

2015
ANNUAL
REPORT

WORKING FOR AUCKLAND
night and day



COVER: Maintenance servicemen Whetu Riwhi and Teokotai Takai Ngatokorua undertake a trial shutdown of a watermain that supplies Auckland Museum ahead of planned maintenance work.

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FEEDBACK

Watercare remains committed to improving future annual reports. Please provide feedback on this report by emailing Rachel Hughes, Communications Manager, at rhughes@water.co.nz

OVERVIEW OF WATERCARE

Our Vision: Trusted by our communities for exceptional performance every day.

Our Mission: Reliable, safe and efficient water and wastewater services.

Water supply and wastewater services are essential to the economic, social and environmental health and well-being of communities.

Each day, Watercare Services Limited (Watercare) supplies around 326 million litres of water to the people of Auckland and collects, treats and discharges around 400 million litres of wastewater.

The company is a council-controlled organisation (CCO), wholly owned by Auckland Council (the council). It funds all its activities itself, receives no funds from the council or from central government and is prohibited by statute from paying a dividend to the council.

Working for Auckland, night and day

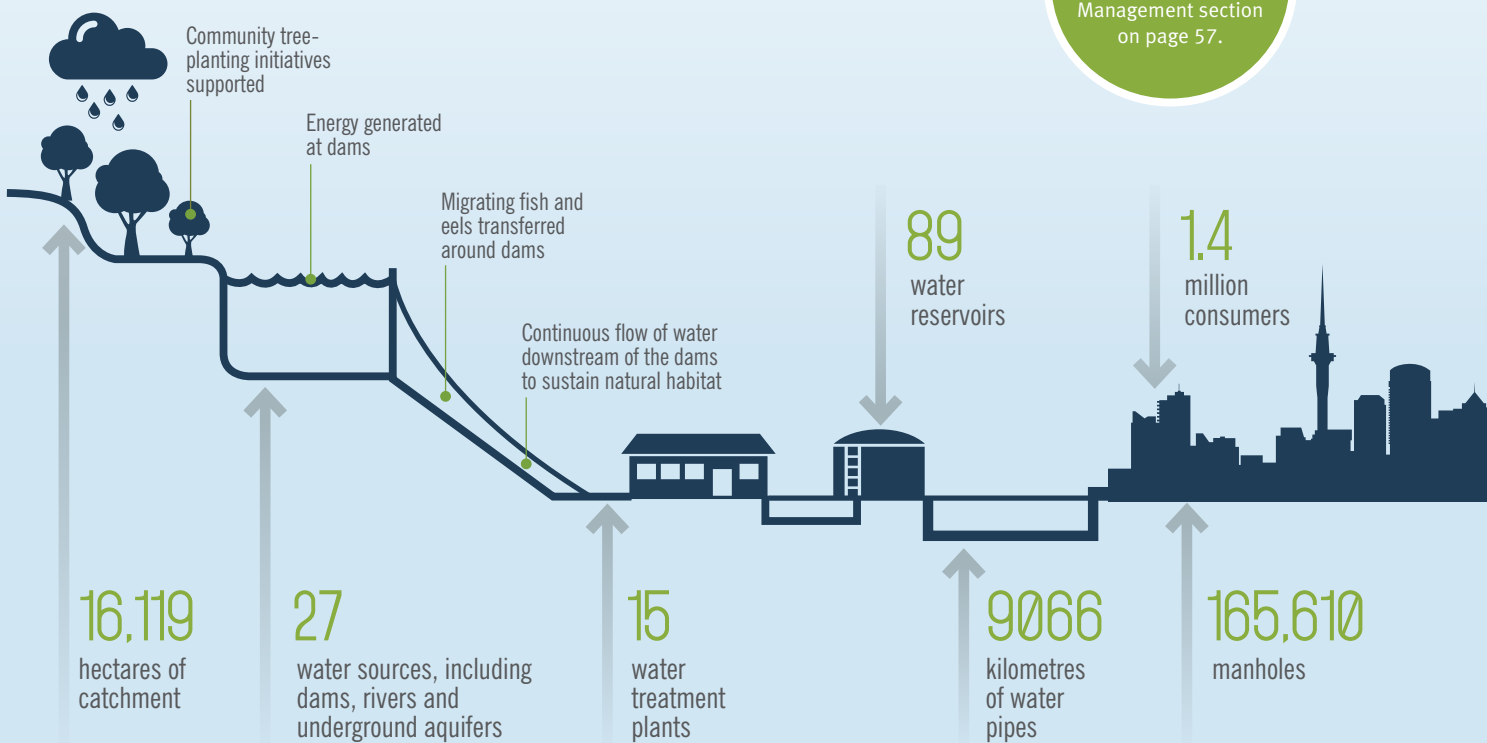
As Auckland’s water and wastewater services provider, Watercare has a significant role to play in making Auckland one of the most liveable cities in the world. Our mission is to deliver safe, reliable and efficient water and wastewater services to our customers. We are committed to ensuring the health and well-being of the people of Auckland and the environment while keeping the costs of service to our customers, collectively, at minimum levels. Our staff work seamlessly around the clock to make sure that when our customers turn the tap on or flush the toilet, they can do so with confidence and certainty.

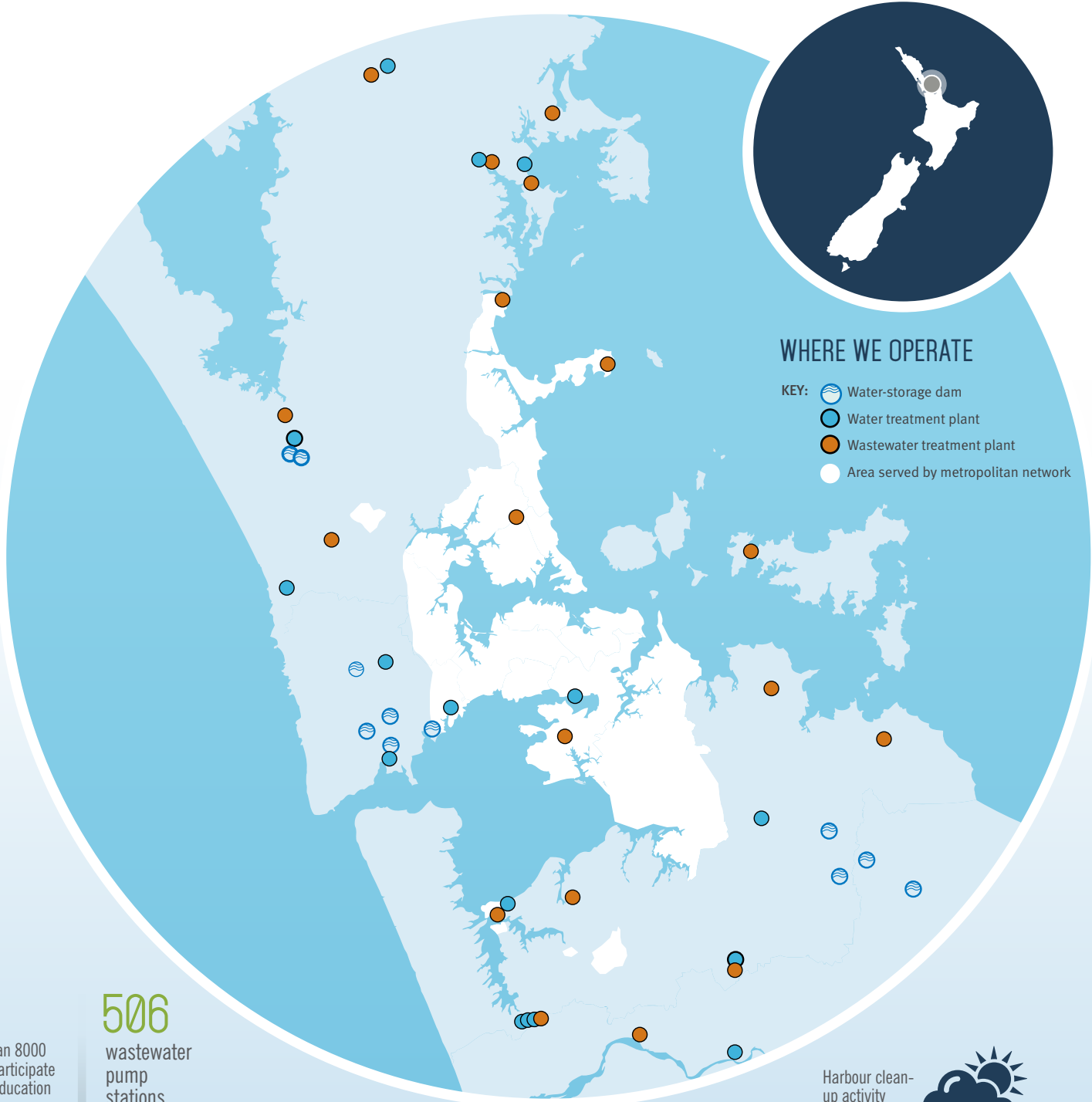
This report explores the ways in which we deliver on our mission and respond to the challenges that arise during the course of our work.

FROM SKY TO SEA

An overview of Watercare’s assets and operations

For more information, see the Effective Asset Management section on page 57.





WHERE WE OPERATE

- KEY:
- Water-storage dam
 - Water treatment plant
 - Wastewater treatment plant
 - Area served by metropolitan network

506
wastewater
pump
stations

More than 8000
pupils participate
in free education
programme

Energy generated using biogas
at two treatment plants

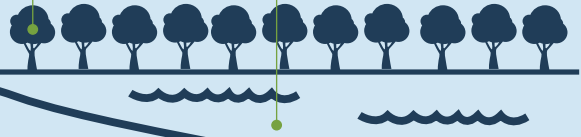
Bird roosts along the
Watercare Coastal Walkway
attract many species of birds

Harbour clean-
up activity
sponsored



7896
kilometres
of wastewater
pipes

18
wastewater
treatment
plants



Watercare measures and manages its performance across seven focus areas.



01 SAFE AND RELIABLE WATER

In 2014/15, Watercare:

- Met all targets relating to water safety, Ministry of Health drinking water standards and service reliability
- Completed the Southern Networks Upgrade programme by:
 - connecting parts of North Franklin (Clarks Beach, Glenbrook, Patumahoe, Waiau Pa) to the metropolitan water supply, thereby improving the water quality and reliability of supply to these towns
 - improving the water quality in Waiuku by installing ultraviolet disinfection treatment at its three treatment plants
- Continued working on the Hunua 4 watermain to ensure capacity and to cater for Auckland's growth. Hunua 4 is already providing water to local communities in large parts of Manukau and East Auckland; areas in Mangere will start to receive supply from this pipeline in late 2015
- Continued preliminary design work on the overall pipeline route for the North Harbour 2 watermain. Advance works is underway on Fred Taylor Drive in conjunction with Auckland Transport's project to upgrade this road corridor, demonstrating commitment to a 'dig once' initiative. Consents will be lodged in 2015 and the project will ultimately secure water supply to the growing areas of west and north Auckland.

Next financial year:

- Commence upgrade works to optimise the production capacity of the Waikato Water Treatment Plant and to ensure compliance with foreseeable statutory obligations. The upgrades will reduce water production risk and make sure that service delivery standards continue to be achieved.

02 HEALTHY WATERWAYS

In 2014/15, Watercare:

- Continued work on gaining the resource consents for the Central Interceptor tunnel. This included the commencement of the detailed design and field investigations to support the design, such as geotechnical investigations, land surveys and wastewater characterisation studies. The Central Interceptor will address the risk of ageing infrastructure, reduce wet-weather overflows and meet Auckland's population growth
- Began placing biosolids at Puketutu Island in December 2014, facilitating a safe and environmentally sustainable way to dispose of biosolids from the Mangere Wastewater Treatment Plant
- Awarded the contract for construction of additional reactors at Mangere Wastewater Treatment Plant to ensure continued compliance with consent conditions and to cater for population growth
- Commenced detailed design for the expansion of the Rosedale Wastewater Treatment Plant, which will rebalance the capacity of Auckland's wastewater network.

Next financial year:

- Commence detailed design for the Northern Interceptor, a new, phased wastewater pipeline project which will provide capacity for growth in north-west and central Auckland by diverting flows away from Mangere Wastewater Treatment Plant to Rosedale Wastewater Treatment Plant.

03 HEALTHY, SAFE AND ENGAGED TEAM

In 2014/15, Watercare:

- Worked on educating staff and contractors, and provided training and communication to promote a better health and safety culture in the company
- Established a diverse team of health and safety experts with specialised skills to provide guidance and mentoring across various parts of the business
- Retained the AS/NZS 4801:2001 accreditation, an assurance that Watercare's health and safety management system meets current international standards
- Continued to develop the current health and safety management system to the global British Standards OHSAS 18000:1 2007 to enable the company to transition to the ISO 45001 standard planned to be implemented by the end of 2016
- Provided training for the new confined-space Australasian standards
- Retained the organisation's tertiary accreditation with ACC.

Next financial year:

- Roll out the new incident reporting database, Synergi Life, for staff and contractors, which will enable better recording and analysis of and feedback on incidents, near misses and observations.

04 CUSTOMER SATISFACTION

In 2014/15, Watercare:

- Introduced regular newsletters for customers and the community on general news as well as on service upgrades being carried out in their areas
- Provided dedicated support for non-domestic customers during the transition to the new wastewater tariff system
- Improved information provided to customers on understanding high water use, empowering them to address any issues as soon as they arise
- Upgraded the contact centre's telephone platform, providing a more robust system and improving the customer experience
- Continued to support the Water Utility Consumer Assistance Trust, which assists domestic customers who are unable to pay their water bills.

Next financial year:

- Redesign the website to be more interactive and user-friendly
- Investigate options for using digital platforms to communicate proactively with customers about faults and emergency events
- Establish an open forum for customers to seek feedback and share information.



05 BEING FULLY SUSTAINABLE

In 2014/15, Watercare:

- Developed a water-efficiency programme for businesses and commercial organisations, and a free booklet with tips on water efficiency as part of the programme
- Generated 29 per cent of total energy needs through co-generation at water and wastewater treatment plants
- Improved the separation of on-site waste at the Mangere Wastewater Treatment Plant and at Penrose, reducing waste to landfill by composting food waste
- Participated in eight public shows/events, in partnership with EcoMatters Environment Trust, to promote waterwise behaviours and tips to Auckland residents
- Introduced FollowMe printing, a pull printing practice to reduce uncollected paper throughout the organisation, resulting in a 15 per cent reduction in printing
- Continued improvements to the Watercare Coastal Walkway by engaging the local community: worked with the students of Waterlea School, Mangere, to create posters of birds inhabiting the walkway; and organised volunteers from The Church of Jesus Christ of Latter-day Saints to help restore the bird roosts adjacent to the walkway.

Next financial year:

- Develop and release the 2016–2019 Auckland Regional Water Demand Management Plan – Watercare’s action plan to further improve water efficiency across the region
- Introduce a water efficiency resource for schools.



06 EFFECTIVE ASSET MANAGEMENT

In 2014/15, Watercare:

- Completed asset data validation and standardisation for local network pumping stations to improve the operation and maintenance of these facilities
- Continued ongoing programme to validate asset attributes including age, material, diameter, etc. to improve whole-of-life asset management
- Remained on track to meet targets relating to water demand management, which will defer the need for additional service infrastructure
- Delivered 86 per cent of its budgeted capital programme
- Commenced design for replacing the Huia No. 1 watermain, a large transmission main, to secure supply and cater for growth
- Continued to refine the renewal strategy for local network infrastructure assets to ensure water quality and service levels are maintained.

Next financial year:

- Commence the process of consent application and upgrades for Watercare’s non-metropolitan wastewater treatment plants to improve their service levels
- Continue work with Auckland Council on the Future Urban Land Supply Strategy (FULSS) service implications.



07 SOUND FINANCIAL MANAGEMENT

In 2014/15, Watercare:

- Increased water and wastewater charges by 2.4 per cent for the year, to respond to increased costs of service delivery and the need to invest in infrastructure to cater for Auckland’s growing population
- Implemented the second phase of the streamlined wastewater tariff for non-domestic customers
- Continued to meet Statement of Intent (SOI) target relating to cash flow/interest cover ratio
- Reviewed the efficiency of the company’s vehicle fleet for optimal usage
- Provided ‘accounting for non-accountants’ training to staff, to familiarise them with the way finance is managed.

Next financial year:

- Implement the third and final phase of the non-domestic wastewater tariff, which will provide a completely standardised charging structure for wastewater for businesses, industries and other organisations.



98.5%
OF THE 1675
customer complaints
WERE RESOLVED
WITHIN 10 DAYS

\$6.2
MILLION
worth of supply chain
SAVINGS
WERE ACHIEVED



\$286.9
MILLION
was invested in
INFRASTRUCTURE



Watercare's transformation into a customer-oriented and operationally efficient organisation gained momentum this year with the implementation of a new strategic framework and the restructuring of our senior management team.

Creating an enabling organisation

Our major focus over the first four years as a water retailer was to consolidate our operations. Having made significant progress through initiatives such as monthly billing and standardised tariffs, this year, the board turned its attention to creating an enabling organisation with a shared vision and a can-do attitude. In late 2014, we initiated a strategic planning process that resulted in a new vision, mission and set of priorities for the company.

Today, Watercare's vision is to be trusted by our communities for exceptional performance every day. Put simply, this means we aspire to be reliable and consistent in the way we provide services to customers and we strive for continuous improvement. Holding a position of trust is a challenge for any organisation but even more so for a monopoly. Our company will need to work hard to realise this vision but I am confident it is achievable.

Our new mission is to deliver reliable, safe and efficient water and wastewater services. I am proud to say this is something we do well already. However, the way we fulfil our duties will evolve over the next 12 months to align with four new strategic priorities: customer focus, business excellence, financial responsibility and being fully sustainable. Combined, these strategic priorities incorporate the key elements needed to realise our vision.

Fundamental to the success of the strategic framework is a high-performing team. In November, the board appointed Raveen Jaduram as chief executive and we have been pleased with his leadership and progress over the past eight months. Raveen has undertaken a careful restructuring of his senior management team. In doing so, he has given greater focus to strategy and planning; this

acknowledges that Watercare's ability to plan for growth across Auckland is critical both now and in the years to come.

Through the implementation of our strategic framework and recent restructure, we are endeavouring to create an enabling organisation that is well placed to help Auckland expand in a sensible way, by taking a long-term outlook.

We aspire to be reliable and consistent in the way we provide services to customers and we strive for continuous improvement.

Responding to growth

According to Auckland Council's medium-growth projection, our city's population is predicted to increase by 700,000 people over the next 30 years. In terms of pace, this is the equivalent of it growing by the size of Tauranga every five years.

In response, Auckland Council has embraced a vision for Auckland to be the world's most liveable city and it has developed a plan to deliver this vision. The Auckland Plan, adopted in 2012, outlines how the council will prepare for the additional people and deliver 400,000 new homes.

Work on a rule book to support the Auckland Plan has been under way for the past three years. The Unitary Plan will set out what can be built and where, in order to create a quality and compact city. This plan – on which Watercare provided feedback in 2013 – is a work in progress and will not be adopted by the council until 2016.

