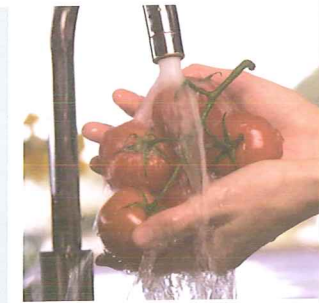
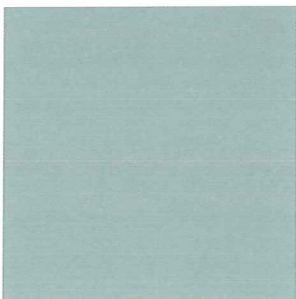
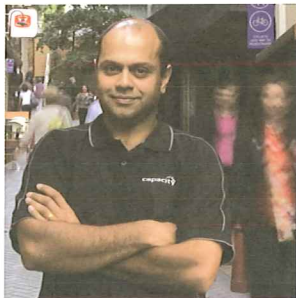


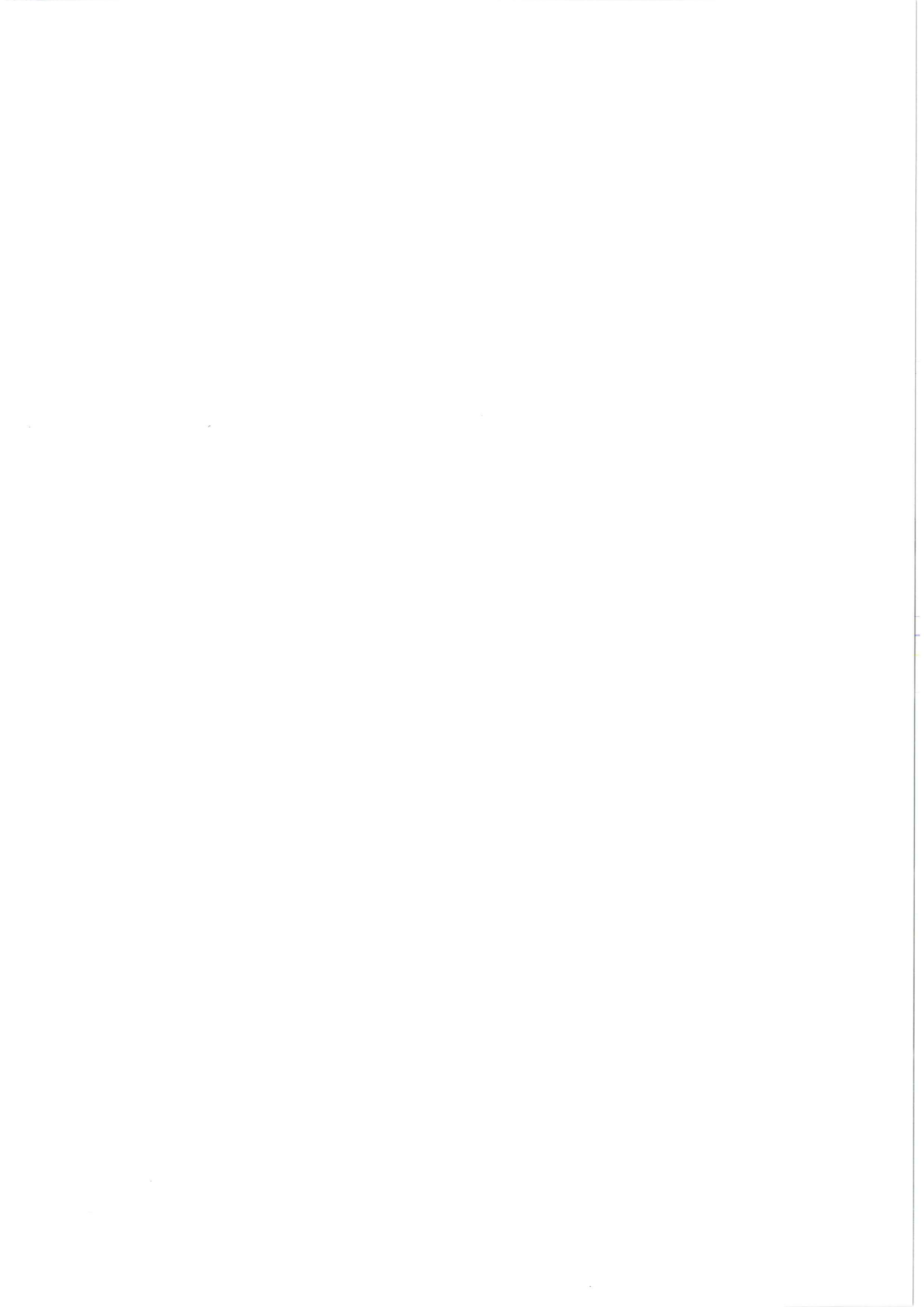
Quarterly Report to Shareholders
Capacity Infrastructure Services Limited
trading as Capacity

