

Quarterly Report to Shareholders

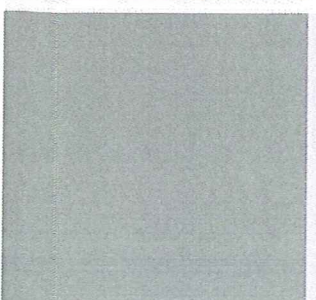
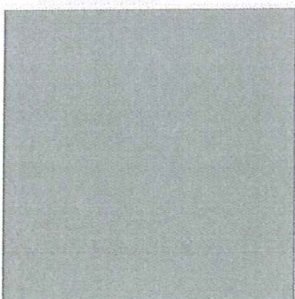
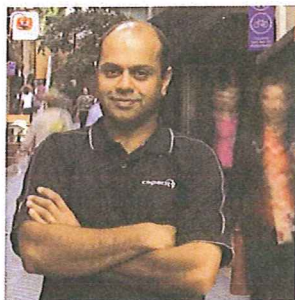
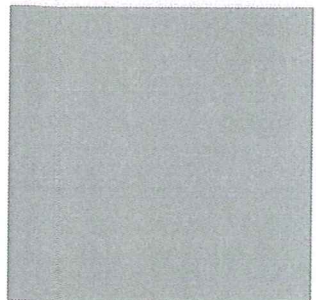
Capacity Infrastructure Services Limited

trading as Capacity

For the six month period ended 31 December 2010

28 February 2011

CONFIDENTIAL



Capacity Infrastructure Services Limited

Quarterly Report to Shareholders ending 31 December 2010

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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 31 December 2010. The financial results include income and expenditure from Capacity operations, Upper Hutt City Council contracted services and the joint venture design office with GHD, but excludes all holiday leave accruals.

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

i. Unplanned water supply cuts/1000 connections year to date

WCC	HCC	UHCC
0.60	1.38*	0.08

Performance target is less than 4 per 1000

* The high number of bursts in Hutt City compared to Wellington and Upper Hutt cities reflects the type and age of the City's water mains. Hutt City has a high proportion of Asbestos Cement (AC) water mains laid between the mid 1940s and 1960s. There have also been a high number of joint failures experienced recently in HDPE pipelines installed in the 1980's in Stokes Valley. Although the number of bursts is high relative to other Cities in the region it is still well within the acceptable industry bench mark standard. The watermain renewal programme targets replacement of AC and other problem pipelines.

ii. Wastewater incidents/kilometre of reticulated pipeline year to date

WCC	HCC	UHCC
0.32	0.54	0.19

Performance target is less than 1.2 per kilometre

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

i. Responsiveness to service requests within one hour (percent)

Water	WCC	HCC	UHCC
Water Supply	99.2%	100%	97%*
Stormwater	91.0%**	100%	100%
Wastewater	90.0%**	100%	100%

Target 97%

*Due to the low number of jobs in Upper Hutt, one job (out of 4) reduced the December monthly average to 75%. This figure therefore reflects the average of all of the individual jobs in the quarter.

**CitiOperations are still unable to report on 'Response Time A'. Work is still underway to enable CitiOperations to begin reporting against this indicator from July 2011. Contractor response times have been affected by the number of staff being seconded to Christchurch to help with the earthquake response effort.

ii. Timeliness and quality of Asset Management Plans for Councils

Capacity delivered Asset Management Plans to each of our three client Councils within agreed timeframes in 2010. In this quarter we have enhanced our plans with the inclusion of:

1. Operations and Maintenance contract City Care Limited

Capacity has developed a performance based contract which incorporates incentives for the contractor to strive for efficiencies which would result in a reduction of costs and improvements in the quality of service provided. A performance evaluation matrix developed measures performance against a set of indicators.

2. Renewals/Upgrades of assets

Capacity completed and implemented a process for identifying pipes with the highest risk of failure using the likelihood of structural and performance failure, combined with consequence of failure. This methodology is now being extended across the stormwater and wastewater networks.

3. Emergency Management Preparedness

Capacity commissioned an emergency management preparedness project in 2008 to improve the service response to the client Councils in an emergency event. A project team was convened, made up of Capacity and the Client Council's infrastructure and emergency management personnel. The project team was extended in 2010 to include representatives from GW and Porirua City Council. The initial focus of the project included emergency response planning, emergency stores, securing and distributing stored water in the region's reservoirs and the prioritisation of critical infrastructure for seismic upgrade to meet community needs post event.

