

Quarterly Report to Shareholders

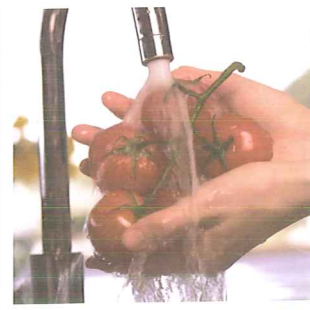
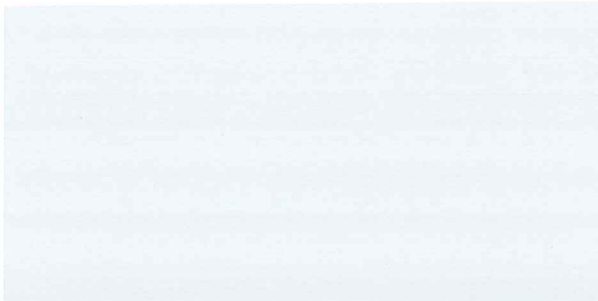
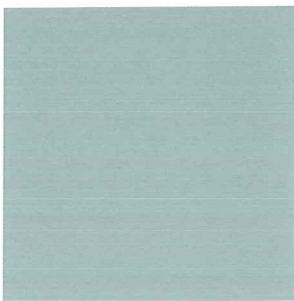
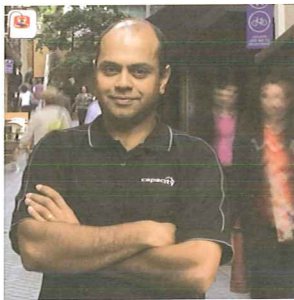
Capacity Infrastructure Services Limited