While work on the Proposed Auckland Unitary Plan is positive and essential, it is a lengthy process, and meanwhile, Auckland's housing crisis is mounting. To deliver 400,000 homes in 30 years, around 13,000 will have to be built each year. By comparison, fewer than 2000 homes were built in 2011.

Acknowledging the need to accelerate the delivery of housing, Auckland Council

approved the Auckland Housing Accord in 2013. Through the accord, special housing areas (SHAs) were identified for fast-track development.

We have been working with the council over the past two years to match the areas where our networks have spare capacity with the locations where developers have expressed an interest to build. Through this process, the council has established 84 brownfield and greenfield SHAs that can accommodate 40,000 new homes.

The board is pleased to confirm that our networks have the capability to support staged development on all SHA sites. In a limited number of cases, we will need to increase the capacity of our trunk networks to enable the final stages of development to occur. We are committed to working with developers to ensure our infrastructure does not constrain their development at any stage.

Given our size and regulatory framework, it is vital we work positively and responsibly with the council and the development community to allow for sustainable growth – from the perspective of developers, the community and the environment.

Delivering an affordable price path

Our focus on affordability has meant that, over the past four years, water and wastewater price rises have been confined to an average of 2.1 per cent per year.

Over the next 10 years, we are planning to spend \$4.7 billion on new infrastructure. To fund that investment in a way which is fair for all, we will employ a combination of service charges, growth charges and borrowing that balances the financial contribution made by present and future generations and ensures the costs of growth and development are accurately aligned.

The board offers its thanks to Watercare's chief executive, management and staff for their commitment to our customers and to the delivery of reliable, safe and efficient water and wastewater services. We also wish to acknowledge the stewardship of Susan Huria, who retired from the board during the year after six years' service. The experience and insight she brought to Watercare was appreciated by all those who worked with her. David Thomas was welcomed to the board in her place in November.

Finally, we also express our gratitude to our shareholder, Auckland Council, for the continued evolution of our working relationship, particularly in regard to joint planning and co-operation.



David Clarke
Chairman



Watercare is constructing an underground storage tank in Madills Farm Reserve as part of a wider project to upgrade the wastewater network that services the east Auckland suburb of Kohimarama. The tank will improve beach water quality by reducing the frequency of wet weather overflows into the creek at Madills Farm Reserve.



On behalf of my colleagues, I am pleased to report that Watercare has enjoyed a successful year in terms of delivering reliable, safe and efficient water and wastewater services to our customers.

Embracing cultural change

Watercare provides essential services to the people of Auckland; we supply safe drinking water and we collect, treat and dispose of wastewater carefully in order to protect the health of our communities and environment.

In order for us to deliver these services reliably and sustainably, we need a healthy, safe and engaged team. This year, I have been personally committed to instilling a strong culture of health and safety both within our company and through our supply chain. My efforts have been supported by our board of directors which established a subcommittee to work with management on developing this culture. Our aim is to ensure that every person involved in the delivery of our services receives the right training and tools to do the job safely, and feels engaged and motivated to act responsibly.

Transforming the culture of an organisation takes time. In order to minimise risk in the short term, this year we carried out a thorough review of our major hazards. The purpose was to ensure there are appropriate controls, procedures and training in place to mitigate the risks to staff and contractors. We also reviewed and invested in our policies and systems, increasing accountability at all levels of line management.

Our long-term approach is to actively involve staff and contractors in health and safety initiatives. This year, we introduced a number of programmes internally to encourage staff to develop a sense of responsibility for their own health and safety as well as those of their team and members of the public. The emphasis was and continues to be on staff going 'home safe'.

Externally, we communicated our goals to our contractors; they included the expectation that we work together to ensure best-practice procedures are

actively identified and implemented. We also increased our focus on the health and safety credentials of prospective contractors during the contract tendering process.

While we are in the early stages of cultural transformation, we are already seeing results. Our staff are now reporting

I am personally committed to instilling a strong culture of health and safety both within our company and through our supply chain.

all injuries, near misses and safety observations. Not only that, they are now undertaking root-cause analyses for those injuries and near misses rather than simply reporting the statistics. This means we are able to change processes and/or behaviours in order to ensure a safe and sustainable environment. Conversely, the increased emphasis on reporting means we did not meet our Statement of Intent target with respect to the lost-time injury frequency rate (see page 40). It was 6.4 injuries per million hours worked against a target of five. Over the next year, I expect to see a turnaround in this result as we roll out improved risk-management training as well as a new incident management database.

As a member of the Business Leaders' Health & Safety Forum, this year I made two commitments. Firstly, I signed the pledge for a zero-harm workplace. This means I am taking personal responsibility for making health and safety a vital part of my business, and our company is working to improve its performance in this area. I also signed the Contractor

Initiative which aims to influence the safety practices and behaviours of the 52,000 contractors employed by the 24 member organisations. For our company, this means more stringent standards while hiring contractors and more focus on monitoring their performance.

Aligning our business towards the customer

In addition to safety, this year, I challenged staff and contractors to significantly improve customer services. In doing so, I provided them with a strategic framework – developed by the board and executives – to align our organisational efforts into the efficient and effective delivery of services. This framework includes a refreshed vision and mission as well as a set of strategic priorities. The process culminated in our core values that are providing a platform for cultural change as well as a basis for staff behaviour.

I launched the framework to staff in April. At the time, I emphasised that its success will be measured in terms of a positive cultural change combined with an improvement in performance. My expectation is for productivity to increase because staff enjoy coming to work, feel appreciated and are challenged to deliver exceptional performance. We need to deliver quality services in a safe and cost-effective manner.

Through the new framework and my senior-management restructure, I am encouraging

a new mind-set where our customers are at the start and heart of our decision-making processes. At the time of the restructure, I took the opportunity to adjust the name of the operations business unit to service delivery. This was to emphasise that the purpose of our operations is service delivery. Essentially, the new name is outward looking rather than focusing on an internal mechanism.

Auckland's water up to standard

In December 2014, we fulfilled our paramount objective for the previous four years: to deliver water that complies with the Ministry of Health's standards to all of our customers, regardless of their location.

This was no small feat. In 2010, we inherited nine water treatment plants and networks from the former Franklin District Council that were not up to standard. Many of these plants were unable to produce enough water to meet peak demand and there were significant quality issues.

We undertook a \$116-million project to transform Franklin's water supply. Six communities have been connected to our metropolitan network and a further two communities have had their treatment plants upgraded.

Today, all of our customers enjoy a safe and reliable water supply.

Delivering a reliable water supply

In his report, the chairman noted that Auckland is predicted to grow by 700,000 people over the next 30 years. This growth in population will go hand in hand with a growth in demand for water. Consequently, we expect that our current water sources will reach capacity within the next 10 to 15 years.

Our response is two-fold: we are working with our customers to reduce gross per-capita demand; and we are pursuing new water sources so that Auckland can continue to enjoy a safe and reliable water supply in the future.

In March, we launched a programme called Be Waterwise for Businesses and Organisations, which aims to help our non-domestic customers to understand their water use and become more efficient. The previous year, we launched a similar resource targeting domestic customers.

We also continued to provide a free water audit service to our domestic customers, delivered in partnership with the EcoMatters Environment Trust, and we

continued to alert customers to possible leaks in their private plumbing.

The combined effect of our demand-management initiatives is that we are on target to achieve our goal of reducing gross per-capita consumption by 15 per cent by 2025, compared with 2004 levels (see page 58).

Promoting water efficiency aligns with our commitment to provide exceptional services at minimum cost as it means that the need for additional water and wastewater infrastructure can be deferred.

In terms of securing new water sources for our growing city, we lodged an application with the Waikato Regional Council in December 2013 to progressively increase the net water take from 150 million to 350 million litres per day. Before lodging this application, we considered 77 alternative water sources. The only alternative that would meet the volume and reliability required for Auckland's growth is a desalination plant. However, its cost is estimated to be many times that of the Waikato River option.

If the consent is granted, we will plan a staged expansion of the Waikato Water Treatment Plant and the construction of a second pipeline from the plant. This will secure Auckland's water supply for more than 30 years.

Being fully sustainable

One of our strategic priorities is to be fully sustainable. This means delivering positive outcomes for our community, environment and organisation while acting with integrity and ethics.

This year, our support for the Water Utility Consumer Assistance Trust has been delivering positive outcomes for our domestic customers experiencing financial hardship. In total, 149 customers were granted relief on their charges.

We also continued to support the Watercare Harbour Clean-Up Trust which oversees the removal of litter from Auckland's Waitemata Harbour, Manukau Harbour and inner gulf islands, and promotes the concept of rubbish-free waterways. Since its inception in 2002, the trust estimates it has removed close to 30 million pieces of litter. I am proud to report that the trust was presented with a Community Group Award at the Waitemata Local Board's Good Citizens' Awards in June as well as the "Waterfront Center 2014 Annual Honor Award" for excellence on the waterfront.

I would like to thank the members of the Mana Whenua Kaitiaki Forum and the Environmental Advisory Group for their valuable insights into the impact of our operations on Māori and the environment. In particular, the report prepared by the forum on the relevance of our wastewater management sites to kaitiakitanga is appreciated, along with the advice provided by the Environmental Advisory Group on the implications of the Proposed Auckland Unitary Plan on our operations.

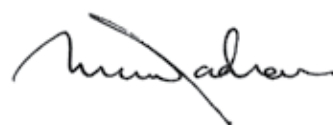
Financial performance

I am pleased to report that our financial performance for the year was solid with both revenue and costs being favourable to budget (see page 63 and 70).

Our total revenue was \$520.4 million, which was \$20.8 million ahead of expectations, and we achieved an operating surplus from trading operations of \$33.1 million after providing for depreciation and amortisation of \$208.7 million.

However, the reported operating surplus was prior to an adjustment for the revaluation of derivative financial instruments. We enter into interest rate swap agreements to fix medium to long term interest rates on a proportion of our debt and thereby reduce the uncertainty created by fluctuations in floating interest rates. Under accounting standards, we revalue our interest rate swaps to fair value. This revaluation resulted in a \$89.2-million (non-cash) loss, due to the drop in interest rates over the year. Consequent to this adjustment, we are reporting a net deficit after tax of \$55.4 million.

As always, I wish to thank staff for their goodwill, hard work and commitment. This year, I challenged our team to step up a gear and propel Watercare forward on the journey from being an infrastructure-focused monopoly to a customer-focused company. It has not been easy and we are not there yet but I have been delighted by the response from staff and their determination to make it happen.



Raveen Jaduram
Chief Executive



David Clarke, BE (Hons), ME, BBS, MBA, MInstD, FNZIM
Chairman

David Clarke has considerable experience in the areas of engineering, biotechnology, IT, health, food and related sectors. He has been the inaugural chair for multiple technology industries and has strong commercial and governance skills. His background includes engineering, finance, marketing and sales. David is a fellow of the New Zealand Institute of Management and member of the Institute of Directors in New Zealand.

General disclosure of interests: Chairman, TRG Group Limited – Radiology Services; Chairman, Skin Institute Limited; Director, Hawkins Watts Limited; Director, FarmIQ Systems Limited; Chairman, Jucy Group Limited; Director, Hynds Limited; Chairman, Health Alliance NZ Limited.



Mike Allen, LLB, BCom
Deputy Chairman; Chairman of the Health and Safety Committee

Mike Allen has extensive experience in investment banking and general management in both New Zealand and the United Kingdom. He has previously consulted to the Australasian water and infrastructure sectors.

General disclosure of interests: Director, Coats Group PLC; Director, Godfrey Hirst Australia and related companies; Shareholder, Innoflow; Director, Tainui Group Holdings Limited; Director, Breakwater Consulting Limited.



Peter Drummond, MNZM, ACInstD
Chairman of the Remuneration and Appointments Committee

Peter Drummond is an experienced director and chairman, with extensive international business management and marketing expertise. He was previously chairman of Watercare and brings extensive knowledge of the wholesale and retail water services industry. Peter has also served on the boards of Vector, MidCentral Health and HortResearch Limited, as well as a large range of community organisations such as Variety – The Children's Charity, where he has just completed two years as world president and a further two years as chairman of the world board. He re-joined the Watercare board in March 2010.

General disclosure of interests: Chairman, Appliance Connexion Limited; Chairman, Watercare Harbour Clean-Up Trust; Chairman, Variety Medical Missions South Pacific; Chairman, Ngāti Whātua Ōrākei Whai Maia Limited; Director, NARTA New Zealand Limited; Director, NARTA International Pty Limited; Panel member, Fire Review, Department of Internal Affairs; Director, Port Marlborough New Zealand Limited; Director, Ngāti Awa Group Holdings Limited.



Catherine Harland, BA, PGDipBus, MBA, MInstD, JP

Catherine Harland has a background in research, consultancy and public policy in local and central government. She has previously been a consultant with MartinJenkins & Associates Ltd and worked at The New Zealand Institute and Auckland University of Technology's Institute of Public Policy. Catherine was engaged in consultancy work with the Auckland water industry for four years and an elected local government member for 15 years. Her involvement in various community groups includes five years as chair of the Auckland Observatory and Planetarium Trust Board.

General disclosure of interests: Director, McHar Investments Ltd; Director, Interface Partners Ltd; Trustee, One Tree Hill Jubilee Educational Trust; Member, Auckland Regional Amenities Funding Board.



Tony Lanigan, MNZM, BE (Hons), PhD, Dist. FIPENZ, MInstD
Chairman of the Capital Projects Working Group

Tony Lanigan is a professional civil engineer, project management consultant and former general manager with Fletcher Construction. Tony was the inaugural chancellor of Auckland University of Technology (AUT) and a former director of Infrastructure Auckland. He is currently vice chair of Habitat for Humanity in New Zealand and chair of the New Zealand Housing Foundation. Tony is the group director-estates at AUT as well as being a senior research fellow in the School of Construction Management. In March 2015, Tony was elected a distinguished fellow of the Institution of Professional Engineers (Dist. FIPENZ).

General disclosure of interests: Director, Habitat for Humanity New Zealand Limited; Director and Chair, Housing Foundation Limited; Director, NZ Transport Agency; Director and Shareholder, A G Lanigan & Associates (2007) Limited; Director, Tamaki Makaurau Community Housing Limited; Member, Ministry of Health Hospital Redevelopment Partnership Group for Canterbury.



Julia Hoare, BCom, FCA, MInstD
Chairman of the Audit and Risk Committee

Julia Hoare is a professional independent director, working with a variety of complex businesses and interesting organisations. She brings a comprehensive range of commercial, financial, tax, regulatory and sustainability expertise to Watercare which she developed from both her governance career and over the course of 20 years as a partner with PwC. She retired from the PwC partnership on 31 December 2012 to pursue a full-time corporate governance career. Julia is a fellow of the New Zealand Institute of Chartered Accountants and a member of the Institute of Directors in New Zealand.

General disclosure of interests: Director, AWF Madison Group Limited; Director, New Zealand Post Limited; Deputy Chairman, The A2 Milk Company Limited; Member, Auckland Committee, Institute of Directors; Member, Advisory Panel to External Reporting Board; Member, Institute of Directors National Council.



Nicola Crauford, BSc (Hons), PhD, CPEng, FIPENZ, AMInstD, FAICD

Dr Nicki Crauford has over 25 years' experience in the oil, electricity and gas sectors in the United Kingdom and New Zealand including many years with national grid owner Transpower, where she was a member of the executive team. Nicki was also chief executive of the Institute of Directors in New Zealand and deputy chief executive of the Institution of Professional Engineers in New Zealand (IPENZ).

General disclosure of interests: Chairman, Wellington Rural Fire Authority; Director, Environmental Protection Authority; Member of Electoral Authority – Cooperative Bank Limited; Senior Consultant, WorleyParsons New Zealand Limited; Director, Wellington Water Limited; Director, Orion New Zealand Limited; Chair, GNS Science Limited; Member, Local Government Risk Management Agency Establishment Board.



David Thomas, BCA (Hons)

David Thomas has more than 35 years' experience in the building industry, and has led key business units within Fletcher Building for the past 25 years. He is currently the general manager of Winstone Wallboards Ltd. David was on the founding Board of the South Auckland Crown Health Enterprise and represented Fletcher Challenge Ltd on the board of Māori Development Corporation.

General disclosure of interests: Chairman, Ngāti Whakaue Tribal Lands Inc.; Council Member, Business New Zealand, Board Member, Employers and Manufacturers Association (Northern); Chairman, Gypsum Board Manufacturers of Australasia; Shareholder and Employee, Fletcher Building Limited.



Raveen Jaduram, BE (Hons), ME, FIPENZ
Chief Executive

Raveen Jaduram was appointed as the chief executive of Watercare after performing the role in an acting capacity since February 2014. He re-joined Watercare in 2013 as general manager of the Maintenance Services business unit that provides operations and maintenance support within Watercare. Prior to that, Raveen was the managing director and chief executive of an Australian private water company, Murrumbidgee Irrigation Limited. He was chief operating officer at Watercare during the 2010 amalgamation of the local councils. Raveen is also an independent director of Wellington Water Limited.



Brian Monk, BCom, CA
Chief Financial Officer

Brian Monk is a chartered accountant with over 40 years' experience in corporate financial management. He holds responsibility for Watercare's financial management, treasury and strategic planning functions. Brian has previously held senior financial management roles with Auckland Regional Council, Fletcher Energy, Air New Zealand and the United States' multinational S.C. Johnson. He is also the deputy chairman of Manukau Institute of Technology.



Shayne Cunis, BE Civil (Hons), MIPENZ, CPEng
General Manager – Service Delivery

Shayne Cunis is a chartered engineer with more than 20 years' experience in the Auckland water supply industry. He holds responsibility for Watercare's operational management of the drinking water and wastewater systems, along with trade waste and reliability engineering. Shayne has previously held senior operational management roles at Watercare.



Marlon Bridge, BCom, DipCom, CA
General Manager – Retail

Marlon Bridge is a chartered accountant with over 20 years' experience in senior private and public-sector roles. He has held senior financial-management roles at Watercare and as chief financial officer of Manukau Water Limited. Marlon is responsible for customer service (including key accounts), invoicing and billing, revenue assurance, credit management, new connections and new developments at Watercare.



Steve Webster, Dip CM, BE (Hons), NZCE (Civil)
General Manager – Infrastructure Delivery

Steve Webster is a civil engineer with more than 20 years' experience in senior leadership roles delivering projects and maintenance services to government, local authority and private asset owners in New Zealand and Australia. He is responsible for Watercare's delivery of capital projects, laboratory services and internal maintenance activities for both the water and the wastewater network.



John van Brink, BE (Hons), ME (Distinction), MIET, CEng (UK)
General Manager – Strategy and Planning

John van Brink has over 30 years' experience in infrastructure management. He has held senior management and executive positions in commercial and asset management roles, and carried development of asset management and investment strategies. More recently, he was chief executive of Tonga Power Limited, where he developed and implemented strategic initiatives to improve business performance and sustainability, and built a number of renewable energy projects in a developing and remote environment.



