiday leave accruals.

All items pertaining to the City Care contract management have been excluded as this is simply an offsetting of monies received from councils and payments to City Care for services rendered. Likewise, any savings or reclassification effect from the office relocation grant of \$218,000 in the prior period has also been excluded in this report and a wash up or redistribution will be made within the year.

## Financial Results

### Income

Corporate Income for the first quarter of 2009 of \$1,770,000, includes \$185,000 (10.5%) contracted services from Upper Hutt. Because Capacity's total expenditure is lower than budgeted during the first quarter, we have charged lower management fees by 1.5%.

### Expenditure

Total expenditure is \$24,000 (1.3%) over budget at year to date, being utility costs, IT services, data communications, and professional services. Commitments on organisation design and remuneration policy changes, retention of Novo Consultants and required replacement of computer servers means that these categories will continue to be overspent. The IT and communications overspend is mainly due to the delay in the return of expired computer leases as new leases began in the last quarter of 08-09. Returns have been completed in September.

### Employee Remuneration

Year-to-date total personnel expenditure is 2% below budget.

## Net Surplus / Deficit before Taxation

The Upper Hutt City Council contract has a \$3,000 deficit on Upper Hutt City Council contracted services over the first quarter of the year. Capacity forecasts to have a nil surplus at the year ending 30 June 2010.

## Financial Statements

### Statement of Financial Performance

For the three months ended 30 September 2009

	YTD Actual 30 Sept 2009 \$000	YTD Budget 09/10 \$000	YTD Variance \$000
<b>INCOME</b>			
Operations	1,770	1,798	(28)
Interest	5	-	5
<b>TOTAL INCOME</b>	<u>1,775</u>	<u>1,798</u>	<u>(23)</u>
<b>EXPENDITURE</b>			
Operational Expenditure	424	395	(29)
Personnel Expenditure	1,322	1,358	36
Directors' fees	26	26	-
Depreciation	5	13	8
Interest expense	0	1	0
Audit fees	1	9	8
<b>TOTAL EXPENDITURE</b>	<u>1,778</u>	<u>1,802</u>	<u>24</u>
<b>NET SURPLUS/(DEFICIT) BEFORE TAXATION</b>	<u>(3)</u>	<u>(4)</u>	<u>1</u>
Tax Expense	-	-	-
<b>NET SURPLUS/(DEFICIT) AFTER TAXATION</b>	<u><u>(3)</u></u>	<u><u>(4)</u></u>	<u><u>1</u></u>

## Statement of Movements in Equity

For the period ended 30 September 2009

	Sept 2009 \$000	June 2009 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	(3)	(8)
Contribution from owners:		
Share capital paid	-	-
MOVEMENTS IN EQUITY FOR THE PERIOD	<u>(3)</u>	<u>(8)</u>
EQUITY AT BEGINNING OF YEAR	275	287
Adjustment		(4)
EQUITY AT END OF YEAR	<u><u>272</u></u>	<u><u>275</u></u>



## Statement of Financial Position

As at 30 September 2009

	Sept 2009 \$000	FY 2009 \$000
<b>CURRENT ASSETS</b>		
Bank	291	383
Accounts Receivable	654	546
Sundry Debtors & Prepayments	66	376
	<u>1,012</u>	<u>1,305</u>
<b>NON CURRENT ASSETS</b>		
Intangible Assets	0	0
Property, Plant & Equipment	92	53
	<u>92</u>	<u>53</u>
<b>TOTAL ASSETS</b>	<u>1,104</u>	<u>1,358</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	435	713
Finance Leases	0	0
Provision for Taxation	23	25
Annual Leave	374	344
	<u>832</u>	<u>1,083</u>
<b>NON CURRENT LIABILITIES</b>		
Finance leases	-	-
	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>832</u>	<u>1,083</u>
<b>NET WORKING CAPITAL</b>	<u>272</u>	<u>275</u>
Share Capital	600	600
Retained Earnings	(328)	(325)
<b>EQUITY</b>	<u>272</u>	<u>275</u>