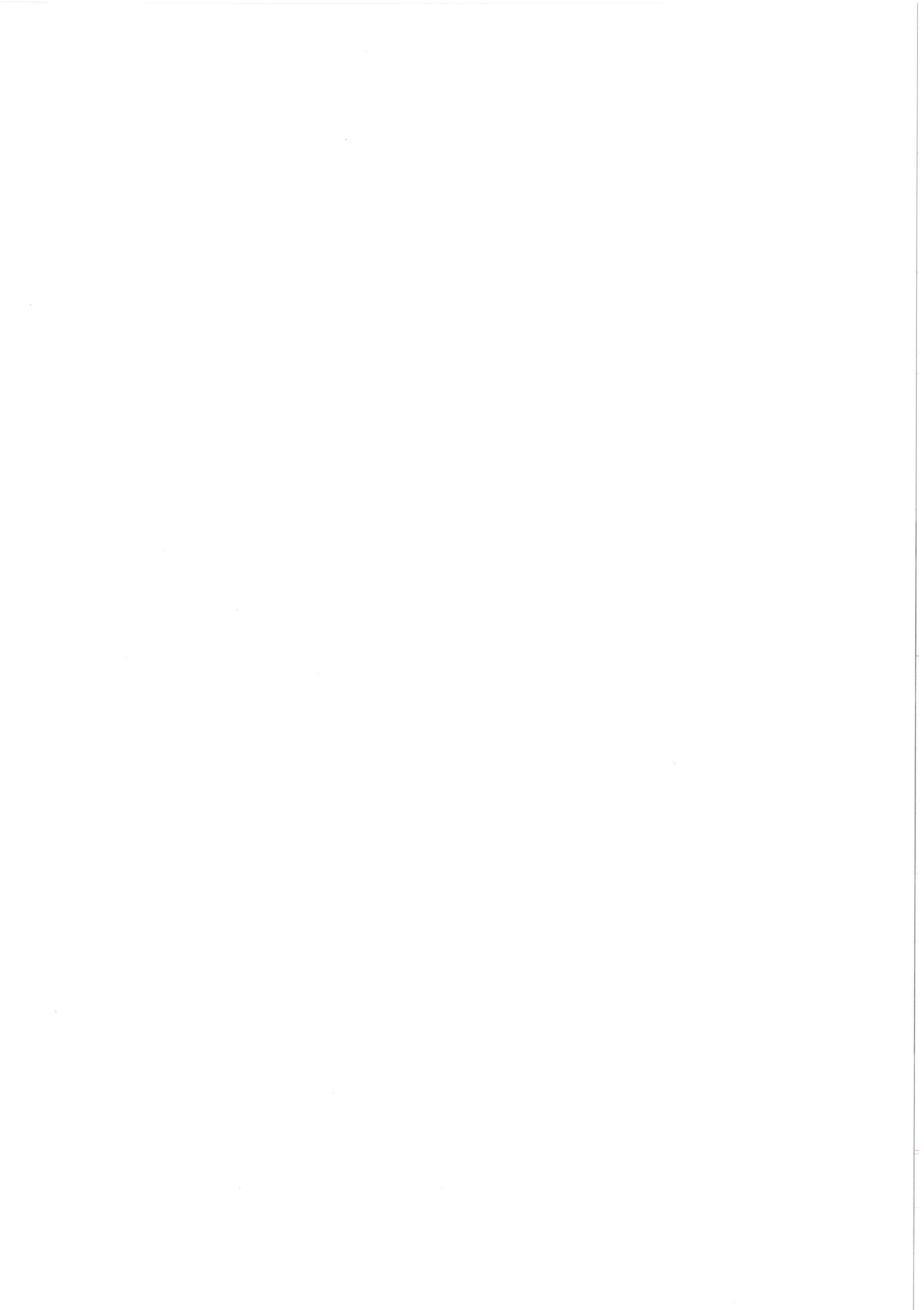
trading as Capacity

For the three month period ended 30 September 2010

29 October 2010

CONFIDENTIAL





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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 are Capacity's financial results and progress on key performance indicators as set out in the Statement of Intent 2010-2011, for the period from 1 July 2010 to 30 September 2010. The financial results include 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.

Key Performance Indicators for Capacity 2010/11

The Capacity Statement of Intent 2010-2011 outlines 5 key performance indicators. The operational performance indicators are reported to individual Councils each month.

1. Service Quality: To provide a reliable water supply and wastewater service

1.1 Unplanned water supply cuts/1000 connections this quarter

WCC	HCC	UHCC
0.20	0.57	0.27

Performance target is 4 per 1000 per annum

1.2 Wastewater incidents/kilometre of reticulated pipeline

WCC	HCC	UHCC
0.19	0.28	0.04

Performance target is 1.2 per kilometre

2. Customer Focus: To respond promptly to service requests and produce timely Asset Management Plans of a good quality.

2.1 Responsiveness to service request within 1hr (percent)

Water	WCC	HCC	UHCC
Waster Supply	98%	99%	100%
Stormwater	90%*	99%	100%
Wastewater	84%*	100%	100%

Target 97%

*At present CitiOperations are unable to report on 'Response Time A' As a result they report on Response Time B (Onsite). Response times have been affected by the secondment of staff to Christchurch to help with the earthquake response effort.

2.2 Timeliness and quality of Asset Management Plan for Councils

All AMPs were completed within agreed timeframes. Capacity is on target for meeting both delivery and programmed improvements in the AMPs for the three client councils.

3. Cost effectiveness

3.1 Trend of the operating cost of delivering water supply, wastewater and storm water supply relative to a national average

This is an annual indicator and will be reported following financial year end.

4. Financial, Project and Network Management:

4.1 Deliver capital projects within budget and timeframes

Capex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	4,696	6,414	1,718	26,434	26,434	0
Hutt City	637	802	165	7,046	7,046	0
Upper Hutt City	606	599	(7)	2,431	2,431	0
Total	5,939	7,815	1,877	35,911	35,911	0

Wellington City Council

The favourable variance is due to delays in:

- the start of the four water pipeline renewal contracts. The expenditure will be back on track by February 2011.
- obtaining reinstatement agreements to carry out wastewater renewal work in private properties and request by Roading Division in Wellington City Council to delay the Wills Street wastewater renewal project.
- awarding the contract for the construction of Messiness Road reservoir
- the design of Tacy Street Pump Station (associated with the construction of the Kilbirnie Sports Stadium)
- resolving technical issues with United Water International on the upgrading of the inlet pumping station at the Moa Point Treatment Plant.

Hutt City Council

Construction work for all the three water activities is underway. The favourable variance is due to delay in payment for water pipeline renewal work carried out in the Main Road and Moores Valley, Wainuiomata and in the trunk wastewater projects.

Upper Hutt City Council

There are no significant variances to date.

4.2 Deliver operating and maintenance projects within budget and timeframes

Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	8,796	8,857	61	35,510	35,510	0
Hutt City	3,611	4,086	475	15,684	15,684	0
Upper Hutt City	1,848	1,950	102	7,072	7,072	0
Total	14,256	14,893	637	58,267	58,267	0

Wellington

The favourable variance is due to maintenance delays due to wet weather.

Hutt City Council

The favourable variance is due to:

- Stormwater maintenance expenditure slightly behind schedule.
- Water Supply revenue from meter charges slightly ahead of schedule.
- Wastewater revenue from trade waste charges and wastewater charges from Upper Hutt slightly ahead of schedule.