Rob Fisher, ONZM, LLB, DipTP
General Counsel

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. He is responsible for statutory and environmental planning, resource consents and policy. He has provided strategic advice and expertise to both private and public bodies, especially in the consenting of large infrastructure projects. Rob was the 2010 Barrister of the Year at the New Zealand Law Awards and was named an Officer of the New Zealand Order of Merit in the 2011 Queen's Birthday Honours.



David Hawkins, MPP, TTC, JP
Corporate Relations and Communications Manager

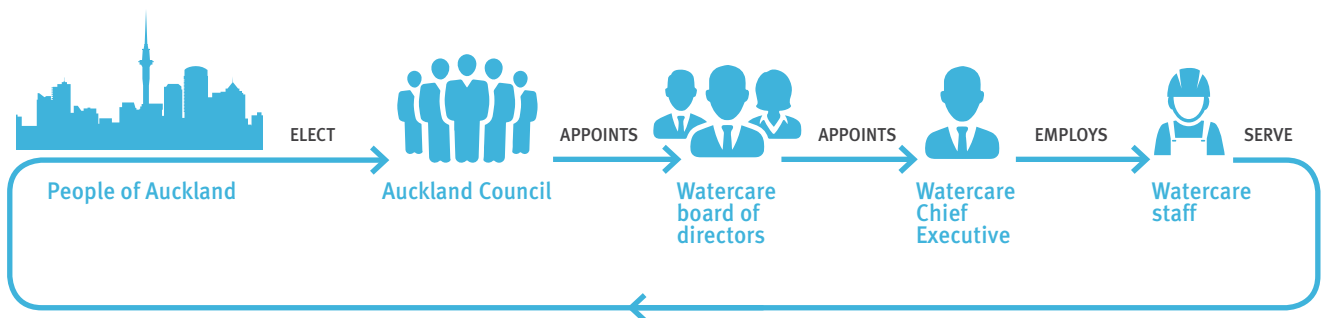
David Hawkins' responsibilities include government and community relations as well as corporate communications. He has a background in sales and marketing management for New Zealand and global brands, and has a strong commitment to local government and community engagement. David has previously served as an Auckland regional councillor and is a former Mayor of the Papakura District.



David Sellars, BCA, CA
Risk and Assurance Manager

David Sellars is a chartered accountant with experience in banking and audit functions. He is responsible for the risk management function and assurance procedures, including reporting on the internal control environment and governance of major projects.

Watercare is a wholly owned subsidiary of Auckland Council (the shareholder). The board of directors (board) and management of Watercare remain committed to ensuring that the company applies best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.



Operational responsibility is delegated to the chief executive by way of a formal delegated authority framework. The board comprises eight independent, non-executive directors. They, including the chair, are appointed by the shareholder. Their profiles and disclosures of interests are published on page 10.

Legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Watercare is subject to regulation governing planning, health and environmental matters. The principal regulators include Auckland Council, Waikato Regional Council and the Ministry of Health. The company also provides these and other regulatory bodies with information on the potential for existing and proposed policy and regulation to affect Watercare’s activities.

The legislative framework enabling and governing Watercare’s operations, as the provider of water and wastewater services in Auckland, is found largely in four Acts and amendments:

- Local Government Act 2002
- Local Government (Tāmaki Makaurau Reorganisation) Act 2009
- Local Government (Auckland Council) Act 2009
- Local Government (Auckland Transitional Provisions) Act 2010.

The company’s obligations to deliver water and wastewater services for Auckland are

established under Part 5, section 57(1), of the Local Government (Auckland Council) Act 2009, which stipulates that an Auckland water organisation:

- Must manage its operations efficiently with a view to keeping the overall costs of water supply and wastewater services to its customers (collectively) at minimum levels, consistent with the effective conduct of its undertakings and the maintenance of the long-term integrity of its assets
- Must not pay any dividend or distribute any surplus in any way, directly or indirectly, to any owner or shareholder
- Is not required to comply with section 68(b) of the Local Government Act 2002 (avoiding the requirement to pay a dividend)
- Must have regard for public safety in relation to its structures.

Also under the legislative framework:

- The company became a council-controlled organisation (CCO) on 1 July 2012
- The company must give effect to the council’s Long-Term Council Community Plan (LTCCP) and act consistently with other specified plans and strategies of the council
- At least two board meetings a year are required to be held in public: one before 30 June to consider the council’s comments on the draft statement of intent (SOI) for the upcoming financial year, and one after 1 July to consider the company’s performance under the SOI for the previous financial year; in practice, all board meetings are held in public

- The company’s financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

The Auditor-General is the auditor of the company’s financial statements. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General’s Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte must satisfy the independence requirements of the Auditor-General and External Reporting Board.

Company goals

The goals for Watercare are set as part of the process of developing the SOI, in association with the shareholder and as approved by the board. The process follows the receipt of the Mayor of Auckland’s letter of expectation, which includes the vision and objectives for Auckland and the outcomes sought by the Auckland Plan. A draft SOI is then prepared by Watercare as the basis of consultation with the shareholder.

This identifies the relationship between Watercare’s activity and the delivery of those outcomes sought by the Mayor and those specified within the Auckland Plan. Prior to final adoption by the board, comment on the final draft SOI is invited from Local Boards, the Independent Māori Statutory Board and the general public. Watercare delivered the 2014/15 SOI to the shareholder on 30 June 2014; this



document is available on the company website www.watercare.co.nz

Of special importance are the Local Boards, which represent local communities under a co-governance model with the Auckland Council governing body. Watercare maintains purposeful relationships with the Local Board chairs and members, arranged through a dedicated company executive who ensures transparent and timely communication and ready access to relevant information. The relationship and channels of communication recognise the diverse needs of Local Boards and communities and the varying levels of interest in Watercare's services and projects.

Watercare's business is intrinsically linked to the natural environment and significantly impacts the community.

Integrating sustainability into all aspects of the business is key to the company's vision to be a trusted community and iwi partner. Watercare's Environmental Advisory Group comprises experts who advise on the way in which the company's activities affect the environment. Watercare's Māori advisory group, the Mana Whenua Kaitiaki Forum, advises the company on how its plans and operations affect Māori and Māori's relationship with the natural environment. Reports from the Environmental Advisory Group and Mana Whenua Kaitiaki Forum can be found on pages 20 and 21 respectively.

The company has a sustainability function, supported by representatives from across the organisation. The company reports monthly to the board, and quarterly to the shareholder, on performance against sustainability targets.

Performance

The performance of the board as a whole is reviewed by the shareholder annually. Board remuneration is determined by the shareholder. The board oversees the performance of the chief executive, who is formally reviewed annually. Watercare reports to the shareholder quarterly through the CCO Governance and Monitoring Committee. This annual report records the performance of the company against non-financial and financial performance measures included in the SOI. The non-financial performance measures are set out in the statement of service performance from page 114. A wider set of measures, including economic, social, environmental and selected SOI determinants, has been grouped under seven focus areas and the performance of the company against these is reported in the upcoming pages.

Board structure and functions

Audit and Risk Committee

The Audit and Risk Committee helps the board to fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures.

Its responsibilities are established in the Audit and Risk Committee Charter, which is reviewed annually. The committee meets regularly with the internal and external auditors (both with and without management present) and the management of the company. Membership must include at least three board members, at least one of whom must have accounting or financial management expertise. The committee has no delegated authority. The board chair may not chair the Audit and Risk Committee. All Watercare’s directors receive the papers of the Audit and Risk Committee in advance, and all are invited to attend committee meetings.

The chair of the Audit and Risk Committee for 2014/15 was Julia Hoare.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee helps the board to fulfil its wider human resources responsibilities for the company. Membership must include at least three board members plus the board chair, who may not chair the committee.

The committee provides advice to the board on: organisational capability and design; human resource strategies; and remuneration

policy, including the remuneration framework for the chief executive.

The chair of the Remuneration and Appointments Committee for 2014/15 was Susan Huria and, upon her retirement, Peter Drummond.

Capital Projects Working Group

The Capital Projects Working Group is responsible for reviewing Watercare’s capital planning and expenditure processes. Membership must include at least two board members, the board chair and the chief executive; the group must be chaired by a member of the board. Papers that are reviewed by the group are circulated to all board members and all board members can attend group meetings. The group reviews: the process and formulation of Watercare’s Asset Management Plan (AMP), including a review of the business drivers and the prioritisation methodology adopted within the AMP framework; the project-reporting framework; and the development of specific strategic projects. All major capital projects require approval of the full board.

The chair of the Capital Projects Working Group for 2014/15 was Dr Tony Lanigan.

Health and Safety Committee

The Health and Safety Committee helps the board to fulfil its responsibilities to employees, contractors, the public and other stakeholders in respect of Watercare’s health and safety practices. Membership must include at least two board members; at least one member

will have an engineering qualification or similar. The board chair may not chair the committee. The committee provides oversight in three areas: policy framework and specific health and safety policies; health and safety planning and reporting; and reporting of serious-harm incidents.

The chair of the Health and Safety Committee for 2014/15 was Mike Allen.

Board Observer Programme

Watercare participate in the council’s Board Observer Programme, which is designed to give aspiring directors boardroom knowledge and allow them to establish relationships and networks with current directors, in conjunction with Auckland’s council-controlled organisations (CCOs).

Accountability

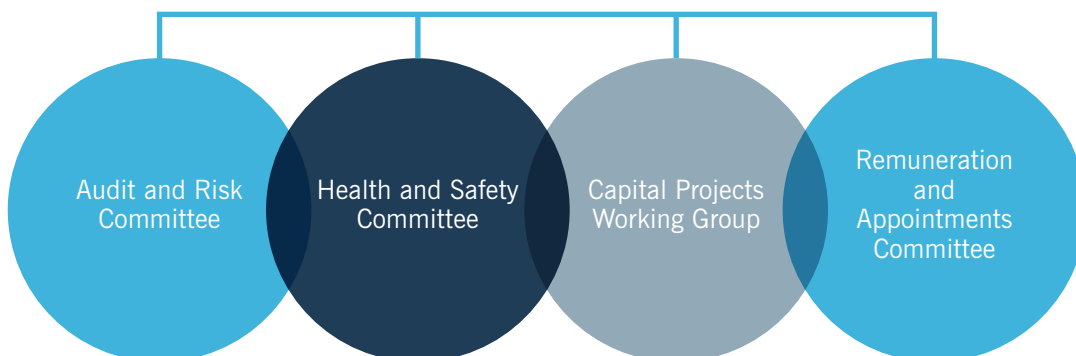
Reporting on performance

Watercare remains committed to transparent reporting. Recognising this, the company publishes:

- An annual statement of intent (SOI)
- A long-term asset management plan (AMP)
- An annual report that reports performance against the SOI and non-mandatory measures, in accordance with the Global Reporting Initiative (GRI) G4 guidelines
- An annual water-quality report
- An overview of current water-storage levels and other information (published weekly on the company website)
- Special reports and project newsletters for interested parties.

Watercare board of directors

(NON-EXECUTIVE)



The board meets at regular intervals throughout the year and invites the public to attend all public sessions of board meetings; information regarding the time and venue of meetings and the agenda is posted on the company website in advance of each meeting.

As a council-controlled organisation, Watercare is governed by the Local Government Official Information and Meetings Act 1987, which provides for the availability of official information held by local authorities to the public.

Setting standards of conduct for staff

Watercare demands the highest standards of behaviour from its staff. All policies governing the conduct of employees are published on the company's intranet including: Business Conduct and Ethics Policy, Gift and Inducement Policy, Conflict of Interest Policy, Control of Discretionary Expenditure Policy and Protected Disclosures Policy. The policies also set out the delegated authority within the organisation. Watercare's projects are subject to internal probity reviews, and external probity auditors are appointed to provide additional assurance on selected projects.

Regular independent reviews

Watercare subjects its planning, operations and reporting to regular independent review. This year, the board and the sub committees received reports from specialist advisors on risk and control issues to inform the maintenance and development of good practice and procedures. The company

is committed to a culture of continuous improvement and seeks independent feedback from specialist advisors as necessary to achieve this objective.

Risk management

Watercare's framework for risk identification, measurement and reporting is well developed, and meets the requirements of ISO 31000: 2009 Risk Management Principles and Guidelines. External reviews are carried out as required to ensure the company meets and exceeds good-practice measures in risk management.

As part of the risk-management framework, the company has established a Risk Management Steering Committee, which meets four times per year to monitor emerging risk and risk-mitigating actions and strategies. The committee comprises the chief executive, senior management, and the risk and assurance Manager. There are a number of risks that, given their significance, are monitored monthly by the board, with updates presented as risk-mitigation actions are completed.

Integrity

Corporate governance charter

The charter defines the duties and obligations of the board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties and conflicts of interest. It incorporates the principles of the Institute of Directors of New Zealand's Code of Practice for directors, relevant sections of NZX's Corporate Governance Best Practice Code,

and the former Securities Commission's nine principles of corporate governance.

Whistleblowing

The company has a specific policy to receive and deal with information about any serious wrongdoing within the company, as required by the Protected Disclosures Act 2000. Watercare's policy prescribes the ways in which its staff and others are to report matters of serious wrongdoing, and provides contacts to whom such reporting can be made. The policy defines serious wrongdoing and applies to present and past employees, and to any individual either seconded to or working for Watercare on a contract basis.

Complaints disclosure

Any complaints against the company are recorded. Targets have been set for the response to and resolution of complaints; the level of service is reported in the annual report, to the shareholder quarterly, to the board monthly and to the public at board meetings and via publication on Watercare's website.

Disclosures of interest

A register of interests for directors and senior management is maintained by Watercare and is updated as and when necessary. The interests register is a standard agenda item at every board meeting. Any disclosure of interest is recorded in the meeting minutes and the participant refrains from taking part in the discussion or voting on any related resolution.

Board participation

| Board member attendance 2014/15 | Attendance at board meetings | Attendance at Audit and Risk Committee meetings | Attendance at Health and Safety Committee meetings | Attendance at Capital Projects Working Group meetings | Attendance at Remuneration and Appointments Committee meetings | Date appointed/resigned |
|---------------------------------|------------------------------|---|--|---|--|---------------------------|
| Number of meetings | 11 | 5 | 10 | 5 | 3 | |
| David Clarke | 11 | 4 | 7* | 5 | 2 | |
| Mike Allen | 9 | 5 | 9 | 4 | | |
| Susan Huria | 6 | | 4* | | 2 | Retired 31 October 2014 |
| Peter Drummond | 9 | | | 5 | 3 | |
| Catherine Harland | 11 | 5 | 10* | 3* | 3 | |
| Tony Lanigan | 9 | 1* | 8 | 4 | | |
| Julia Hoare | 10 | 5 | 9 | 2* | 2** | |
| Nicki Crauford | 9 | | 8 | 1* | 1* | |
| David Thomas** | 7 | | 6 | | | Appointed 1 November 2014 |

* Not a member of the committee. ** Appointed part way through the year.

Global Reporting Initiative

Watercare uses the Global Reporting Initiative (GRI) guidelines to ensure the reporting of its performance aligns with worldwide best practice. The GRI is an internationally recognised framework which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators. This year, the GRI report has been prepared in accordance with the G4 'Core' Guidelines. An index of the indicators that Watercare has reported against is included on pages 118-122 of this report. With a focus on continuous improvement, the company aims to develop its reporting over the next few years so as to meet the G4 'Comprehensive' level of reporting.

Wherever possible, Watercare has reported on three years of data in order to highlight trends and changes in performance, excluding those that were introduced in 2014 or 2015.

Stakeholder inclusiveness

Watercare is accountable to a wide range of stakeholders, who are the entities or individuals that can affect or be affected by the organisation's activities. The issues that were considered important by the company's stakeholders during the year are included in the 2015 materiality assessment. This ensures that Watercare's reporting is aligned with the needs of its stakeholders.

The ways and means through which Watercare engages with stakeholders, and the outcomes of that engagement, are discussed on pages 18 and 19 of this report, along with comment from two stakeholder groups (the Mana Whenua Kaitiaki Forum and the Environmental Advisory Group) on pages 20 and 21.

Watercare has a structured process of engagement with many of its stakeholders. Media enquiries, complaints and other public interaction have helped the company to understand stakeholders' expectations.

included an assessment of customer feedback and complaints, stakeholders' meeting agendas and minutes, informal feedback, and reporting by other utility companies. Watercare has concluded that the material topics identified in 2014 continue to be relevant to our stakeholders in 2015. Issues that have been highlighted in the media in 2015 include:

- Appointment of the new chief executive (covered in 2014 annual report)
- Increase in infrastructure growth charges
- Increase in water and wastewater charges (page 5)
- The water outage in Albany in March 2015 (page 44)
- Auckland Council's pest-control water supply lakes (online biodiversity supplementary report).

The outcomes of Watercare's materiality assessment are displayed on the next page.

Two further groups of issues were identified as being material to Watercare, which have been addressed in the Governance section on pages 12 to 15:

- Shareholder engagement
- Ethics, integrity and transparency.

Watercare has taken efforts to ensure all material issues are included in its reporting, either in the 2015 annual report or the supplementary reports which will be made available online on Watercare's website www.watercare.co.nz

Watercare intends to continue using the materiality assessment process in the coming years, refining it as needed, to ensure that the report stays relevant to stakeholders and evolves as the business changes.

WITH A FOCUS ON CONTINUOUS IMPROVEMENT, WATERCARE AIMS TO DEVELOP ITS REPORTING OVER THE NEXT FEW YEARS SO AS TO MEET THE G4 'COMPREHENSIVE' LEVEL OF REPORTING.