For the six month period ended 31 December 2009

31 January 2010

CONFIDENTIAL





Capacity Infrastructure Services Limited

Quarterly Report to Shareholders ending 31 December 2009

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Introduction

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

Following is Capacity's financial result and progress on key performance indicators as set out in the Statement of Intent 2009-2010, for the period from July 2009 to 31 December 2009.

Key Performance Indicators for Capacity 2009/10

The Capacity Statement of Intent 2009-2010 outlines 10 key performance indicators. The operational performance indicators are reported to individual Councils each month.

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

Asset Management Plans 2010/11 for Wellington City Council were completed and delivered to the Council in accordance with scheduled delivery timelines.

Asset Management Plans 2010/11 for Hutt City Council and Upper Hutt City Council are in progress to meet the due dates.

2. Deliver budgeted capital expenditure projects for respective Councils

CAPEX Expenditure	YTD	YTD	YTD	Annual	Annual	Forecast
	Actual	Budget	Variance	Forecast	Budget	Variance
	\$000	\$000	\$000	\$000	\$000	\$000
Wellington	10,072	12,271	2,199	24,398	24,773	375
Hutt City	2,357	3,951	1,594	9,681	9,681	
Upper Hutt City	407	459	52	3,070	3,070	
Total	12,836	16,681	3,845	37,149	37,524	375

Year to date variance is mainly due to slight delays in the schedule for projects in Wellington and Hutt. These projects are currently in the tender and design stage and they are scheduled to be completed within the financial year.

The forecast year end variance for Wellington is the contributions towards the agreed savings.

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	19,287	18,964	(323)	38,336	38,015	(321)
Hutt City	10,805	10,963	158	21,931	21,931	
Upper Hutt City	2,880	2,877	(3)	6,216	6,216	
Total	32,972	32,804	(168)	66,483	66,162	(321)

The operating budget for Wellington is overspent because budgets for the reactive maintenance projects are under allocated for this financial year. This overspend has been forecasted to continue until the end of the year. Additional funding for these projects has been requested for the next financial year.

The operating budget for Hutt is under spent because planned maintenance is slightly behind schedule. These works will be completed within the financial year.

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

Total expenditure is \$41,000 (1.1%) under budget at year to date, with a \$26,000 surplus on Upper Hutt City Council contracted services over the first

half 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 31 December 2009 is 82.6% compared to 82.2% at 31 December 2008.

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

This saving is derived from the reduction in the Capacity labour and consulting costs for WCC capital works, over and above savings in Capex programme.

Most of the savings will be derived from the management of capital works. As these works are not spread evenly through the year, the savings do not accumulate evenly.

Capacity has achieved savings of \$85,000 for the first half of the year. This is below expectation because design costs for specialist capital works projects have exceeded tender price, due to complexities of location and design.

The current projection is that Capacity will meet the savings target for 2009/10.

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

In early 2009 Capacity proposed the 'operating cost per property' as a cost saving performance indicator - benchmarking our annual Opex expenditure against that of the Auckland Water Industry (AWI). Unfortunately the consolidation of the AWI meant they did not run their annual performance review in 2008/09, and are unlikely to do so in 2009/10.

In late 2009 the Department of Internal Affairs published a review of New Zealand's three-water infrastructure, and Water NZ prepared their second National Performance Review. Capacity is committed to benchmarking its performance, and supports the work undertaken by Water NZ. However, the level of detail required comparing "apples with apples" using third party reports has proven problematic.

While we will continue to monitor assessments from other sources, we believe it is time to undertake our own research on this particular indicator. We have already begun developing a methodology for the detailed assessment of national (and possibly international) Opex expenditure, and it is our intention to use this to benchmark our performance against the average of other Councils who may wish to take part.

It is our intention to produce our first report on the cost per property indicator in June 2010.

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

Monthly reporting of performance measures covering the operation of the network, cost and delivery of services are presented and discussed with infrastructure management staff at WCC, HCC and UHCC, according to an established schedule. Some of these performance measures have targets and others provide trends.

Opportunities to adopt improvements to reporting are discussed at a management level and adopted accordingly. Performance measures that may have become redundant or are superseded are approached in a similar fashion.

