

SOUTHPower LIMITED

Cost of Service (Parent Company)

| 1996/97 BUDGET | | 1997/98 BUDGET |
|---|--|-------------------|
| \$ | | \$ |
| (264,046,000) | Operating Revenues | (276,500,000) |
| <hr style="border-top: 1px dashed black;"/> | | |
| (29,091,000) | Operating Surplus Before Taxation | (24,110,000) |
| 8,447,000 | Taxation Expense and Subvention Payment | 8,700,000 |
| <hr style="border-top: 1px dashed black;"/> | | |
| (20,644,000) | Operating Surplus After Taxation | (15,410,000) |
| <hr style="border-top: 1px dashed black;"/> | | |
| (3,639,000) | Share of Retained Surpluses of Subsidiary Companies and Goodwill Write-off | (4,992,000) |
| 723,000 | Share of Retained Surpluses less Losses of Associate Companies | 770,000 |
| <hr style="border-top: 1px dashed black;"/> | | |
| (23,560,000) | Net Surplus Attributable to Parent Company Shareholders | (19,632,000) |
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Net Profit After Taxation

| | |
|--|--------------|
| Projected Surplus After Taxation for 1998/99 | (26,663,000) |
| Projected Surplus After Taxation for 1999/00 | (34,698,000) |

The 1997/98 budget reflects the increased network depreciation expense resulting from the expected revaluation of the network assets as at 31 March 1997 and the adoption of optimised deprival value depreciation rates from 1 April 1997. The revaluation will be based on an independent valuer's report.

Capital Expenditure

| | |
|---------------------------------------|------------|
| Forecast Capital Expenditure, 1997/98 | 20,113,000 |
| Forecast Capital Expenditure, 1998/99 | 21,576,000 |
| Forecast Capital Expenditure, 1999/00 | 22,976,000 |

Planned Services

Southpower's core business is the purchase and supply of (at present) a peak load of 540 megawatts of electricity to 156,000 customer connections. It achieves this by providing and maintaining a reticulation system currently comprising 5,000 km of overhead line, 3,000 km of underground cable and 9,000 distribution substations and pole mounted transformers.

It also provides consultancy services and the electrical design, construction and supply of facilities and other equipment to businesses, undertakes electrical and communications contracting, retails LPG gas and retails gas and electrical appliances. Southpower is run as a commercial business, meeting and developing market-led demand for energy and related services. It undertakes investments which yield a commercial rate of return and increase the commercial value of Southpower. Southpower also owns 69% of the listed North Island energy company, Enerco NZ Ltd.

Collectively these activities contribute towards the achievement of Southpower's mission and thereby maintain and enhance the social and economic well-being of the Canterbury community.

Relationship to the Council

Southpower was established as an energy company on 30 April 1993, as required by the Energy Companies Act 1992.

The shareholders are as follows: 87.6%, Christchurch City Holdings Ltd; 10.7%, Selwyn Council Trading Enterprises Ltd; 1.7%, Banks Peninsula District Council.

The shareholders hold the above proportions in the following securities: 80 million \$1.00 Ordinary Shares issued at a 50 cent premium (\$120 million) and 76 million \$1.00 Mandatory Convertible Notes (\$76 million).

The shareholders exercise influence on the company through the negotiation of the annual Statement of Corporate Intent. The Council's interest in the company is in accordance with its Strategic Objectives: C7 and D8 (see pages 23-29).

Overall Service Objective

1. To be the preferred supplier of energy and related services in New Zealand by:
 - operating as a successful business;
 - having due regard to ensuring the efficient use of energy;
 - being experts in the area of responsible and cost-effective energy use;
 - continually improving all aspects of its business for the benefit of customers, staff and the owners;
 - earning profits which are commercial and sustainable in the long term;
 - being the leading innovator in the energy industry;
 - delivering high quality customer services;
 - adopting competitive pricing policies.

Objectives for 1997/98

2. Achieve projected overall financial performance.

Performance Indicators

- 2.1 Net after tax profit to average owners' equity, at least 3.9% (based on revalued average ordinary owners' equity of \$499.2 million) for the year ending 31 March 1998.
- 2.2 Dividend payments on the ordinary shares of \$14.3 million for year ending 31 March 1998. (Christchurch City Holdings Ltd 87.6% share is \$12.5 million)

Sources of Funding