The Canterbury Earthquake in September 2010 has provided a new emphasis to the project and highlighted the vulnerability of the region's bulk water supply and the need to procure alternative supplies of water until such time as the supply of bulk water can be resumed (up to 55 days in Wellington post event). The project team subsequently commissioned MWH to carry out a study to identify and report on the risks and options available to each city to supply water to their communities. The MWH draft report was presented to the project team at a meeting held on the 25 November. The report identified the risks and options available with recommendations for further investigation for the respective cities. Wellington and Porirua are most at risk with the longest bulk water supply outage and few options for 'in catchment' alternative supplies, other than storage and transportation of tankered water. Hutt and Upper Hutt will have the supply of bulk water restored earlier and have artesian and surface water supply options available. A further meeting of the project team is planned in early 2011 to endorse the recommendations and approve funding for further investigations.

3. Cost effectiveness

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

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

4. Financial, Project and Network Management:

i. Deliver capital projects within budget and timeframes

Capex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	9,434	13,643	4,209	26,434	26,434	0
Hutt City	2,461	2,772	311	6,440	7,046	606
Upper Hutt City	1,145	1,698	554	3,141	3,277*	136
Total	13,040	18,114	5,074	36,151	36,757	742

*Please note that these Annual Budget numbers are different from those presented in the first quarterly report because some budget lines in the Upper Hutt budgets which Capacity has control over, were inadvertently excluded.

Wellington City Council

The YTD favourable variance is primarily due to delays experienced in the wastewater and stormwater renewal/upgrade projects associated with private property access and geotechnical issues, and the design and tendering of the Messines Road Reservoir project and the Tacy Street stormwater pump station projects. All projects are scheduled for completion in the fourth quarter.

Capacity Quarterly Report ending 31 December 2010

Hutt City Council

The YTD favourable variance is primarily due to:

- Delays experienced in procuring access agreements for the Vista Grove sewer replacement. A decision by a hearings committee granting access has been appealed by the landowner.
- Delays in the design and tendering of the Black Creek Stage 3 project. Tenders closed in January and the contract is scheduled to be awarded in February.
- The deferral of works to the 2011/12 financial year to meet Hutt City Council financial requirements.

Upper Hutt City Council

The YTD favourable variance is due to water supply and wastewater projects being slightly behind schedule.

Upper Hutt City Council has a cost share agreement with Hutt City Council on the Main Outfall Pipe vortex bypass and Silverstream River Crossing projects to 2011/12. The YE favourable variance is due to Hutt City Council deferring these projects.

ii. Deliver operating and maintenance projects within budget and timeframes

Opex	YTD Actual	YTD Budget	YTD Variance	Annual Forecast	Annual Budget	Forecast Variance
Wellington	17,586	17,715	130	36,233	35,510	-723
Hutt City	10,610	10,710	101	21,677	21,677*	0
Upper Hutt City	2,902	3,223	321	6,305	6,305*	0
Total	31,097	31,649	551	64,215	63,492	-723

*Please note that these Annual Budget numbers are different from those presented in the first quarterly report because some budget lines in the Hutt and Upper Hutt budgets which Capacity has control over, were inadvertently excluded.

Wellington City Council

The YE unfavourable variance is due WCC under-budgeting reactive works carried out by CitiOperations and unbudgeted work on urgent culvert cleaning at Waring Taylor. The culvert cleaning at Waring Taylor will prevent flooding in the CBD area, and has been approved by WCC. Tendering is in progress for this work.

Hutt City Council

Water supply, stormwater and wastewater maintenance expenditure is on track and forecast to meet budget.

Upper Hutt City Council

Water supply, stormwater and wastewater maintenance expenditure is on track and forecast to meet budget.

iii. Manage Capacity within budgets and timeframes (2010/11)

Total YTD expenditure is \$3.631M and is 5% lower than the half year budget. Capacity forecasts to have a nil surplus at year ending 30 June 2011.

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

Full compliance with legislative, financial and technical standards continues at year to date. 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. All key performance measures have been met YTD with the exception of CitiOperations reporting.