Reporting scope

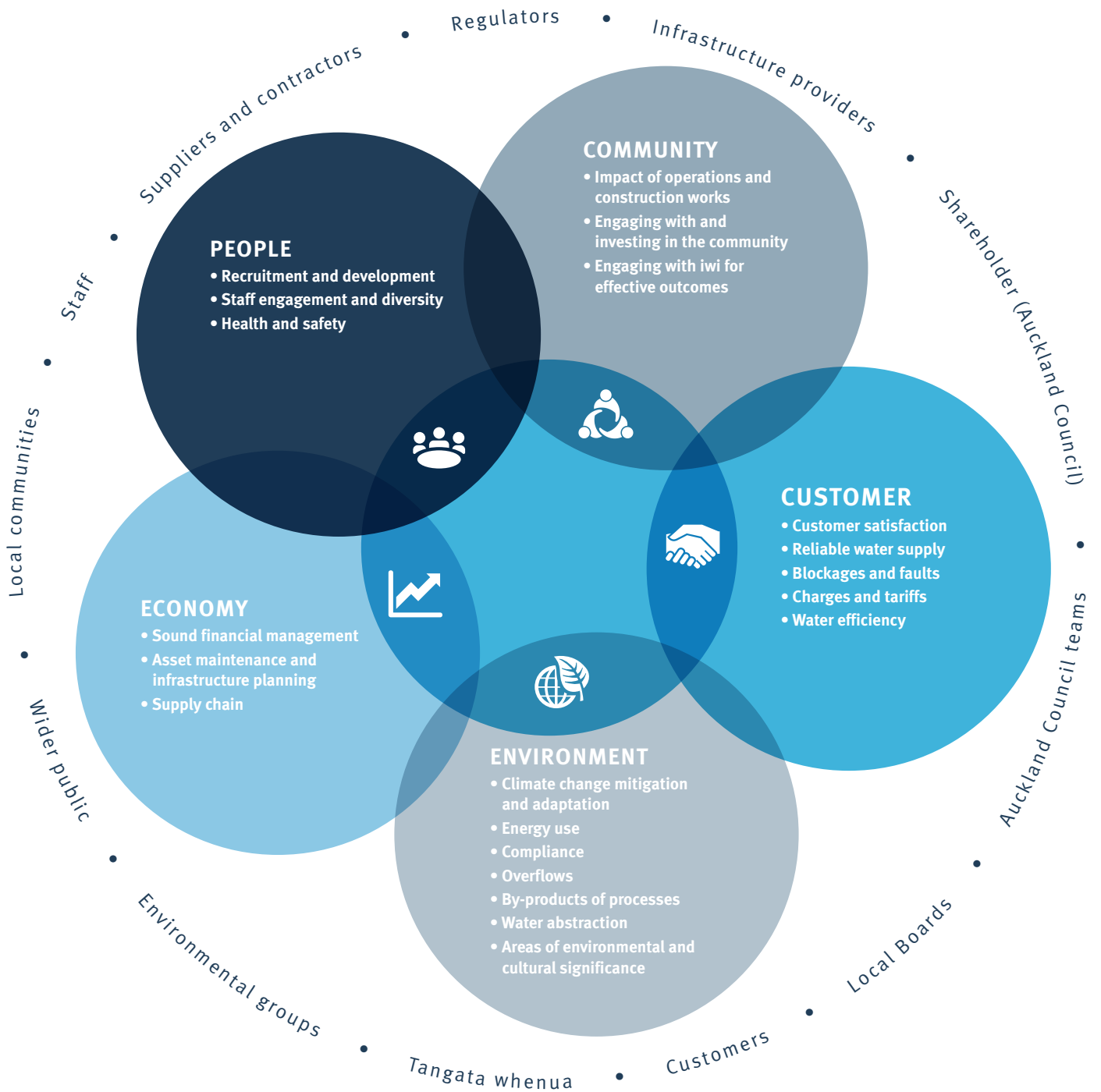
This report covers all operations managed by Watercare. The majority of the company's operations and people are located in Auckland, New Zealand. Watercare also operates two smaller laboratories in Queenstown and Invercargill (six staff members). A map of the Auckland sites is available on page 3.

Throughout this report, Watercare has listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied.

Materiality

Material matters are those that have a potentially significant impact on stakeholders, the business model or overall strategy. This year, the company updated its materiality assessment through a similar process undertaken in 2014. To identify the universe of material issues, Watercare used AccountAbility's (www.accountability.org) five-part materiality test. This test identifies material issues through: media; peer review; stakeholder feedback; internal risk-management framework; and internal policy and strategy documents. This

Material issues for 2014/15



Watercare's role as Auckland's water and wastewater provider has the ability to directly and indirectly affect the quality of life of all Aucklanders and, by extension, the economic, environmental and social well-being of New Zealand as a whole.

Recognising this responsibility, the company engages with its stakeholders through a wide range of forums. This section identifies Watercare's stakeholders, outlines how the company interacts with them and highlights what was achieved during the 2014/15 financial year.

Auckland Council as shareholder

Watercare engages by:

- Providing quarterly, half-yearly and annual performance and progress reports
- Delivering quarterly briefings
- Consulting on the development of the statement of intent (SOI)
- Giving effect to Auckland Council's major plans such as the Auckland Plan and the Long Term Plan.

What was achieved:

- Continued to contribute to key council outputs such as the 2015-2025 Long Term Plan
- Maintained support of the council's plans to accommodate growth through initiatives like the special housing areas (SHAs)
- Delivered all reports and briefings on time
- Adhered to a two-way 'No surprises' policy.

Auckland Council as service provider

Watercare engages by:

- Working closely with individual council units including planning, stormwater, parks and finance.

What was achieved:

- Continued to work with Auckland Parks on the development of a Standard Operating Procedure for approvals related to Watercare's activities in parks and reserves
- Obtained approval from Auckland Council to propose and establish the new Water Supply and Wastewater Network Bylaw 2015 and revoke the legacy water and wastewater bylaws (excluding on-site treatment)
- Continued membership of the Integrated Consents Group.

Environmental groups

Watercare engages by:

- Meeting with the Environmental Advisory Group (EAG) on a quarterly basis (refer to page 20).

What was achieved:

- Held quarterly meetings with the EAG to discuss national and regional environmental policy initiatives relevant to Watercare's activities and the environmental aspects of Watercare's projects.

Tangata whenua (Māori)

Watercare engages by:

- Quarterly meetings with the Mana Whenua Kaitiaki Forum (MWKF) and separately the Mana Whenua Kaitiaki Managers Group
- Holding blessing ceremonies at the start of infrastructure works
- Consulting on infrastructure projects, operations and business decisions that may affect the interests of mana whenua
- Participating in initiatives of Auckland Council
- Commissioning Māori Values Assessment and Cultural Impact Assessment reports as appropriate.

What was achieved:

- MWKF is fulfilling the role and objectives it identified in a formal agreement with Watercare when this forum was established (see page 21)
- Funded the preparation of a substantial wastewater resource report to enable well-informed decision-making, including a tour of wastewater treatment plants in the Waikato and Bay of Plenty regions
- Participated in initiatives of Auckland Council, such as:
 - Te Toa Takitini – Māori responsiveness high-performance work programme
 - Wai Ora – Wai Māori freshwater programme
 - Whai Rawa – economic well-being programme
- Provided technical advice to rural marae on their drinking-water facilities
- Developed and participated in innovative collaborative models with Waikato River iwi.

Local residents and community groups that neighbour Watercare's worksites

Watercare engages by:

- Keeping the wider community updated on infrastructure projects using a variety of channels, including: flyers, newsletters, door-to-door communication, advertisements, signage, Timesaver Traffic broadcasts, local resident and business association meetings; community open days; and direct mail
- Working with affected communities during infrastructure upgrades to ensure co-operation and to reduce disruption.

What was achieved:

- Engaged with communities and stakeholders during construction of infrastructure projects, e.g. Hunua 4 watermain and the Mairangi Bay Rising Main
- Community event held at Madills Farm for the public to see and learn more about the Kohimarama Wastewater Upgrade project. The event, run by Watercare staff and contractors, included entertainment and a barbecue, along with a viewing platform to enable the public to observe the construction of the tank.

Regulators

Watercare engages by:

- Participating actively in the development of relevant legislation and policy initiatives.

What was achieved:

- Participated in the development of legislation and policy relating to water and wastewater, particularly Auckland Council's Proposed Auckland Unitary Plan and various plan changes
- Proposed a new water supply and wastewater network bylaw, which has been adopted by Auckland Council.

Customers

Watercare engages by:

- Consulting with customers on topics that affect them to ensure their needs are understood and considered
- Making information available through the company website, direct mail, newsletters and the contact centre
- Analysing complaint types and looking at what the company can do better or differently to reduce issues and complaints
- Running monthly customer experience surveys
- Conducting annual customer focus groups and an annual online survey.

What was achieved:

- Introduced the standardised wastewater tariff for non-domestic customers after extensive consultation
- Developed the Be Waterwise programme for non-domestic customers to help them achieve water efficiency in their businesses and processes
- Introduced a quarterly customer newsletter (*Tapped In*), providing news and updates on Watercare's services
- Improved communication for customers to help them understand their high water use so they can take steps to address this issue
- Continued to fund the Water Utility Consumer Assistance Trust, which assists residential customers who are unable to pay their water bills due to financial hardship.

Staff

Watercare engages by:

- Holding quarterly staff briefings
- Producing staff newsletters such as *YourSource* and *HomeSafe*
- Surveying its employees annually
- Conducting annual performance reviews
- Providing opportunities for training and development
- Working with staff to ensure a safe workplace is maintained
- Providing life insurance and income continuity insurance.

What was achieved:

- The staff engagement score improved by five points to 68, from last year's result of 63; it's been classified as a meaningful increase by IBM Kenexa, which conducts the staff survey
- Increased staff training by 77 per cent, from 22 hours per staff member last year to 38.9 hours.

Wider public

Watercare engages by:

- Holding Watercare board meetings open to the public and inviting comment on the SOI measures annually
- Publishing official information in accordance with statutory obligations
- Publishing information about the company's policies, services and other news on its website
- Running a free education programme to schools across Auckland to increase awareness about water and wastewater
- Continuing efforts to improve public amenities at Mangere, such as the Watercare Coastal Walkway
- Supporting the Watercare Harbour Clean-Up Trust and Round the Bays fun run, as well as providing water at selected community events.

What was achieved:

- Responded to 31 requests for information made under the Local Government Official Information and Meetings Act (1987); average response time was 4.2 days
- More than 32 schools participated in 328 water lessons as part of Watercare's Education Programme
- Restored a bird roost on the Watercare Coastal Walkway, with assistance from volunteers
- Nearly 30 million pieces of litter have been removed from the harbours around Auckland since the establishment of the Watercare Harbour Clean-Up Trust
- Participated in eight public shows/events, in partnership with EcoMatters Environment Trust, to promote waterwise behaviours and tips to Auckland residents
- Accepted and arranged for 53 activity requests related to site visits and tours of Watercare's facilities.

Local Boards

Watercare engages by:

- Providing regular updates to Local Boards on relevant issues in their local areas
- Discussing landowner approvals for infrastructure upgrades in local parks
- Sharing information on important changes affecting Watercare.

What was achieved:

- Engaged with Local Boards in response to infrastructure upgrades, operational network maintenance and issues in their local areas
- Worked with Auckland Council Parks and Local Boards on landowner approvals for works in several parks, including: Mairangi Bay Park, Madills Farm, Sunnynook Park, Van Damme's Lagoon and Wainoni Park
- Consulted with Local Boards on the regional water and wastewater bylaw review.

Suppliers and contractors

Watercare engages by:

- Managing supplier relationships through either the business units or the procurement team.

What was achieved:

- Held regular briefings with suppliers where they were presented Watercare's new strategic framework, especially regarding aspects like health and safety, and sustainability.

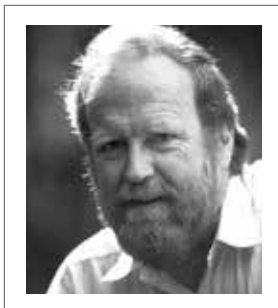
Infrastructure providers

Watercare engages by:

- Participating in the Auckland Infrastructure and Procurement Group forums and working groups including other CCOs
- Continuing to work closely at technical and managerial levels with Auckland Transport, the Auckland Motorway Alliance, New Zealand Transport Authority (NZTA) and other infrastructure providers to plan and deliver complex infrastructure solutions in the road and motorway corridors
- Co-ordinating planned major works with Auckland Transport teams to ensure 'best for Auckland' outcomes
- Participating in a regular co-ordination forum with Vector to explore future corridor-sharing opportunities
- Working with industry experts early during design processes to ensure the delivery of sustainable outcomes.

What was achieved:

- Developed procurement initiatives through the Auckland Infrastructure and Procurement Group, resulting in benefits like the shared Auckland geotechnical database and commencement of work on standardising pre-qualification processes
- Awarded contracts, in conjunction with Auckland Transport, using Entrusted Works Agreements for the delivery of works in common road corridors (e.g. Fred Taylor Drive and the Panmure Wastewater Rising Main)
- Partnered with NZTA on the Kirkbride Alliance project, ensuring co-ordinated delivery of infrastructure on this vital airport link
- Engaged in detailed planning and consultation with the Auckland Motorway Alliance in developing a design for a new pipeline crossing on the Greenhithe Bridge
- Successfully implemented the practice of Early Contractor Involvement (ECI) during the design and consenting phases of key projects, bringing added value to the design process.



20 June 2015

Now in its 14th year, the Environmental Advisory Group continues to provide independent advice to Watercare on the provision of and upgrades to water supply and wastewater services across the region. The advice comes largely from an environmental background and is based on the collective experience of the Group's members and their involvement in a variety of community environmental organisations. The Group sees its role as providing a channel for Watercare to test the environmental approach to different projects and programmes at various stages.

The Group has continued to work closely with Watercare to advise and question Watercare on how it responds to and addresses the environmental aspects of providing an integrated water supply and wastewater services across the region.

Of particular importance this year was the commencement of the Independent Hearings Panel on the Proposed Auckland Unitary Plan. The Group advised on Watercare's input to the Proposed Auckland Unitary Plan on selected topics of interest. In particular, the subjects of urban growth, mana whenua, biosolids, water takes/allocation and wastewater discharges were of interest to the EAG. These matters have significant implications for Watercare's operational and maintenance activities as well as for Auckland's environment.

This year also involved the notification of the Water Supply and Wastewater Networks bylaw. The Group engaged with Watercare during this process, acknowledging the company's need to manage water supply and wastewater networks.

Other areas in which the EAG has been actively engaged with Watercare over the past year include:

- Auckland Council's review of CCOs including Watercare
- Watercare's major water and wastewater projects
- Operation and maintenance of Watercare's significant wastewater infrastructure
- Implications of the implementation of the National Policy Statement for Freshwater Management
- Events associated with Watercare's water reservoirs in the Hunua Ranges
- Biosolids management.

These issues will continue to be critical for Watercare and we look forward to continuing to work with the company in the year ahead.



Paul Walbran
Chairman
Environmental Advisory Group

MEMBERS

Paul Walbran
Water quality, harbour health
and heritage

Ken Catt
The water cycle

Carol McSweeney
Air quality, ecosystems and botany

Judy Bischoff
Water and land use, and energy

Bob Tait
Biosolids



30 June 2015

Kaitiaki – kaitiakitanga mauri – pupiri i te Mauri Kaitiaki mena ka tau te mauri i te taiao ka tau te orange o te ira tangata.

*If the life force of the environment is in balance, the well-being of mankind is assured.
(Mission Statement, November 2012)*

The Mana Whenua Kaitiaki Forum has continued to meet quarterly in pursuit of the work programme agreed with Watercare. Up to 30 June 2015, the priorities of the work programme were:

1. To maintain strong relationships amongst members and ensure difficult issues are canvassed openly
2. To provide specialist advice and guidance on Watercare’s infrastructure projects within each mana whenua area of interest
3. To develop a view on future freshwater management in a context of population growth and environmental improvement
4. For the chairman of the Forum to meet with Watercare’s chairman and chief executive to share views on the strategic development of water and wastewater, and management of harbours.

This work programme has been taken forward by both the Forum and its operational group of Kaitiaki Managers from each mana whenua entity. The Forum has developed a broad role with regard to water management in Tāmaki and is working actively with Watercare, Auckland Council and the Ministry for the Environment in developing a shared understanding of the key issues facing water management as a basis for giving effect to the National Policy Statement for Freshwater Management and the delivery of quality water services to the region.

The Kaitiaki Managers group of the Forum receives regular reports on the state of the region’s three harbours; this will continue in the next year as a basis for understanding how to improve harbour management. Representatives of the Forum and Watercare visited a number of wastewater management sites in August and prepared a report on the relevance of these to kaitiakitanga and in regard to wastewater management in Tāmaki. These activities demonstrate that the Forum is working through its business in an effective manner and, increasingly, is being seen as the go-to place within Tāmaki to review the increasingly important intersection between mana whenua interests and water management.

In light of the increasing requests by other agencies to access the Forum and the significant regional and national water-management issues currently being faced, the Forum is considering expanding its mandate to provide a more formal basis on which to address these matters.

Throughout the year, I have met with the Watercare chief executive several times to discuss matters that have been central to the work of the Mana Whenua Kaitiaki Forum. Finally, I would like to acknowledge the important role played by the late Mark Ford in the establishment and the ongoing development of the Forum.



Tame Te Rangi
Chair
Mana Whenua Kaitiaki Forum

MEMBERS

Mook Hohneck
Ngāti Wai Trust Board,
Ngāti Manuhiri Settlement Trust

Nicola MacDonald
Ngāti Rehua Ngātiwai Ki Aotea Trust

Deborah Harding
Te Uri o Hau Settlement Trust

Tame Te Rangi (Chair)
Te Rūnanga o Ngāti Whātua

Waata Richards
Ngāti Whātua o Kaipara

Grant Hawke
Ngāti Whātua o Ōrākei Māori
Trust Board

Janice Roberts
Makaurau Marae Māori Committee

Karen Wilson
Te Akitai Waiohūa Iwi Authority

Dennis Kirkwood and Warahi Paki
Ngāti Tamaoho Trust

Dame Nganeko Minhinnick
Te Ara Rangatū o Te Iwi o
Ngāti Te Ata Waiohūa

Dave Beamish
Ngāi Tai Ki Tāmaki Tribal Trust

Hemi Rau
Waikato Tainui Te Kauhanganui
Incorporated

Waati Ngamane
Ngāti Maru Rūnanga

David Williams
Te Patukirikiri Iwi Incorporated

Michael Barker
Ngāti Whanaunga
Incorporated Society

Liane Ngamane
Ngāti Tamaterā Treaty
Settlement Trust

Miria Andrews
Ngāti Paoa Trust



SAFE AND RELIABLE WATER

Managing water resources to provide a safe and reliable water supply

Fresh water is a vital resource, essential for the health and well-being of everyone. Rain collected in the Waitakere and Hunua Ranges is stored in Watercare’s nine water supply lakes before being treated and delivered to customers across Auckland. Watercare also draws water from the Waikato River and an underground supply in Onehunga. Smaller ground and river sources supply outlying rural communities.

Air Quality Technician Jason Thongplang carries out water-quality testing in the Huia catchment in the Waitakere Ranges.







WATERCARE AT WORK

Issues Management Advisor Lisa Rademakers at the Clarks Beach opening.

Transforming Franklin's water supply

The opening of the Clarks Beach Reservoir in June 2015 marked the end of a four-year, \$116-million Watercare project to transform Franklin's water supply. Franklin Local Board members, Clarks Beach residents and Watercare staff attended the open day at the reserve on Leaming Place.

Watercare's chief executive, Raveen Jaduram, says the extensive infrastructure programme implemented for Franklin means every Aucklanders now enjoys drinking water of the highest quality.

"When we took over the water supply infrastructure from Franklin District Council when the Super City was formed in 2010, most of the local treatment plants were producing water that did not comply with the Ministry of Health's standards. The former Franklin District Council had been unable to carry out the necessary upgrades to the water network because of its relatively small population that was expected to fund the work.

"Remedying this situation became an immediate priority and we began instigating a range of short- and long-term initiatives to address the problems we inherited. I'm thrilled that water quality is now as safe and reliable throughout the Franklin area, as it is in every other Auckland household or business."

As part of the improvements programme, the company upgraded the Pukekohe Water Treatment Plant in 2011 by adding membrane filters to the treatment process. These filters were able to remove any traces of manganese from the water, which – while naturally occurring and safe from a health perspective – would sometimes discolour the water.

