

SOUTHPower LIMITED

Cost of Service (Parent Company)

1997/98 BUDGET		1998/99 BUDGET
\$		\$
(276,300,000)	Operating Revenues	(284,500,000)
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	Operating Surplus	
(24,110,000)	Before Taxation	(34,390,000)
8,700,000	Taxation Expense and Subvention Payment	11,900,000
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	Operating Surplus	
(15,410,000)	After Taxation	(22,490,000)
	Share of Retained Surpluses of Subsidiary Companies and	
(4,992,000)	Goodwill Write-off	(2,549,000)
	Share of Retained Surpluses less	
770,000	Losses of Associate Companies	263,000
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	Net Surplus Attributable to	
(19,632,000)	Parent Company Shareholders	(24,776,000)
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Net Profit After Taxation

Projected Surplus After Taxation for 1999/00	(32,133,000)
Projected Surplus After Taxation for 2000/01	(35,294,000)

The 1998/99 budget reflects the increased network depreciation expense resulting from the 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 was based on an independent valuer's report.

The forecasts reflect the Southpower board's decision to repatriate \$150 million of share capital and convertible notes during the year ended 31 March 1999.

Planned Services

Southpower's core business is the purchase and supply of (at present) a peak load of 540 megawatts of electricity to 158,000 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 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 number of shares and convertible notes issued may change as part of the capital repatriation during 1998/99.

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 Volume 1).

Overall Service Objective

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

Objectives for 1998/99

- Achieve projected overall financial performance.

Performance Indicators

- Net after tax profit to average owners' equity, at least 5.2% (based on estimated revalued average ordinary owners' equity of \$475M) for the year ending 31 March 1999.
- Dividend payments on the ordinary shares of \$19.8M for the year ending 31 March 1999. (Christchurch City Holdings Ltd 87.6% share is \$17.3M.)
- Return capital to shareholders in accordance with announcements made in March 1998.

Sources of Funding