Financial Results

Income

Corporate income for the half year to 31 December 2010 is \$3,666,000 which includes 10.3% of contracted services from Upper Hutt. Because Capacity's operational costs were lower than budgeted during the first half of the year, we have charged lower management fees by about 4%.

A \$35,000 surplus is recorded for the half year ending December 2010.

General Expenditure

Total expenditure for the half year is \$3,631,000, which is about 5% (\$198,000) lower than the half year budget of \$3,829,000 in both operating (\$92,000) and personnel (\$106,000) expenditures.

Personnel Expenditure

Personnel costs were 3.7% (\$106,000) below budget YTD. The staff remuneration increases effective from 1 September 2010 were actioned in October 2010.

Staff recruitment costs are expected to be higher in the succeeding quarter due to recent staff resignations and a retirement in February 2011.

Financial Statements

Statement of Comprehensive Income

For the six months ended 31 December 2010

	Sept 2010 \$000	Dec 2010 \$000	YTD Actual \$000	YTD Budget \$000	Variance \$000
REVENUE					
Operations	1,882	1,777	3,659	3,829	(170)
Interest	4	3	7	-	7
TOTAL REVENUE	1,886	1,780	3,666	3,829	(163)
EXPENDITURE					
Operating Expenditure	348	364	713	804	92
Personnel Expenditure	1,473	1,374	2,847	2,953	106
Directors' Fees	26	26	53	53	-
Depreciation	11	8	19	18	(1)
Interest Expense	-	-	-	1	1
Audit Fees	-	-	-	-	-
TOTAL EXPENDITURE	1,859	1,773	3,631	3,829	198
NET SURPLUS/(DEFICIT) BEFORE TAXATION	27	8	35	0	35
Tax Expense	-	-	-	-	-
NET SURPLUS/(DEFICIT) AFTER TAXATION	27	8	35	0	35

Statement of Movements in Equity

For the six months ended 31 December 2010

	Dec 2010 \$000	June 2010 \$000
NET SURPLUS/(DEFICIT) FOR THE YEAR	35	38
Contribution from owners:		
Share capital paid	-	-
MOVEMENTS IN EQUITY FOR THE PERIOD	<u>35</u>	<u>38</u>
EQUITY AT BEGINNING OF YEAR	313	275
Adjustment	-	-
EQUITY AT END OF YEAR	<u><u>348</u></u>	<u><u>313</u></u>

Statement of Financial Position

As at 31 December 2010

	Dec 2010 \$000	June 2010 \$000
CURRENT ASSETS		
Bank	222	497
Accounts Receivable	688	661
Sundry Debtors & Prepayments	30	109
	<u>939</u>	<u>1,267</u>
NON CURRENT ASSETS		
Intangible Assets	13	19
Property, Plant & Equipment	71	74
	<u>84</u>	<u>93</u>
TOTAL ASSETS	<u>1,023</u>	<u>1,360</u>
CURRENT LIABILITIES		
Accounts Payable	358	744
Provision for Taxation	(6)	6
Annual Leave	321	297
	<u>674</u>	<u>1,047</u>
NON CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	<u>674</u>	<u>1,047</u>
NET WORKING CAPITAL	<u>348</u>	<u>313</u>
Share Capital	600	600
Retained Earnings	(252)	(287)
EQUITY	<u>348</u>	<u>313</u>

Statement of Cash Flows

As at 31 December 2010

	Half Year 2010 \$000	Year June 2010 \$000
Cash flows from operating activities		
Cash was provided from:		
Operating Receipts	3,639	7,081
GST	15	18
Cash was disbursed to:		
Payments to Suppliers	(3,909)	(6,873)
Payments of Tax	(11)	(28)
Interest Paid		(1)
Net cash inflow/(outflow) from operating activities	<u>(266)</u>	<u>197</u>
Cash flows from investing activities		
Cash was applied to:		
Purchase of Property, Plant & Equipment	(9)	(63)
Purchase of Intangible Assets		(20)
Net cash outflow from investing activities	<u>(9)</u>	<u>(83)</u>
Cash flows from financing activities		
Cash was provided from:		
Shares issued	-	-
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Net Increase in Cash held	(276)	114
Opening Cash Balance	497	383
Closing Cash Balance	<u>222</u>	<u>497</u>
Made up of:		
Cash	222	497
Short term deposits	-	-
Closing Cash Balance	<u>222</u>	<u>497</u>