What followed was a major project to supply homes and businesses in Pukekohe, Buckland, Patumahoe, Clarks Beach, Waiu Pa and

Glenbrook with water from the Waikato Water Treatment Plant, overcoming both quality and capacity issues. This involved constructing new water mains and a pump station, upgrading four water storage reservoirs and decommissioning six ageing treatment plants.

At Clarks Beach, Watercare has replaced an undersized, above-ground wooden reservoir with an underground concrete one that holds 1.1 million litres of water – more than double the capacity of the old reservoir. This not only improves the security of the area's water supply but also enhances the reserve by allowing for more open space. In addition, the project included construction of a new 17-kilometre water pipe between Patumahoe and Clarks Beach.

Franklin Local Board member Alan Cole says the project was crucial to improving the water supply and ensuring it can cope with the area's expected population growth. "It's fantastic to see the project not only completed but also the reserve restored with landscaping, new grass and plants.

"Watercare has done a great job in completing the project and keeping residents and local stakeholders informed on progress. This restoration marks the end of a much-needed project and it's great to finally reopen the reserve for residents to enjoy," says Alan.

"The project is an excellent example of how the Auckland-wide integration of water and wastewater services in 2010 is benefiting rural communities," Raveen says. "Our paramount objective from the beginning has been to ensure a safe and reliable water supply for everyone in Auckland – regardless of where they live – and this is what we have achieved in Franklin."

Percentage compliance with Ministry of Health drinking water standards for graded plants (excluding minor or technical non-compliance)

2013/14 SOI TARGET: 100%
ACHIEVED: 100%

Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. Compliance with Drinking Water Standards New Zealand (DWSNZ) is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed Drinking Water Assessor. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.



Percentage of metropolitan water treatment plants achieving Grade 'A'

2013/14 SOI TARGET: 100%
ACHIEVED: 100%

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. All metropolitan water treatment plants were graded and each maintained an 'A' grade, meeting the target for 2013/14. The target for 2014/15 is 100%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.



EVERY PROPERTY CONNECTED TO THE METROPOLITAN NETWORK RECEIVES Aa GRADE WATER.

Percentage of non-metropolitan water treatment plants achieving Grade 'A'

2013/14 SOI TARGET: 45%
ACHIEVED: 50%

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). Out of 14 non-metropolitan water treatment plants, 6 were graded and achieved an 'A' grade. Four water treatment plants were not graded and four water treatment plants were decommissioned at the end of 2014, with the completion of the Southern Networks Upgrade programme. The target for 2014/15 is 50%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.



Percentage of metropolitan water supply reticulation achieving Grade 'a'

2013/14 SOI TARGET: 100%
ACHIEVED: 100%

Watercare continued to meet this target. The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. All metropolitan distribution networks were graded and each maintained an 'a' grade, meeting the target for 2013/14. The target for 2014/15 is 100%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.



Percentage of non-metropolitan water supply reticulation achieving Grade ‘a’

2013/14 SOI TARGET: 25%
ACHIEVED: 64%

Watercare continued to meet this target. The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. Out of the 11 non-metropolitan grading zones, seven have achieved an ‘a’ grade; these are the Huia Village, Glenbrook, and the five Rodney zones. The remaining four Franklin zones were not graded. The target for 2014/15 is 50%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.



Unplanned water shutdowns restored within five hours

SOI TARGET: 95%
ACHIEVED: 96.42%

Watercare continued to meet this target. In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 96.42% for the Auckland region.



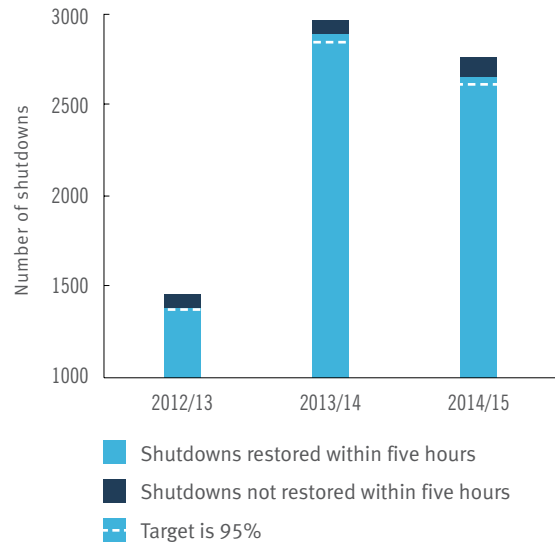
Number of unplanned water interruptions per 1,000 connections

SOI TARGET: <10
ACHIEVED: 6.6

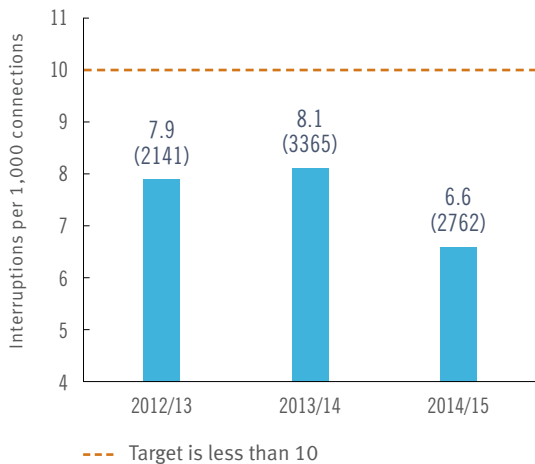
Watercare continued to meet this target. The Auckland region covers a total of 417,000 water supply connections. As a measure of reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 6.6 for the Auckland region.



Unplanned water shutdowns restored within five hours



Unplanned water interruptions



Common note for unplanned water interruptions and unplanned water shutdowns: The 2012/13 performance does not include results for central region, only northern and southern regions. A new process was being developed to enable reporting of central region results for 2013/14.



Water Supply Manager Nolwenn Lagadec discusses the new thickened sludge pump arrangement at Waikato Water Treatment Plant with Operations Controller Stuart Urquhart.



HEALTHY WATERWAYS

Managing wastewater discharges to maintain or improve the health of the environment

Watercare is committed to maintaining the health of Auckland's harbours, estuaries and waterways. The company owns and operates 18 wastewater treatment plants and an extensive network of wastewater pipes that collect and treat the majority of Auckland's wastewater to a very high standard.

Process Engineers Yan Sun, Chris McKenzie and Clemence Carlinet oversee the treatment processes at Mangere Wastewater Treatment Plant. The plant is Auckland's largest, treating around 300 million litres of wastewater, on average, each day.







WATERCARE AT WORK

Central Control Room Operator Arney Dickey, Wastewater Transmission Manager Chris Harbour, Wastewater Operations Manager Mark Bourne and Asset Specialist Graham Nairn allocate generators during the power outage in October 2014.

Wastewater team demonstrates resiliency during power outage

When we flush a toilet or take a shower, we don't give it a moment's thought; we just take for granted that the wastewater system will work the way it is supposed to and get on with our lives. Last October's widespread power outage in Auckland reaffirmed just how seamlessly efficient these systems are, even during an emergency.

When the alarms at Watercare's central control room at Newmarket went off just after 2.30am on the morning of 5 October, the wastewater team realised that 12 of its major wastewater pump stations were without power, due to a massive power outage.

The team began assembling at the Newmarket control room to tackle the issue; they immediately implemented the incident management plan and began mobilising generators to get the pump stations running again.

Wastewater transmission manager Chris Harbour says, "Our pump stations need power to pump the wastewater to the treatment plants. Because of our priority agreement, we were one of the first to procure generators and were able to prioritise these towards the bigger pump stations and allocate vacuum loader trucks for the smaller ones."

Wastewater operations manager Mark Bourne, who was the designated incident controller at the time of the outage, adds "In fact, hours before Aucklanders woke up and realised there was a power cut, our response plan was already in action. Overall, we were able to contain the wastewater in our networks, and as a result, we prevented widespread wastewater overflows into the environment.

"The systems continued to work because of the competence and dedication of the team. Staff, contractors and suppliers gave up their Sunday to come in and do their part. The scale of the outage meant that we needed more hands on deck than our on-call capacity provided – so, other electricians, fitters, technicians and field staff were contacted with very little notice but everybody worked tirelessly to do their part," acknowledges Mark.

Around 50 pump stations were impacted by the outage for more than 24 hours; most of them had their power restored by the following morning. Although thousands of properties were without power for more than a day, residents were able to use their water and wastewater services throughout the outage.



Overall percentage of wastewater discharged compliant with consent conditions (excluding minor or technical non-compliance)

TARGET: 100%

ACHIEVED: 98.36%

Watercare achieved an overall compliance level of 98.36% with consent requirements against a target of 100% at its wastewater treatment plants on a volumetric basis. This is excluding minor and technical breaches, which are defined as transient, short-term transgressions from discharge consent standards that have no material long-term effect on the environment. The performance this year was affected by two factors: there was a one-off, three-day non-compliance incident at Mangere Wastewater Treatment Plant in December 2014 where huge inflows caused by storms overloaded the secondary treatment process and limited its effectiveness; the poor performance of some of the non-metropolitan wastewater treatment plants transferred to Watercare during integration also impacted the overall performance. There are upgrade programmes under way to improve the non-metropolitan plants' performance.



Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for metropolitan areas

SOI TARGET: 100%

ACHIEVED: 99.22%

Compliance with consents at the metropolitan wastewater treatment plants was 99.22% against a target of 100%. This result was due to a one-off, three-day incident at Mangere Wastewater Treatment Plant in December 2014 where huge inflows caused by storms overloaded the secondary treatment process and limited its effectiveness.



THE MAJORITY OF AUCKLAND'S WASTEWATER IS TREATED IN THE MANGERE AND ROSEDALE WASTEWATER TREATMENT PLANTS.

Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-metropolitan areas

SOI TARGET: 35%

ACHIEVED: 77%

There was significant work undertaken this year to improve the performance of some of the non-metropolitan wastewater treatment plants inherited by Watercare from local councils during integration. As a result, the non-metropolitan plants performed at 77% against a target of 35%, which is well on track in achieving 100% compliance on this measure by 2020.



Number of successful Resource Management Act (RMA) prosecutions against Watercare

SOI TARGET: 0

ACHIEVED: 0

There were no Resource Management Act prosecutions during the year.



Resource consent compliance

At 30 June 2015, Watercare held 466 active resource consents for its products and facilities; this was a reduction from last year due to the surrender of multiple discharge and ground water consents that were superseded. Watercare achieved a monthly average of 99% compliance with the active conditions associated with these consents. Watercare assigns a compliance risk rating (low, medium, or high) to each consent condition based on its potential to result in an adverse effect on the environment if the condition is not met. Of the 1% of conditions that are non-compliant each month, an average of 0.5% per month are high risk conditions. The level of compliance has stayed consistent since last year.

Non compliances with high risk conditions relating to water supply and treatment facilities included:

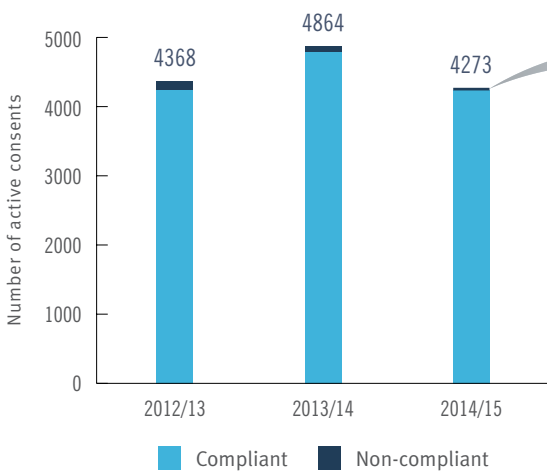
- Over extraction of ground water sources in the Franklin area. With most of northern Franklin now connected to the water supply from the Waikato, these are the three remaining bores in Waiuku that present a risk of future non-compliance. New water sources for Waiuku are being investigated.

Non compliances with high risk conditions relating to wastewater treatment facilities included:

- Exceedances in the discharge standards, either in volume or quality; there were exceedances in the discharge standards at several of the non-metropolitan treatment plants. Watercare inherited these plants from the former councils and is working to upgrade the plants to resolve non-compliance issues. All plants with non-compliant conditions are either programmed for an upgrade and/or are in the process of having their resource consents renewed.

Watercare has investigated each of these non-compliances and is satisfied that there were no adverse effects on the environment. There have been no sanctions, fines or enforcement actions brought against Watercare for the above matters, nor have there been any complaints.

Resource consent conditions



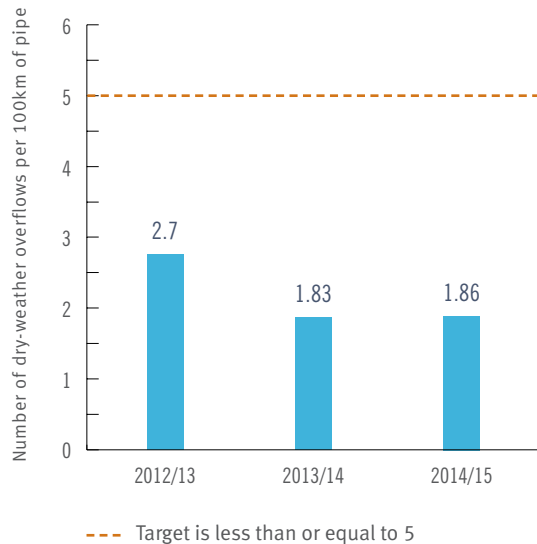
Number of dry-weather sewer overflows per 100km of pipe

SOI TARGET: ≤ 5
 ACHIEVED: 1.86

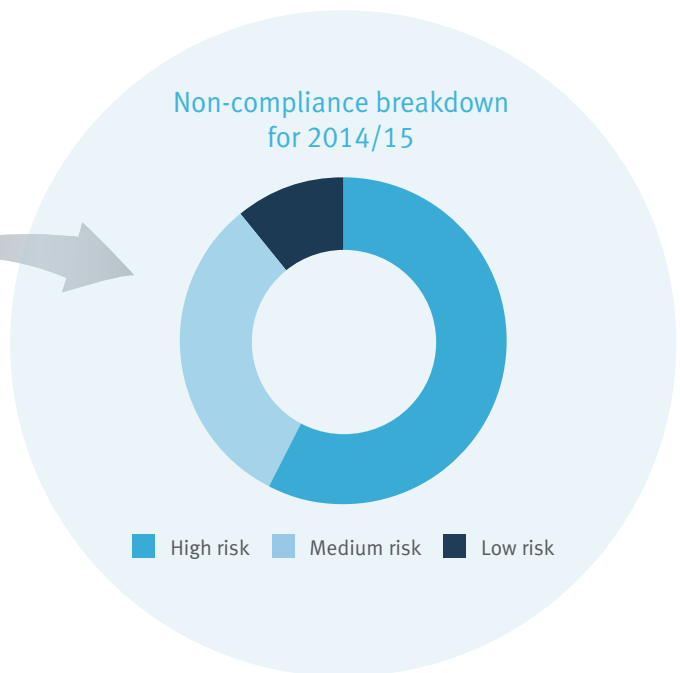
Watercare continued to meet this target. The company reports on the number of wastewater overflows from its retail network during dry weather as a measure of the network's capability to meet current demand. The result for the year was 1.86 overflows per 100km of wastewater pipes, which is well under the target limit of five or fewer.



Dry-weather overflows



Non-compliance breakdown for 2014/15



Average number of wet-weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks

SOI TARGET: To have the Auckland-wide wastewater network discharge consent application lodged and consent operational

The Auckland Wastewater Network Comprehensive Discharge Permit (NDC) was granted on 17 June 2014 for a period of 35 years. NDC provides a standard framework for regulating both wet weather and dry weather overflows from the majority of Watercare’s existing metropolitan and satellite networks. As part of Watercare’s deliverables for this compliance framework, there are four key work packages which will be progressed over the next 12 months:

- Annual Performance Report
- Network Strategy Plan
- Inflow and Infiltration Programme
- Targeted (Environmental) Monitoring Programme.



Number of sewer bursts and chokes per 1000 properties

SOI TARGET: < 10
ACHIEVED: 7.7

Watercare continued to meet this target. The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. The target is to achieve fewer than 10; the result for the year was 7.7 for the Auckland region, which is well under the target limit.



Pupils of Waterlea School with Operations Technician Chris Garton on the Watercare Coastal Walkway. The students participated in a Watercare-led project to produce informative posters on the birds that inhabit the Manukau Harbour.

03

HEALTHY, SAFE AND ENGAGED TEAM

Building an industry-best
workplace

Ensuring the health, safety and well-being of staff and contractors is a key focus for Watercare. This includes making personal and process safety everyone's responsibility and delivering targeted training programmes to improve health and safety outcomes. The company is committed to ensuring that a culture of zero harm is well embedded.

Sampling Technician Sam Malalasekara (left) and Environmental Sampling Team Leader Emma Anderson (right) receive advice on safe lifting techniques from two-time Olympian and Commonwealth Games gold medallist Richie Patterson (centre).







WATERCARE AT WORK

Reactive Works Supervisor Tony Higgins and Serviceperson Joe Cox select tools from their newly designed truck.

Improved safety for maintenance trucks

Watercare's fleet of network maintenance trucks is on call 24/7, 365 days a year, throughout central Auckland, responding to anything from a burst watermain to a blocked wastewater pipe. A recent redesign of the trucks has significantly improved the safety of the crew and the efficiency of the maintenance operations.

Maintenance Service Network (MSN), Watercare's in-house network maintenance team, employs more than 100 people and maintains a fleet of purpose-designed vehicles for the varied types of work involved.

These trucks carry different types of equipment: often not just the tools that are required for repairs but also gravel, cement and asphalt for reinstating footpaths after repairs have been made, as well as traffic-management equipment like cones and traffic advisory signs. Because of the conventional design of the old trucks, materials were placed on top of one another on the same deck, creating potential hazards for the crew and the public. If the crew members had to undertake some reinstatement work, they had to first remove the other tools and signage to access the gravel and hot mix and to use the tipping deck. This meant additional manual handling to unload and reload after the work. It also meant the jobs took longer to complete. The manual handling and repetitive action of lifting heavy loads increased the risk of injuries too.

When the old fleet was up for a renewal of lease and replacement, MSN used the opportunity to enhance the safety and operational efficiency of these trucks through better design. It engaged a local professional vehicle-body fabrication company and ensured representatives from the field crew were extensively consulted to gain an understanding about how the trucks were being used.

The crew's contributions were also sought on ways to make the vehicles be more user-friendly, safer and more efficient. The basic idea behind the new design was 'there is a place for everything and everything in its place'.

The crew provided information on the sizes and dimensions of tools and equipment they used, the frequency of use and what aspects of their old trucks they found frustrating and limiting. Based on their feedback, the design of the trucks was customised and several innovative features were introduced.