A key focus this year has been staff working with the operations and maintenance contractors on improving data confidence, the timeliness in the delivery of data and the reviewing of the data collecting mechanism.

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

The Business Plan was completed by 31 May 2009.

Financial Results

Income

Corporate Income for the six months ending 31 December 2009 of \$3,635,000 includes \$369,000 of contracted services from Upper Hutt City Council, and results in a \$26,000 surplus for the first six months of 2009/10. Assets (including furniture and fittings, security system) have increased due to the Capacity office relocation to 85 The Esplanade in June 2009.

Expenditure

Total expenditure is 1.1% (\$41,000) below budget at year to date. This lower expenditure is largely due to staff recruitment and travel being less than expected. Commitments on organisational design, recruitment and required replacement of computer servers means that IT and telecommunications costs will continue to be high. Year-to date total personnel expenditure is 1.0% below budget, excluding holiday leave accruals.

Financial Statements

Statement of Financial Performance

For the six months ending 31 December 2009

	Sept Quarter \$000	Dec Quarter \$000	Year Actual \$000	To date Budget \$000	2009/2010 Variance \$000
REVENUE					
Operations	1,770	1,865	3,635	3,653	(18)
Interest	<u>5</u>	<u>6</u>	<u>11</u>	<u>-</u>	<u>11</u>
TOTAL REVENUE	1,775	1,871	3,646	3,653	(7)
EXPENDITURE					
Operating Expenditure	424	390	815	793	(21)
Personnel Expenditure	1,322	1,422	2,745	2,772	28
Directors' Fees	26	26	53	53	-
Depreciation	5	3	8	25	17
Interest Expense	-	-	-	1	1
Audit Fees	<u>1</u>	<u>-</u>	<u>1</u>	<u>18</u>	<u>17</u>
TOTAL EXPENDITURE	1,778	1,841	3,620	3,661	41
NET SURPLUS/(DEFICIT) BEFORE TAXATION	<u>(3)</u>	<u>29</u>	<u>26</u>	<u>(8)</u>	<u>34</u>
Tax Expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET SURPLUS/(DEFICIT) AFTER TAXATION	<u>(3)</u>	<u>29</u>	<u>26</u>	<u>(8)</u>	<u>34</u>

Statement of Movements in Equity

For the six months ending 31 December 2009

	Dec 2009 \$000	June 2009 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	26	(8)
Contribution from owners:		
Share capital paid	<u>-</u>	<u>-</u>
MOVEMENTS IN EQUITY FOR THE PERIOD	<u>26</u>	<u>(8)</u>
EQUITY AT BEGINNING OF YEAR	275	287
Adjustment		(4)
EQUITY AT END OF YEAR	<u><u>301</u></u>	<u><u>275</u></u>

Statement of Financial Position

As at 31 December 2009

	Dec 2009 \$000	FY 2009 \$000
CURRENT ASSETS		
Bank	480	383
Accounts Receivable	864	546
Sundry Debtors & Prepayments	30	376
	<u>1,374</u>	<u>1,305</u>
NON CURRENT ASSETS		
Intangible Assets	0	0
Property, Plant & Equipment	94	53
	<u>94</u>	<u>53</u>
TOTAL ASSETS	<u>1,468</u>	<u>1,358</u>
CURRENT LIABILITIES		
Accounts Payable	808	713
Finance Leases	0	0
Provision for Taxation	21	25
Annual Leave	338	344
	<u>1,167</u>	<u>1,083</u>
NON CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	1,167	1,083
NET WORKING CAPITAL	<u>301</u>	<u>275</u>
Share Capital	600	600
Retained Earnings	<u>(299)</u>	<u>(325)</u>
EQUITY	<u>301</u>	<u>275</u>

Statement of Cash Flows

As at 31 December 2009

	Dec 2009 \$000	FY 2009 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	3,328	6,660
GST	28	(3)
Cash was disbursed to:		
Payments to Suppliers	(3,205)	(6,537)
Payments of Tax	(4)	(8)
Net cash inflow/(outflow) from operating activities	<u>146</u>	<u>112</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(49)	(15)
Purchase of Intangible Assets	<u>-</u>	<u>-</u>
Net cash outflow from investing activities	<u>(49)</u>	<u>(15)</u>
Cash flows from financing activities		
Cash was provided from:		
Shares issued	-	-
Cash was applied to:		
Finance lease repayments	-	-
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Net Increase in Cash held	97	97
Opening Cash Balance	383	286
Closing Cash Balance	<u>480</u>	<u>383</u>
Made up of:		
Cash	480	383
Short term deposits	-	-
Closing Cash Balance	<u>480</u>	<u>383</u>