Upper Hutt City Council

The favourable variance is due to Stormwater repairs and closed circuit television contracts slightly behind schedule.

4.3 Manage Capacity within budgets and timeframes (2010/11)

Total expenditure is \$36,000 (1.9%) under budget at year to date, with a \$27,000 surplus. Capacity forecasts to have a nil surplus at year ending 30 June 2011.

5. Legislative, financial, technical, compliance**5.1 Full compliance with relevant standards, resource consents and legislation**

Failure to comply with legislative, financial and technical standards is done only by exception. To date there have been no incidents of non-compliance.

6. 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.

Financial Results

Income

Corporate income for the first quarter of 2010 of \$1,882,000 includes \$194,000 (10.3%) derived from Upper Hutt contracted services. Because Capacity's operational costs were lower than budgeted during the first quarter, management fees were lower than budget by about 1%.

General Expenditure

Total expenditure for the quarter of \$1,859,000 is 2% (\$36,000) lower than the quarter budget of \$1,896,000. There was a YTD overspend in Professional Costs of \$7,000 that includes spending for the auditor recommended tax review and Mercer HR advice.

Personnel Expenditure

Total expenditure is 2% (\$36,000) less than the budget for the quarter ended 30 September 2010. The annual remuneration review for all staff was actioned in October 2010 and recruitment for four positions was completed in the September quarter.

Financial Statements

Statement of Comprehensive Income

For the three months ended 30 September 2010

	YTD Actual 2010 \$000	YTD Budget 2010 \$000	Variance \$000
REVENUE			
Operations	1,882	1,895	13
Interest	4	-	(4)
TOTAL REVENUE	1,886	1,895	9
EXPENDITURE			
Contracts, services & material	0	1	1
Vehicle & plant costs	69	77	8
Utility costs	46	54	7
IT costs	46	72	26
Telecommunication costs	43	28	(16)
Professional costs	74	68	(6)
Travel & accommodation	8	10	2
Administration costs	62	74	12
Employee remuneration	1,349	1,370	21
Other employee costs	99	91	(8)
Staff recruitment	25	16	(10)
Directors' fees	26	26	-
Depreciation	11	9	(2)
Interest expense	-	1	1
Audit fees	-	-	-
TOTAL EXPENDITURE	1,859	1,895	36
			-
NET SURPLUS/(DEFICIT) BEFORE TAXATION	27	-	(27)
Tax Expense	-	-	-
NET SURPLUS/(DEFICIT) AFTER TAXATION	27	-	(27)

Statement of Movements in Equity

For the three months ended 30 September 2010

	Sept 2010 \$000	June 2009 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	27	38
MOVEMENTS IN EQUITY FOR THE PERIOD	<u>27</u>	<u>38</u>
EQUITY AT BEGINNING OF YEAR	313	275
EQUITY AT END OF YEAR	<u><u>340</u></u>	<u><u>313</u></u>

Statement of Financial Position

As at 30 September 2010

	Sept 2010 \$000	June 2010 \$000
CURRENT ASSETS		
Bank	306	497
Accounts Receivable	782	662
Sundry Debtors & Prepayments	627	110
	<u>1,715</u>	<u>1,269</u>
NON CURRENT ASSETS		
Intangible Assets	16	16
Property, Plant & Equipment	71	74
	<u>87</u>	<u>90</u>
TOTAL ASSETS	<u>1,803</u>	<u>1,359</u>
CURRENT LIABILITIES		
Accounts Payable	962	565
Provision for Taxation	0	5
Annual Leave	501	477
	<u>1,463</u>	<u>1,046</u>
NON CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	<u>1,463</u>	<u>1,046</u>
NET WORKING CAPITAL	<u>341</u>	<u>313</u>
Share Capital	600	600
Retained Earnings	(259)	(287)
EQUITY	<u>341</u>	<u>313</u>

Statement of Cash Flows

As at 30 September 2010

	Q1 Sept 2010 \$000	FY June 2010 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	1,765	7,081
GST	(51)	18
Cash was disbursed to:		
Payments to Suppliers	(1,894)	(6,873)
Payments of Tax	(5)	(28)
Interest Paid	-	(1)
Net cash inflow/(outflow) from operating activities	<u>(186)</u>	<u>197</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(8)	(63)
Purchase of Intangible Assets	3	(20)
Net cash outflow from investing activities	<u>(5)</u>	<u>(83)</u>
Net Increase in Cash held	(191)	114
Opening Cash Balance	497	383
Closing Cash Balance	306	497
Made up of:		
Cash	306	497
Closing cash balance	306	497