The innovations include: compartmentalised, lockable drawers for the tools; an external roller door to ensure all equipment remains secure inside the truck while in transit; a 'door-open' buzzer to alert the driver; a lockable, overhead pipe rack for stowing pipes securely and hygienically; easy access onto the deck space by means of non-slip, reflectorised steps which are lit at night; a sliding vice with an adjustable lock position to make work tasks safer and more efficient; electronic lifting devices to ensure items weighing up to 60 kilograms can be lifted and lowered without strain or injury; LED side lights and high-visibility tape around the tailgate and at the top of the trucks; and a rail on which to hang the crew's wet-weather gear and dirty clothes.

"Crew and public safety is paramount," says Chris Kinley, Manager, Maintenance Services. "These trucks are practically second homes for our crew and we wanted to ensure that they were able to carry out their work in a safe and convenient way. That's why it was very important for us to incorporate their feedback in the improvements. Our teams love the new fleet; it's improved their work environment and our ability to respond to faults effectively."

Staff engagement survey

The staff engagement survey response rate remained high for this year's survey at 87% and the overall engagement score showed a meaningful increase from 63 in 2013/14 to 68 this financial year, as classified by IBM Kenexa, which conducts the survey. Since the survey began, there has been a consistent improvement in the engagement score. The 2014/15 results reflect a significant improvement as a result of increased senior management visibility and improved internal communications across the business, both of which were highlighted as focus areas in the previous year's survey feedback. The IBM Kenexa external benchmark score for staff engagement is 71; this includes 146 New Zealand organisations drawn from local government, central government and large private organisations (greater than 400 employees).

| | 2012/13 | 2013/14 | 2014/15 |
|--------------------------|---------|---------|---------|
| Survey response rate (%) | 67% | 86% | 87% |
| Staff engagement score | 59 | 63 | 68 |

Investment in permanent employees

Watercare's benefits policy provides for all permanent employees to receive the same benefits regardless of whether their employment status is full time or part time. Accordingly income protection and life insurance cover is offered to both full-time and part-time employees.

Performance review process

Watercare conducts performance reviews annually for every permanent employee who is on an Individual Employment Agreement (IEAs). These were conducted in August 2014 for 96% of those that were eligible. Staff under Collective Employment Agreements (CEAs) are exempt from the review process, as their performance is assessed according to the terms of their collective employment agreement.



ALL OUR EMPLOYEES RECEIVE THE SAME
BENEFITS REGARDLESS OF WHETHER THEY ARE
FULL TIME OR PART TIME.

Workforce employment breakdown

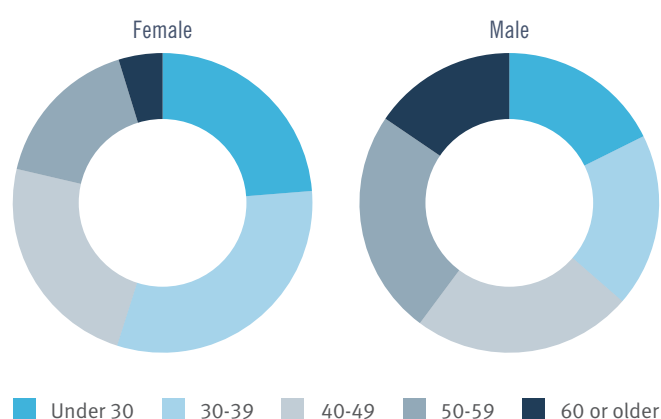
The number of staff has increased by 6.5% in the 2014/15 financial year. This reflects a continued reduction in the use of contract staff and the insourcing of work that was previously outsourced.

The majority of Watercare's employees are employed in the Auckland region. There are a total of three staff employed in Queenstown and three staff employed in Invercargill, where Watercare operates laboratory testing services.

Collective employment agreements (CEAs) are employment agreements negotiated with one or more unions on behalf of those staff who belong to that union. Individual employment agreements (IEAs) remain the most common type of employment agreements.

The majority of employees employed on CEAs are males who undertake operational or maintenance functions within the business.

Employees' age groups



| | | 2012/13 | | | 2013/14 | | | 2014/15 | | |
|--|---|------------|------------|------------|------------|------------|------------|------------|--------|-------|
| | | Male | Female | Total | Male | Female | Total | Male | Female | Total |
| Permanent Employees: | Individual Employment Agreements (IEA) | 590 | 371 | 245 | 616 | 396 | 265 | 661 | | |
| | Collective Employment agreements (CEA) | 126 | 141 | 2 | 143 | 141 | 1 | 142 | | |
| | Part-time Headcount | 15 | 3 | 10 | 13 | 3 | 11 | 14 | | |
| Fixed-term Employees: | Fixed Term Individual Agreements (IEA) >1yr | 2 | 9 | 3 | 12 | 7 | 7 | 14 | | |
| | Fixed Term Individual Agreements (IEA) <1yr | 18 | 5 | 9 | 14 | 8 | 11 | 19 | | |
| Total fixed-term and permanent employees: | | 751 | 529 | 269 | 798 | 555 | 295 | 850 | | |
| Casual Employees: | Casuals Headcount | 21 | 10 | 12 | 22 | 11 | 16 | 27 | | |

HEALTHY, SAFE AND ENGAGED TEAM

Training per staff member

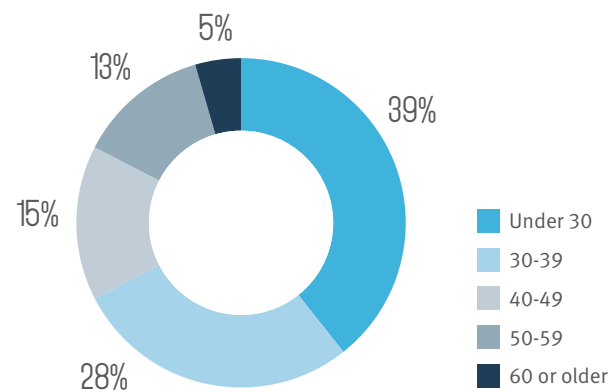
The training hours per employee for 2014/15 have increased significantly by 77% over that of the 2013/14 result and reflects an ongoing commitment by Watercare to training and development at all levels of the organisation. It also reflects the significant commitment that has been made to increased health and safety training and management development training during the past 12 months.

| | 2012/13 | 2013/14 | 2014/15 |
|--|---------|---------|-----------|
| Average staff numbers over the year | 704 | 742 | 791 |
| Average hours of training for perm employees | | 22.0 | 38.9 |
| Male | | 24.4 | 44.0 |
| Female | | 17.2 | 26.0 |
| Full time | | 21.8 | 36.0 |
| Part time | | 31.2 | 16.0 |
| Casual | | - | - |
| Total training spend (\$) | 731,000 | 711,000 | 1,113,367 |
| Ratio (\$ per average staff numbers) | \$1,038 | \$958 | \$1,407 |

New hires by gender

| | 2012/2013 | 2013/2014 | 2014/2015 |
|--------|-----------|-----------|-----------|
| Male | 104 | 97 | 110 |
| Female | 72 | 56 | 68 |
| Total | 176 | 153 | 178 |

New hires by age group



IN 2014/15, OUR STAFF RECEIVED 77% MORE TRAINING THAN THE YEAR BEFORE.

Salary ratio: percentage remuneration for women as compared to men in same job band

Staff ratio is calculated as the percentage of women in each salary band. Salary bands enable an equal remuneration based on the type of job and the experience of the person. Salary ratio is the percentage of remuneration women in a particular job band are paid compared to men in the same job band. The salary ratio has decreased against that of the previous financial year. At the senior management level the change reflects the resignation of a female employee during the financial year. Individual salaries are not reported to protect

confidentiality. Data does not include the Chief Executive, as it is the sole role in the band, nor staff employed in operational roles under CEAs who are paid on a different grading system relative to the terms of their particular employment agreement, although it should be noted that there is no difference in remuneration levels between male and female staff in any of the collective employment agreements i.e. both male and female staff are remunerated at an equivalent level for the specific role being undertaken.

| | | | Numbers | | | |
|---|---------------------|----------------------|--------------|----------------|---------------------|----------------------|
| | Staff ratio 2013/14 | Salary ratio 2013/14 | Male 2014/15 | Female 2014/15 | Staff ratio 2014/15 | Salary ratio 2014/15 |
| Executive and senior management (Band 10) | 10% | 99% | 18 | 1 | 5% | 65% |
| Management (Band 8 to 9) | 18% | 94% | 51 | 11 | 18% | 90% |
| Technical (Band 5 to 7) | 28% | 94% | 238 | 103 | 30% | 92% |
| Operational and support (Band 1 to 4) | 67% | 92% | 101 | 176 | 64% | 93% |

Percentage of voluntary leavers relative to number of permanent staff

SOI TARGET: ≤ 12%
ACHIEVED: 10.9%

Voluntary staff turnover for the 2014/15 year was 10.9% down from the previous year and is at the lower end of the target percentage. This is a reflection, in part, of the ongoing stability in employment retention resulting from the decision in late 2013 to centralise the company's support activities in the Newmarket office.



Involuntary staff turnover

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2014/15, there were 22 instances of involuntary turnover or 2.8%, down a third from 2013/14.

| | 2013/2014 | 2014/2015 |
|--------|-----------|-----------|
| Male | 29 | 19 |
| Female | 2 | 3 |

| Age group: | 2013/2014 | 2014/2015 |
|-------------|-----------|-----------|
| Under 30 | 9 | 2 |
| 30-39 | 7 | 5 |
| 40-49 | 4 | 7 |
| 50-59 | 5 | 6 |
| 60 or older | 6 | 2 |
| Total | 31 | 22 |

Breakdown of voluntary and involuntary turnover



For 2012/13, involuntary turnover was not reported.

Parental leave and returners

The company holds open the roles of all employees who elect to take parental leave. In 2014/15, the company introduced a policy to encourage staff to return to work following their parental leave by providing both financial support and flexibility regarding working hours upon returning to work. The decision to return to work following the completion of their parental leave is solely up to the staff member and is dependent on their individual personal circumstances. This year three staff members made a decision not to return following the completion of their parental leave period, although it should be noted that this was prior to the implementation of the new parental leave policy.

| | | 2012/13 | 2013/14 | 2014/15 |
|---|--------|--------------|---------|---------|
| Number who have taken parental leave | Male | not reported | 5 | 1 |
| | Female | 8 | 13 | 18 |
| | Total | 8 | 18 | 19 |
| Number who have come back from parental leave | Male | not reported | 5 | 0 |
| | Female | 4 | 7 | 5 |
| | Total | 4 | 12 | 5 |
| Percentage returning after parental leave | | 100% | 86% | 63% |



WATERCARE INTRODUCED A POLICY TO ENCOURAGE STAFF TO RETURN TO WORK FOLLOWING THEIR PARENTAL LEAVE BY PROVIDING FINANCIAL SUPPORT AND FLEXIBILITY.

Health and safety committees

In 2015, Watercare magnified its focus on establishing health and safety (H&S) committees across the company, in keeping with the current Health and Safety in Employment Act 1992 requirements. The percentage of H&S representation is 13.82 in proportion to the number of Watercare staff. Union representatives and members participate in the H&S committees as well. The only area yet to fully transition to the new structure is the Service Delivery group, which is expected to complete its transition by the end of July 2015. All elected H&S representatives have now been trained by the Employers and Manufacturers Association (EMA) to the approved standard.



Total recordable injury frequency rate (TRIFR): number of lost-time injuries plus the medical treatment injuries per year per million hours worked

TARGET: ≤ 30
ACHIEVED: 19.84

Watercare met this target, achieving a total TRIFR (number of lost time injuries plus the medical treatment injuries per year) of 19.84, against a target limit of 30 or fewer injuries for every million hours worked. Watercare is committed to providing leadership in the reporting of safety observations and incidents and reducing the total recordable injuries from the current 19.84 per million hours to below the industry average, which is 13 for 2014.



Lost-time injury frequency rate (LTIFR) per million hours worked

SOI TARGET: ≤ 5
ACHIEVED: 6.42

Watercare did not achieve this target. The LTIFR rate for 2014/15 was 6.42 compared to 2.53 for the previous year. While this year's result appears to be significantly higher than the previous year's result, a full review of the reporting of all incidents over the preceding two years has shown a small number of lost time injuries were not accurately captured in previous years. Had these incidents been accurately captured, the previous year's LTIFR rate would have been 7.70. This year there has been an increased focus on accurate reporting of all incidents as well as improved clarity around the reporting criteria for all injuries, near misses and safety observations.



Percentage of total hours absent due to illness

SOI TARGET: ≤ 2.5
ACHIEVED: 2.16%

Watercare achieved an unplanned absenteeism rate of 2.16% which is within the target limit of 2.5% or less for this measure. The performance for 2014/15 is a marginal increase on 2013/14 performance of 2.14% the previous year. The increase is partly due to a number of long term absences during the year due to personal illness and, work and non-work related accidents.

Overall sick leave utilisation remains at approximately five days per employee per annum. Watercare provides a comprehensive occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for those working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are available to all staff, either through the company or by self-referral.



Level of ACC workplace management practices accreditation

SOI TARGET: TERTIARY

Watercare's ACC tertiary-level accreditation was maintained. Audits are carried out every two years, with the last audit conducted in March 2015.





WATERCARE AT WORK

Ardmore Water Treatment Plant Operators Terry Fox, Bill Donald and Graham Head have a combined service of 100 years at Watercare.

100 years and never a dull moment

Good people, a beautiful setting and an ever evolving job are the things that have kept them coming back for a combined 100 years of service, say our three plant operators at the Ardmore Water Treatment Plant. Bill Donald celebrates 40 years at the plant, while workmates Graham Head and Terry Fox have each recorded 30 years.

“We kind of know the plant quite well,” says Terry, in the understatement of the century. “It’s always changing but we have to keep up with it.” All three started working at the plant as labourers, carrying out general maintenance, painting and cleaning the plant. They moved through the ranks to become assistant filter attendants and then filter attendants, a job title which then changed to plant operator.

Graham says one of the most notable changes has been the move from manual operation to automation. “When we started, everything was hands-on. For every step in the treatment process we had to go out, open valves and close valves. Now it’s either push a button or it’s automated. It makes it a whole lot easier.” Automation also removed the need to have the plant manned 24/7. This meant a change from working a four-days-on, four-days-off roster to a five-day working week with on-call duty. Being on call is one of the taxing parts of the job. When there’s word of a storm brewing, the men often go

home knowing it’s only a matter of time before they’ll have to haul themselves out of bed and drive back to the plant to deal with a power failure, pump failure or a dramatic change in the raw water quality.

Ardmore Operations Controller Stuart Urquhart says this takes huge dedication. “When I go home each day, if these guys are on call, then I know the plant is always under control. It certainly makes my job easier.”

Terry and Graham now have New Zealand diplomas in water treatment, and Bill is close to finishing his. The three of them are training graduate engineer Isaac Howard who has joined the team as a plant operator.

So what’s kept the veteran operators coming back week after week for three or four decades? “We’ve all been together so long. We got used to each other, got used to the jobs,” Bill says. “We wouldn’t have stayed if we didn’t like it.” “We’ve actually spent more time together than we have with our partners, that’s the scary thing,” Graham says. As well as it being a good job surrounded by good people, Graham reckons the beautiful country setting at Ardmore is a definite perk. “You couldn’t ask for a better place to come to work each day. It’s the best place in the world.”

04

CUSTOMER SATISFACTION

Providing customers with great service and great value

Watercare's vision is to be trusted by our communities for exceptional performance every day. Responding to as many as 2000 phone calls, letters and emails every day, the contact centre is often a customer's first point of contact with Watercare. The company also offers its customers the opportunity to transact with Watercare online, through the website and e-billing.

Watercare has been supporting Auckland's Round the Bays fun run since 1993. The company's staff members provide runners with drinking water at seven stations along the 8.4-kilometre route.







WATERCARE AT WORK

One of Watercare's Oasis water stations in action during the water outage in Albany.

Albany water outage a litmus test for customer service

As Auckland's water and wastewater services provider, Watercare's mission is to deliver reliable, safe and efficient water and wastewater services. It's fair to say that we do this most of the time. But on rare occasions calamity strikes and we need to pull out all the stops to restore services to our customers. The water outage in Albany earlier this year brought this home to us.

At 3.30pm on Thursday 12 March 2015, a sudden change in water pressure sent a shock wave down a watermain in Albany, causing it to break in three places. Moments later, the faults line in the call centre began to run hot. Customer after customer was phoning to report either a loss of water supply or low pressure within the Albany Basin area. Meanwhile, a jet of water was shooting high into the air outside the Mitre 10 Mega store on Oteha Valley Road, resulting in traffic chaos.

Transmission Manager Sharon Danks was at her desk at work when the contact centre called to alert her to the break. She quickly joined forces with the acting Operations Manager for Water Supply Priyan Perera, and they began mobilising the team and co-ordinating a response. Their first concern was the safety of people around the break sites. They arranged for Watercare's contractor to take over this responsibility from the New Zealand Police, making sure the traffic-management response was co-ordinated with Auckland Transport.

Their second concern was balancing the need to repair the watermain with the need to minimise disruption to customers. "In situations such as this, people might expect us to drop everything and start repair work straight away," explains Priyan. "But that is not the best approach. At 3.30pm, we were nearing the time of day when people arrive home from work, cook their dinners and bathe their children. To repair the watermain, we needed to shut off the water supply to a wider area. Therefore, to minimise disruption to customers, we decided to wait until later in the evening to begin work."

With the repair work being planned by Sharon and Priyan, Operations Manager for Networks Anin Nama and his team were focused

on providing a temporary water supply to the Albany Basin area. "Nisi Hakeai from the contact centre was providing us with helpful information on which streets were affected. This enabled us to deploy water tankers to areas with the most need."

These tankers were much appreciated by customers. Senior Customer Advisor Tina Grey received a call from a resident, who phoned to say the crew manning the water tankers were "inviting, lovely and friendly" when he filled his bottles.

Commercial Relationships Manager Mathew Telfer co-ordinated the response to businesses and key customers. "We had the Albany Mall, Massey University, Albany Senior High School, North Shore District Court – the list goes on – without water so my role was to provide these key customers with a single point of contact, often meeting with them face to face.

"I worked with Anin to identify practical ways to support vulnerable customers or those with high needs. For example, we decided to pump water directly from tankers into two retirement villages," says Mathew.

The chief executive of these retirement villages, Terry Middlemost, spoke to the *New Zealand Herald* about Watercare's efforts: "Watercare has been amazing. They phoned us; they knew that we were in a susceptible position in having elderly residents. Watercare staff were there first thing in the morning."

On Friday night, the repair team was finally able to isolate the pipe after unsuccessful efforts on the previous day. By 9.30am on Saturday morning, water was flowing to homes and businesses once more.

Reflecting on the incident, Priyan says the big plus for him was the dedication of everyone involved: "People from across the organisation – operations, statutory planning, communications, customer services and finance – all came together and worked hard to see the incident through to its resolution."

Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services

SOI TARGET: 80%
ACHIEVED: 85.1%

In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7.2 out of a possible 9.0. The overall average score for the year was 7.7 out of 9.0. This equates to a performance of 85.1%.