**Statement of Cash Flows**

As at 30 September 2009

	FY June 2009 \$000	Sept Quarter 2009 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	6,660	1,667
GST	(3)	(93)
Cash was disbursed to:		
Payments to Suppliers	(6,537)	(1,620)
Payments of Tax	(8)	(2)
Net cash inflow/(outflow) from operating activities	<u>112</u>	<u>(48)</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(15)	(44)
Purchase of Intangible Assets	-	-
Net cash outflow from investing activities	<u>(15)</u>	<u>(44)</u>
Cash flows from financing activities		
Cash was provided from:		
Shares issued	-	-
Cash was applied to:		
Finance lease repayments	-	0
Net cash inflow from financing activities	<u>-</u>	<u>0</u>
Net Increase in Cash held	97	(92)
Opening Cash Balance	286	383
Closing Cash Balance	<u>383</u>	<u>291</u>
Made up of:		
Cash	383	291
Short term deposits	-	-
Closing Cash Balance	<u>383</u>	<u>291</u>

## Key Performance Targets for Capacity 2009/10

### 1. Develop and Complete Asset Management Plans for the client councils annually

Progress towards the delivery of the 2010/11 Asset Management Plans (AMP) for each council is continuing. A draft summary AMP has been provided to Wellington City Council, and projects commenced to produce the full plans for Hutt City Council and Upper Hutt City Council.

### 2. Deliver budgeted capital expenditure projects for respective Councils

CAPEX Expenditure	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Annual Forecast \$000	Annual Budget \$000	Forecast Variance \$000
Wellington	4,462	6,092	1,630	24,643	24,773	130
Hutt City	596	915	319	9,681	9,681	0
Upper Hutt City	320	320	0	3,069	3,069	0
<b>Total</b>	<b>5,378</b>	<b>7,327</b>	<b>1,949</b>	<b>37,393</b>	<b>37,523</b>	<b>130</b>

Forecast variance due to water upgrades tenders coming under budget.

### 3. Deliver budgeted operating and maintenance activities for respective Councils

OPEX Expenditure	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000	Annual Forecast \$000	Annual Budget \$000	Forecast Variance \$000
Wellington	9,737	9,402	(335)	38,079	38,015	(65)
Hutt City	5,479	5,591	112	21,931	21,931	0
Upper Hutt City	1,395	1,400	5	6,216	6,216	0
<b>Total</b>	<b>16,611</b>	<b>16,393</b>	<b>(218)</b>	<b>66,226</b>	<b>66,162</b>	<b>(65)</b>

Forecast variance due to extra work done on faulty water meter replacements.

### 4. Manage and operate Capacity within its 2009/10 budget

Total expenditure is \$24,000 (1.3%) over budget at year to date with a \$3,000 deficit on Upper Hutt City Council contracted services over the first quarter of the year. Capacity forecasts to have a nil surplus at year ending 30 June 2010.



**5. Manage Capacity labour productivity rate to be 80 per cent or more at year end**

The rolling average labour productivity rate as at 30 September 2009 is 83.9% compared to 82.4% at 30 September 2008.

**6. Achieve total annual savings of \$432,000 for Wellington City Council**

Savings of \$100,880 of Capacity labour and external consultancy spend have been achieved in the first quarter.

**7. Annual increases in operating costs per property benchmarks for Hutt City Council's three-water networks are at or below Auckland Water Industry averages**

This is an annual indicator only, and we are continuing to watch developments in the Auckland water industry closely.

**8. Meet key performance measures as set out in Service Level Agreements (SLAs)**

We are continuing to work with our operations and maintenance contractors to ensure that the information provided by them is accurate and aligned with our SLA reporting requirements to client councils. "Bedding in" issues have been identified, and we are all now working to streamline our respective reporting activities.

**9. Comply with financial, technical and regulatory standards**

Failure to comply with financial, technical, and regulatory standards is only done by exception.

To date there have been no incidents of non-compliance.

**10. Complete a Business Plan by 30 June 2009**

Completed by 31 May 2009.