This is an improvement over last year's results and can be attributed to the addition of two open-ended questions to the customer survey that drew greater detail from respondents. The additional feedback enabled teams to improve the quality of service offered. The sample of customers satisfied with the service was 2653 respondents out of 3121 surveyed.



Percentage of calls answered within 20 seconds

SOI TARGET: 80%
ACHIEVED: 85.5%

Grade of service is a call centre industry performance measure, aimed at ensuring calls are answered within 20 seconds. For the year 2014/15, the grade of service target of 80% was met: 85.5% of the calls were answered within 20 seconds. The telephone calls received after hours are included in this total but were not included in the previous year. The focus for the next financial year is on the quality of interactions, getting it right the first time and providing a more comprehensive level of service at the first point of contact.

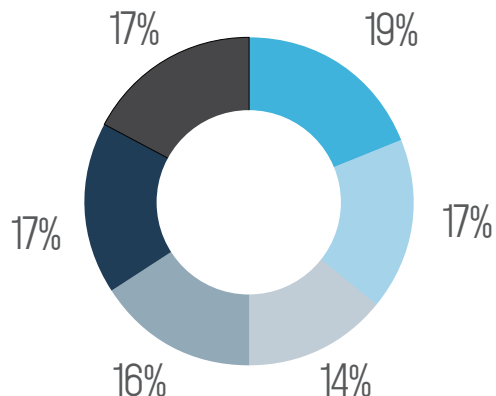


 **85.1% OF CUSTOMERS ARE SATISFIED WITH WATERCARE'S DELIVERY OF WATER AND WASTEWATER SERVICES.**

Customer complaints by category

Watercare defines customer complaints as an expression of dissatisfaction with the company's procedures and policies, charges, employees, contractors or the quality of service provided. Complaints relating to water quality are handled by the networks/operations teams. These are categorised separately on page 47. This year, we have refined the categories to provide a more accurate representation of the type of complaints. As a result of several process improvements implemented within the company, the number of customer complaints decreased from 2300 in 2013/14 to 1675 for 2014/15, or by 27.17%.

Percentage of complaints by category



- Invoice data, payment and account maintenance
- Leaks
- Meter reading
- Charging
- Network related
- Other

CUSTOMER SATISFACTION

Percentage of complaints being resolved and closed within 10 working days

SOI TARGET: 95%

ACHIEVED: 98.5%

The target of 'resolved' complaints measures the total time for each issue to be resolved and for feedback to be given to the customer. A 10-day target is considered industry best practice. In the 2014/15 year, 1675 complaints were received and of these complaints, 98.5% were resolved within the 10-day target. This meets and exceeds the target of 95%. The overall decrease in the number of complaints can be attributed to the root-cause analysis and resolution approach implemented during the year.



2015

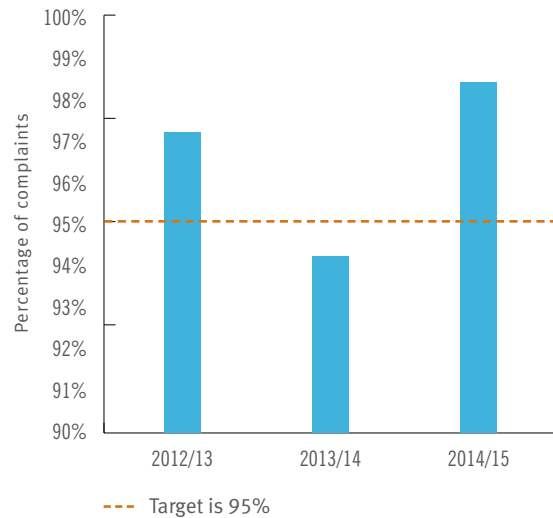


2014



2013

Customer complaints resolved and closed within 10 working days



85.5% OF THE CALLS WERE ANSWERED WITHIN 20 SECONDS.



Customer Advisor Isabelle Sione fields customer calls in the contact centre.

Percentage of urgent wastewater blockages responded to within contracted timeframes

TARGET: $\geq 98\%$
ACHIEVED: 97.4%

Watercare requires network service providers to respond to all urgent wastewater blockages within specific contracted timeframes. A total of 97.4% of blockages was addressed within the specified timeframe, which fell just short of the target of 98%. We have initiated a programme to improve our performance in this area.



Number of water quality complaints (taste, odour and appearance) per 1000 water supply connections

SOI TARGET: < 5
ACHIEVED: 4.7

In order to ensure that a high level of service is provided to customers, Watercare monitors the number and type of water quality complaints received from its customers; the company's target for this measure is to keep the number of complaints to five or fewer for every 1000 connections. This year, we recorded 4.7 complaints per 1000 water connections, meeting the target.



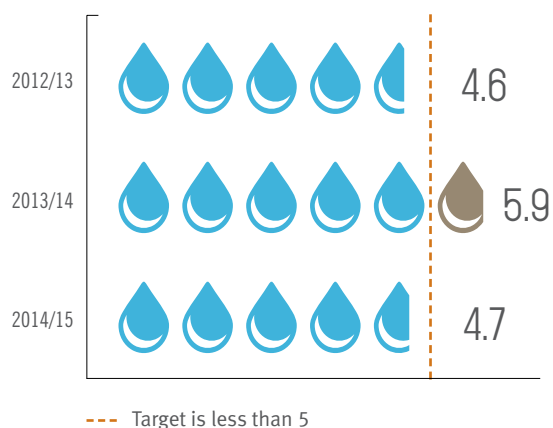
Percentage of expenditure on water supply services relative to the average household income

SOI TARGET: $\leq 1.5\%$
ACHIEVED: 0.87%

Watercare continued to meet this target. The average monthly household water and wastewater bill from Watercare was \$69.24 for the period 1 July 2014 to 30 June 2015 inclusive. Statistics New Zealand's current (2013/14) average monthly household income in Auckland is \$7982. This means that the average household's water bill represents 0.87% of the average household income. This compares to 0.90% for 2013/14. Although Watercare's tariffs increased by 2.4% in 2014/15, the increase in average Auckland salaries was 6%. These two factors influenced the 0.3% reduction in the measure.



Number of complaints per 1000 connections



Water Utility Consumer Assistance Trust

Watercare funds the Water Utility Consumer Assistance Trust, which provides financial support to residential customers of Watercare who are struggling to manage their water and wastewater costs. The Trust was established in 2011 to help customers facing genuine financial difficulty to manage their ongoing payments and avoid the stressful debt collection process. Payment of an outstanding amount can be made in instalments over up to three months, or over longer periods in certain circumstances.

Household expenditure on water supply services

| Account area | Cost of water and wastewater services per household per month 2012/13 | Percentage of average weekly income earnings for 2012/13 | Cost of water and wastewater services per household per month 2013/14 | Percentage of average weekly income earnings for 2013/14 | Cost of water and wastewater services per household per month 2014/15 | Percentage of average weekly income earnings for 2014/15 |
|---------------|---|--|---|--|---|--|
| Franklin | \$58.25 | 0.78% | \$56.34 | 0.75% | \$56.80 | 0.71% |
| Manukau | \$74.06 | 0.99% | \$72.42 | 0.96% | \$74.19 | 0.93% |
| Auckland City | \$74.14 | 0.99% | \$73.89 | 0.98% | \$76.59 | 0.96% |
| North Shore | \$66.85 | 0.89% | \$65.13 | 0.86% | \$66.07 | 0.83% |
| Rodney | \$52.83 | 0.71% | \$51.93 | 0.69% | \$53.19 | 0.67% |
| Waitakere | \$60.25 | 0.81% | \$58.79 | 0.78% | \$59.89 | 0.75% |
| Average | \$68.71 | 0.92% | \$67.55 | 0.90% | \$69.24 | 0.87% |

05

BEING FULLY SUSTAINABLE

Integrating sustainability into all aspects of the business

Watercare is committed to providing water and wastewater services using methods that are environmentally sustainable. The company is actively involved in the long-term restoration and rehabilitation of Auckland's harbours, beaches and islands, as well as in community tree-planting days, wildlife-protection programmes and sponsorship of environmental initiatives.

There are four bird roosts along the Watercare Coastal Walkway which stretches seven kilometres from Ambury Park to the Otuaatua Stonefields in Mangere. Approximately 60 per cent of New Zealand's wading bird population uses the harbour temporarily at some stage during the year. Pictured here are volunteers from the Church of Jesus Christ of Latter-day Saints helping Watercare to build up an eroded bird roost.







WATERCARE AT WORK

Project Manager David Moore with Utilities Engineer Craig Matthewson at pipe manufacturer Steelpipe's storage site in Onehunga.

A sustainable approach for Hunua 4 watermain

A major water pipeline that is being constructed across Auckland is setting an example for sustainable infrastructure. Watercare started work on the Hunua 4 watermain in 2012 and the first section of pipe is already providing water to large parts of Manukau, East Tamaki and East Auckland. By the end of this year, the second section of pipe will be providing water to Mangere, the airport and the surrounding industrial area. Ultimately, it will extend through to reservoirs at the top of Khyber Pass in the city.

Running for 28 kilometres from Manukau to Epsom, Hunua 4 will be one of the largest pipelines in Auckland and the pipe diameter ranges from 1.6 metres to 1.9 metres. Spirally welded steel pipe has been used in the project, manufactured by local supplier Steelpipe in Onehunga, with steel sourced from New Zealand Steel in Glenbrook. Local manufacturing and storage is not only supporting local business but also means the pipe can be transported easily to site when required. Resiliency was an important consideration for selecting spirally welded pipes, as they typically have lives of up to 100 years.

Project Manager David Moore says, "With a major project like this one, we are not just delivering a watermain. We also need to consider the impact on the natural environment, the communities that are impacted by construction activities and last but not the least, make sure that it provides value for the investment."

Apart from the locally sourced pipes, recycled products have also been used during construction, such as PAP 5 (Premium All Passing aggregate) sourced from the Glenbrook Steel Mill. PAP 5 is a by-product of the steel production process and is a sustainable synthetic alternative to traditional aggregates. PAP 5 is used for bedding and supporting the pipe within the trench against external loads and preventing damage in the long term.

The project has also engaged an arborist to provide ongoing advice about best practice to prevent any long-term damage to the many trees along the pipeline route. Some trees have been trimmed and branches wrapped in advance of construction to reduce the risk of damage. "In fact, we are treating the trees along the route like power lines and marking them out to prevent damage," says David.

Ambassadors have been appointed on site to inform the local community on construction activities and to minimise disruption to residents, assisting them with tasks such as carrying groceries home or moving wheelie bins for collection onto the street.

The project has been assessed as meeting a rating of 4.5 out of a total of 5 by Fulton Hogan which construct it on behalf of Watercare. The rating is based on Fulton Hogan's internal environmental performance in areas such as compliance with consents, waste to landfill, percentage of staff trained, energy used and environmental management. Ultimately, the project team aims for a 5 on 5 rating.

Conservation activities

Watercare’s activities involve interaction with diverse flora and fauna. The company works hard to minimise the impact of its activities and, where possible, to enhance the environment. Bird roosts along the Watercare Coastal Walkway, which runs beside the Mangere Wastewater Treatment Plant, provide shelter for many different bird species. Improvements to the wastewater treatment process at several of Watercare’s plants including the ongoing rehabilitation of the Mangere foreshore have improved the surrounding marine and estuarine environments. The company also allocates significant resources to minimising the effects its dams have on the surrounding freshwater ecologies. This includes simulating flood flows downstream from the dams and implementing a native fisheries trap-and-haul programme, where migrating fish and eels are transferred around the dams.

| Name of site | Ecological attributes |
|-------------------------------------|---|
| Bycroft Wetland, Onehunga | Home of rare and endangered moss species, indigenous vegetation and wildlife |
| Hunua Ranges | Native bush and wildlife habitat |
| Waitakere Ranges | Native bush and wildlife habitat |
| Mangere Coastal Walkway | Provision of public walkways, bird roosts, and native and marine habitat |
| Oruarangi Awa | Marine estuarine ecosystems being restored |
| Waikato RiverCare | Riparian planting along the Waikato River to enhance river-water quality and encourage ecological diversity |
| Auckland volcanic cones | The cones are parks and heritage areas and are defining features of Auckland. Eight of them host Watercare’s reservoirs |
| Pukekohe Wastewater Treatment Plant | Home of birdlife as an extension of the adjacent wetland owned by Fish & Game |
| Puketutu Island | Used as a high-tide roost by a variety of wading birds |

Watercare Education Programme

This year, Watercare’s free education programme was offered at 31 schools and one kindergarten, with a total participation of 8,200 students for 328 lessons. Eight new schools participated in this programme this year with the other requests coming from schools that had already participated in the programme. The drinking water lesson has been the most popular offering this financial year, especially in its drama-based format.

Investment in community programmes

Watercare partners with community organisations to: promote awareness about water and wastewater processes (Watercare Education Programme, formerly Adopt A Stream); contribute to a cleaner environment through harbour cleaning and tree-planting initiatives (Watercare Harbour Clean-Up Trust and Trees for Survival); and help customers in difficult circumstances to manage their water costs (Watercare Utility Consumer Assistance Trust). Due to safety concerns the Rainforest Express ceased operations in 2014.

The Watercare Harbour Clean-up Trust was recognised with a Community Group Award at the Waitemata Local Board’s Good Citizens’ Awards in June as well as the “Waterfront Center 2014 Annual Honor Award” for excellence on the waterfront.

| Programme | 2012/13 | 2013/14 | 2014/15 |
|---|------------------|------------------|------------------|
| Rainforest Express | \$124,003 | \$6,642 | \$0 |
| Watercare Education Programme | \$11,826 | \$11,693 | \$13,098 |
| Watercare Utility Consumer Assistance Trust | \$100,000 | \$100,000 | \$110,000 |
| Trees for Survival | \$3,000 | \$3,125 | \$3,250 |
| Watercare Harbour Clean-Up Trust | \$250,000 | \$250,000 | \$250,000 |
| Total | \$488,829 | \$371,460 | \$376,348 |

Greenhouse gas emissions

Aligned with Auckland Council’s Low Carbon Action Plan, Watercare reports against a 1990 baseline year. In the early 2000s, Watercare significantly upgraded the Mangere Wastewater Treatment Plant. The open-air oxidation ponds and sludge lagoons were replaced by land-based treatment, enabling the capture of methane and nitrous oxide emissions and making biogas generation possible. This resulted in a long-term decrease in greenhouse gas emissions by approximately 80% compared with the 1990 baseline.

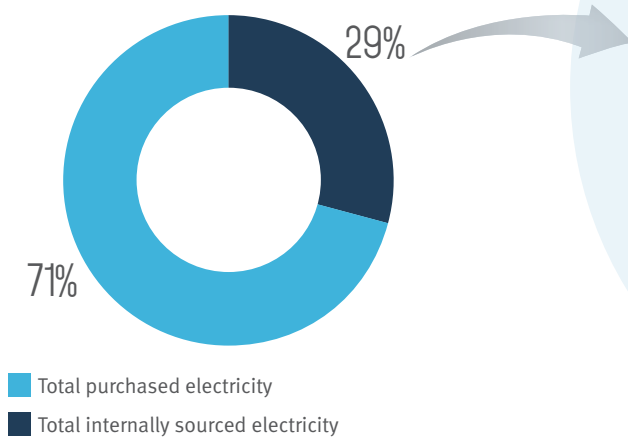
Last year, Watercare reviewed its carbon accounting and increased the scope of its reporting. A total of 36,622 tonnes of CO₂e (carbon dioxide equivalent) was generated, which is a 7% decrease compared with the previous year. This is due to the carbon content of New Zealand electricity having been reduced this year.

More information on Watercare’s greenhouse gas emissions is available in the climate change online supplement.

Energy use and internal generation

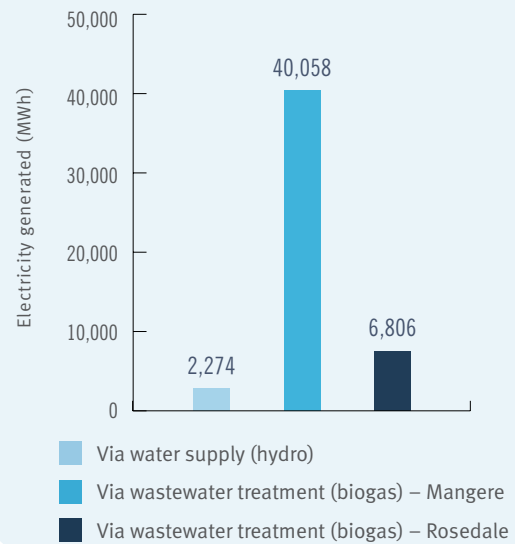
Watercare has implemented the co-generation technology at the Mangere Wastewater Treatment Plant since the 1960s and at Rosedale since 2001. As well as the financial and environmental benefits, co-generation also improves operational flexibility and resilience. Watercare’s water supply arm is also an electricity supplier, with turbines located in the four Hunua dams generating hydro electric power. This year, Watercare used 167,311 MWh of electricity and sourced 29% of its energy needs internally, as compared to 31% last year.

Energy use and internal generation



Notes:
 a. Includes electricity generation at Mangere Wastewater Treatment Plant fuelled by natural gas.
 b. Excludes electricity used by Watercare Laboratory Services.
 c. Includes purchased natural gas.
 1MWh = 1,000kWh which is a measure of energy used.

Electricity generation



Adapting to climate change impacts

Potential effects of climate change, such as increased frequency of storm events or changes in rainfall patterns and temperature over the coming decades, could alter both the availability of water and the demand for water in Auckland, significantly affecting Watercare’s business model. This year, the company focused on exploring and understanding the impact of climate change on water supply and participated in a climate change project, managed by the Water Services Association of Australia’s project to develop a standard set of climate change guidelines for the water industry. In 2014/15, Watercare engaged consultants to investigate the potential impact of climate change on the demand for water. The following work has been completed on this project:

- A literature review focusing on the methodologies for forecasting the impact of climate change on demand
- Regression analysis to find out what drives the peak demand in order to discover the link between demand and weather variables.

Reusing waste from treatment processes

Watercare aims to reuse as much of the material from its water and wastewater treatment plants. To do this, the company uses biosolids to rehabilitate sites such as Pond 2, an old oxidation pond at the Mangere Wastewater Treatment Plant, and Puketutu Island, which was formerly a quarry. It also maintains dedicated placement sites for solids removed during the water treatment process. In 2014/15, Watercare was able to reuse 59.26% of the solids from its water treatment process and 82.47% of the solids from its wastewater treatment process.

| Operational waste from: | 2012/13 | 2013/14 | 2014/15 |
|------------------------------------|---------|---------|---------|
| Water treatment* (m ³) | 9,296 | 8,966 | 11,366 |
| Wastewater treatment** (t) | 137,358 | 136,846 | 138,953 |

* Sludge. ** Biosolids, grits and screenings.

| | 2012/13 | 2013/14 | 2014/15 |
|--|------------|------------|------------|
| Treated wastewater reused annually (m ³) | 21,947,004 | 21,708,165 | 21,139,557 |

Metal content in biosolids at wastewater treatment plants

Biosolids from wastewater treatment plants can have a high metal content, due to stormwater run-off from the streets and waste from industrial users. The table below displays the metal content of biosolids from the Mangere and Rosedale treatment plants, which

produce most of Watercare’s biosolids. The metal content has decreased this year to 3.27 tonnes from last year’s 4.37 tonnes, due to effective controls and continued monitoring by the trade waste team.

| Substance | 2012/13 | | 2013/14 | | 2014/15 | |
|--------------|-----------------------|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Concentration (mg/kg) | Disposed weight (tonnes) | Concentration (mg/kg) | Disposed weight (tonnes) | Concentration (mg/kg) | Disposed weight (tonnes) |
| Arsenic | 4.68 | 0.17 | 4.82 | 0.17 | 5.34 | 0.19 |
| Cadmium | 1.27 | 0.05 | 1.08 | 0.04 | 1.13 | 0.04 |
| Chromium | 100.71 | 3.63 | 88.43 | 3.19 | 50.71 | 1.85 |
| Lead | 33.08 | 1.19 | 26.27 | 0.95 | 31.96 | 1.17 |
| Mercury | 0.67 | 0.02 | 0.62 | 0.02 | 0.55 | 0.02 |
| Total | | 5.06 | | 4.37 | | 3.27 |

Diverting office waste from landfill

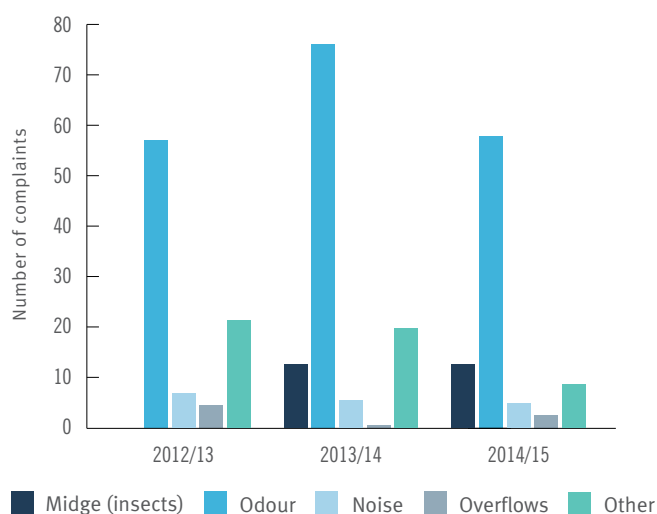
Watercare aims to minimise the volume of office waste being sent to landfill. Over the past 10 years, the company has carried out audits to measure how effective it is in diverting material that can be recycled or composted from the general waste stream. Since the implementation of compost collection (food waste and paper towels) at three of the company’s major sites in 2013, the amount of office, kitchen and bathroom waste sent to landfill has decreased to 43.3 kg per day, as per the audit undertaken in March 2015 when compared to 51.4 kg per day in March 2013. Taking into account the increase in staff members since 2013, this is a 33% reduction in waste generated per employee. There are plans to introduce waste separation at more sites in 2015/16.

There is potential for further improvement, since 69% of the waste currently being sent to landfill could be recycled or composted.

Midge, odour and noise management at operational sites

Watercare’s mission is to deliver safe, reliable and effective water and wastewater services to the people of Auckland. The company tries to do this, as much as practicable, in harmony with the community. Watercare’s resource consents stipulate the standards for all its processes. The company records and strives to address all complaints about the impact of its activities on the environment and on the communities living nearby, particularly those related to midges, odours and noise. Midges are small flies that thrive in water bodies in still and mild conditions. Watercare continued its midge control programme this year and trialled non-chemical methods of control. Effective monitoring helped to reduce the number of odour complaints.

Midge, odour and noise complaints



* There were no midge complaints in 2012/13.

06

EFFECTIVE ASSET MANAGEMENT

Managing assets to ensure the use of existing assets is maximised while optimising the scope, timing and cost of new investments

Watercare aims to operate, maintain, replace and develop assets over the long term to meet required service levels and foreseeable future needs. The key drivers for asset-planning decisions relate to growth, renewal and levels of service. Watercare must also give effect to relevant aspects of Auckland Council's Long Term Plan.

Graduate Engineer Bojan Jovanovic heads back to shore after inspecting geotechnical investigations being undertaken in the Manukau Harbour as part of the Central Interceptor project. Once constructed, the large interceptor – a wastewater tunnel – will run from Western Springs to the Mangere Wastewater Treatment Plant. It will duplicate ageing parts of the wastewater network, cater for population growth and reduce overflows.







WATERCARE AT WORK

Sustainability Manager Roseline Klein (right) discusses water-efficiency tips with Holiday Inn Auckland Airport's chief engineer Rob Shannon.

Hotel sees benefits of being water efficient

An eco-conscious Auckland hotel has slashed its water usage by 40 per cent with one simple change in the way it operates.

Holiday Inn Auckland Airport's chief engineer Rob Shannon called Watercare's free Water Advice Line, delivered by the EcoMatters Environment Trust, to discuss ways in which the hotel could reduce water consumption.

He was encouraged to install flow restrictors in the hotel room showers. These are inexpensive devices that reduce the flows from taps and showers, preventing wastage of water while still ensuring a comfortable and adequate flow.

"Our showers were using 18 litres a minute. We've reduced them to 10 litres," Rob says. The hotel's sustainability programme tracks its energy, waste and water use and is showing some promising results.

"Water usage per guest per night has decreased by 40 per cent," Rob continues. "This has had a knock-on effect to our gas usage for water heating, which is also down significantly. The flow restrictors were \$12 each, so they'd easily paid for themselves before we received the next water bill."

Watercare Sustainability Manager Roseline Klein says the hotel is a great example of how businesses can make small adjustments which lead to substantial savings on water and wastewater. "The

impact they've made by one simple change is just amazing. It's a real inspiration to other businesses and we hope more follow suit."

As Auckland's water and wastewater services provider, in 2011 Watercare aims to reduce water consumption per person across the Auckland region by 15 per cent by 2025. Promoting water efficiency throughout the region aligns with Watercare's commitment to provide exceptional services at minimum cost because it means that the need for additional water and wastewater infrastructure can be deferred.

Apart from continuing the Water Advice Line service for residential customers, this year, Watercare launched a water-efficiency programme for businesses; this includes customised advice and tools on how to understand, measure and reduce the wastage of water in processes and operations. As a companion to the programme, the *Be Waterwise for businesses and organisations*, a free reference guide, was made available online.

Through these initiatives, Watercare is on track to achieve the goal of reducing water consumption in the region. Roseline says that businesses, which typically use more water than the average households, can play a large part in reducing the city's intake. "It's a win-win. By reducing water usage, businesses are helping the environment and at the same time are saving money."



Water sources

Auckland's water supply is obtained from three different sources: dams, rivers and underground aquifers. The exact proportion of water supply from each source varies daily, depending on the levels in the storage lakes, forecast rainfall, treatment plant capacity, maintenance requirements and transmission costs.

All abstraction decisions are regulated by resource consent conditions.

Water facts and figures

| | 2012/13 | 2013/14 | 2014/15 |
|---|-------------|-------------|-------------|
| Water supply dams (number of operational sources over the year) | 12 | 12 | 12* |
| River sources (number of operational sources over the year) | 3 | 3 | 3 |
| Groundwater sources (number of operational sources over the year) | 14 | 14 | 12 |
| 'A' grade water treatment plants | 11 | 11 | 12** |
| Other water treatment plants | 10 | 10 | 4 |
| Length of treated watermains (km) | 8,867 | 8,862 | 9,066 |
| Service reservoirs | 84 | 90 | 89 |
| Pump stations | 91 | 90 | 90 |
| Annual volume produced (ex plant m ³) | 145,089,663 | 144,287,502 | 143,548,551 |
| Annual volume sold (m ³) | 120,536,933 | 119,214,010 | 119,045,999 |

* Though Watercare maintains Hays Creek, we do not draw any water from it and treat it as out-of-service.

** Glenbrook Water Treatment Plant was graded 'A' prior to being decommissioned in 2015.



THE COMBINED RESERVOIR CAPACITY OF AUCKLAND'S DAMS WHEN FULL IS MORE THAN 100 BILLION LITRES.

Volume of water extracted by source

| | 2012/13 | | 2013/14 | | 2014/15 | |
|------------------------|--------------------------|-----|--------------------------|-----|--------------------------|-----|
| | Volume (m ³) | % | Volume (m ³) | % | Volume (m ³) | % |
| Waitakere Dam | 4,396,973 | 3% | 4,440,410 | 3% | 4,236,379 | 3% |
| Upper Huia Dam | 5,898,270 | 4% | 4,762,725 | 3% | 4,675,277 | 3% |
| Upper Nihotupu Dam | 5,305,407 | 4% | 3,967,693 | 3% | 7,746,042 | 5% |
| Lower Huia Dam | 11,834,036 | 8% | 7,256,968 | 5% | 1,860,675 | 1% |
| Lower Nihotupu Dam | 3,941,562 | 3% | 7,557,456 | 5% | 6,960,088 | 5% |
| Cosseys Dam | 14,941,247 | 10% | 12,991,256 | 9% | 14,199,939 | 10% |
| Upper Mangatawhiri Dam | 22,285,951 | 15% | 25,267,005 | 18% | 22,847,617 | 16% |
| Wairoa Dam | 9,514,876 | 6% | 8,540,326 | 6% | 9,163,897 | 7% |
| Mangatangi Dam | 38,498,665 | 26% | 38,062,981 | 26% | 30,763,525 | 21% |
| Waikato River | 22,913,826 | 15% | 24,643,479 | 17% | 33,226,948 | 23% |
| Onehunga Aquifer | 5,359,106 | 4% | 4,512,595 | 3% | 5,835,965 | 4% |
| Rural North | 1,281,515 | 1% | 1,257,409 | 1% | 1,323,224 | 1% |
| Rural South | 3,410,034 | 2% | 1,439,267 | 1% | 1,084,600 | 1% |
| Total | 149,581,467 | | 144,699,569 | | 143,924,175 | |

Note: Dams and supply lakes are maintained and operated by Watercare primarily as water supply assets for Auckland.

EFFECTIVE ASSET MANAGEMENT

Per capita water consumption (litres per person per day)

SOI TARGET: 278 ± 5%

ACHIEVED: 270.69

In support of the Auckland Demand Management Plan, Watercare is committed to reducing per capita consumption to 15% below the 2004 level of 298 litres per person per day by 2025. The per capita consumption this year was 270.69 litres per person per day, which is lower than the targeted consumption. This year, the company continued its demand management initiatives aimed at more efficient use of water; areas of focus included leakage management and a water efficiency programme for businesses.



Using water wisely

Watercare undertakes and promotes a range of water efficiency initiatives as part of its Demand Management Plan. This year the company:

- developed the Be Waterwise programme for non-domestic customers to help businesses understand and improve water use in their processes and operations, and trained teams within the organisation to manage queries and requests from businesses on water efficiency
- as a companion to the programme, launched a Be Waterwise booklet for businesses and organisations with water-saving tips and advice on how to achieve water efficiency
- continued funding the EcoMatters Environment Trust to provide customised help to those domestic customers wanting to reduce wastage of water. This initiative delivered water-saving advice to 100 households through the Water Advice Line and to over 2400 Aucklanders at eight public events this year.



WATERCARE PROVIDES A FREE WATER-EFFICIENCY PROGRAMME FOR BOTH ITS RESIDENTIAL AND ITS BUSINESS CUSTOMERS CALLED 'BE WATERWISE'.

Percentage of annual potable water network losses measured as total network volume

SOI TARGET: ≤ 13%

ACHIEVED: 12.95%

Watercare continued to meet this target. The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the total volume of water produced. These allowable uses fall into three categories: operational usage (pipeline flushing, fire-fighting etc.), meter-under-recording, and unauthorised usage.

The volumes attributed to these three activities are calculated based on the percentages recommended by Water New Zealand (0.5%, 3% and 0.45% respectively). For 2014/15, the percentages for the three allowable uses have stayed the same except for the addition of 100% of the water used for the flushing of sewers in the new service areas in Riverhead and Kumeu. These areas were commissioned in 2014 and as yet there have been limited connections to the network in the area. As a result, ongoing flushing of the sewers from the water network is required to prevent operational issues from arising. This brings Watercare's performance against this measure to 12.95%, within the target limit of 13% or less.



Asset maintenance strategies

Watercare has a risk-based approach to maintenance of its assets such that service delivery standards are achieved, the asset life is maximised and renewal programmes are undertaken at the appropriate time.

Those assets with a high consequence of failure have formalised preventative maintenance programmes (time or condition based maintenance) applied to minimise the risk of failure. A Reliability Centred Maintenance approach (RCM – a system to identify the level of maintenance that is required to allow the asset to still perform reliably, based largely on past failure patterns) is used in conjunction with asset condition assessments to set the optimal maintenance programme for these assets.

Non-critical assets which cause minor consequences if they were to fail, are repaired or replaced when they fail. This approach is the least whole-of-life-cost maintenance strategy for these assets. In 2015/16, Watercare will focus on developing SAP Plant Maintenance analytical reports and using SAP Maintenance Planning functionality, to enable the business to manage asset performance proactively and more effectively.

Total capital expenditure as a percentage of budget

SOI TARGET: > 85%

ACHIEVED: 86%

Watercare aims to ensure capital expenditure is greater than 85% of the approved financial budget. For 2014/15, the actual capital expenditure was 86%, which meets the target for this measure. Watercare achieved a saving of 14% against budgeted capital expenditure due to a combination of planned projects being deferred and net efficiencies on projects that are under way.



Capital investment

Capital expenditure is investment in developing and upgrading essential infrastructure like watermains, treatment plants, pump stations, sewers, etc. Watercare funds its capital expenditure through a combination of revenue and debt, and receives no contribution from central government or the council. The following are some of the significant projects for 2014/15:

Hunua 4 watermain

This is a 28-kilometre-long pipe running from Manukau to Epsom, which will cater for population growth and increase the security of water supply to the Auckland region. Currently, construction is progressing ahead of schedule, with local communities in large parts of Manukau and East Auckland being supplied by Hunua 4; areas in Mangere will start to receive supply from this pipeline in late 2015.

Mangere Wastewater Treatment Plant BNR upgrades

Currently under way at the Mangere Wastewater Treatment Plant is the construction of an additional Biological Nutrient Removal (BNR) facility, to ensure continued compliance with consent conditions and to cater for population growth. This project is expected to be complete by October 2018.

Orewa West Wastewater Network

The Orewa West Wastewater Network project is currently in construction and expecting completion in June 2016.

The project will provide wastewater infrastructure to cater for the proposed growth and development identified in the Orewa West structure plan. The scheme comprises 2.8km of wastewater pipe and the construction of a new pumping station.

The project will also accommodate future growth proposed for the Silverdale West area, identified in the council's Proposed Auckland Unitary Plan.



Aerial view of the Mangere Wastewater Treatment Plant where additional reactors will be constructed, to cater for Auckland's population growth.

07

SOUND FINANCIAL MANAGEMENT

Delivering on business objectives at the lowest cost

By law and according to its guiding principles, Watercare is required to manage its operations efficiently with a view to minimising the overall costs of water supply and wastewater services to its customers, and ensure intergenerational equity. The company receives no outside funding from either central or local government and is prohibited by statute from paying a dividend to its shareholder, Auckland Council.

Inventory Supervisor Chris Moore carries out a stock check in the store warehouse at the Mangere Wastewater Treatment Plant.







WATERCARE AT WORK

Process Engineer Clemence Carlinet and Data Controller Sam Tan show samples of biosolids, before and after the addition of lime, with Wastewater Operations Manager (South) Paul Bickers (back) at the Mangere Wastewater Treatment Plant.

Staff innovation leads to savings at wastewater treatment plant

Watercare has achieved significant savings in our wastewater operations by trialling a new blend of lime, thanks to an initiative from the process engineering team at Mangere Wastewater Treatment Plant.

Every day, the plant treats around 300 million litres of wastewater, removing organic and inorganic matter such as human waste and food scraps, fats, oil and grease, sand, grit, chemicals and plastic in the process.

One of the steps in the treatment of wastewater is the addition of burnt lime to biosolids. Biosolids are the nutrient-rich, organic solid residues produced through the wastewater treatment process. Burnt lime is added to biosolids to stabilise them and maintain their pH at a level that is safe for the environment. These biosolids are then transported to the adjoining biosolids facility on Puketutu Island for placement.

Mangere Wastewater Treatment Plant uses up to 25 tonnes of burnt lime per day in its operations. The process engineering team at the plant saw an opportunity to reduce the cost of procuring lime by adjusting the proportion of the lime used for stabilising the biosolids.

Process engineer Clemence Carlinet says, “We use a particular proportion of burnt lime on biosolids to increase the pH and shear

strength. We decided to add lime kiln dust (LKD) and reduce the ratio of burnt lime. LKD is a by-product of the lime-production process, which means it’s cheaper to use. We trialled it by mixing it with burnt lime on a very small scale to determine whether or not it could be used more widely.”

Clemence initially tested a few proportions of the blend to increase shear strength without affecting the pH level. The results of this study were used to carry out a full-scale blended lime trial at the Mangere plant. The trial took place in July 2014 and the performance of the blended lime on biosolids was encouraging enough to be continued. This has resulted in a saving of \$250,000, which equates to a reduction of about 15 per cent in operational spending on lime.

Wastewater Area Manager (South) Paul Bickers says, “We operate as a minimum-cost service provider, making sure that we provide exceptional service for our customers without it becoming a burden for them to pay for its provision. We are happy that the technical expertise of our team could be utilised to make our operations even more cost effective and environmentally sustainable.”

Clemence will be presenting the blended lime trial as a paper at the Water New Zealand conference in September 2015.

Overview

Total revenue

Total revenue at \$520.4 million in 2014/15 compared favourably with \$500.5 million in 2013/14. Water and wastewater revenues of \$426.6 million were \$13.3 million ahead of 2013/14 with \$9.9 million of the increase due to the 2.4% price increase on 1 July 2014. Infrastructure growth charge revenue totalled \$50.2 million compared with \$33.0 million in 2013/14 but still only recovered 40% of the \$123.9 million capital expenditure on growth projects in the year. Other key elements of revenue included \$19.7 million for the cost of physical assets funding by external parties and vested to Watercare ownership, and \$6.5 million in respect of revenue recognised in respect of sale of Watercare tax losses within the Auckland Council Group. In total, revenue was \$20.8 million ahead of budget.

Total operating costs

Operating costs of \$204.6 million were \$3.0 million or 1.5% above budget for the year. This was primarily due to higher unplanned maintenance and asset operating costs on the local retail network.

Total finance costs

Total finance costs of \$87.8 million were incurred during the year of which \$13.8 million was treated as a capital cost funding larger scale, long term capital projects. The remainder of \$74.0 million was expensed to the Statement of Comprehensive Revenue and Expense.

The overall average interest rate was 5.88% compared with 5.92% in 2013/14.

Operating surplus from trading operations

An operating surplus from trading operations of \$33.1 million was achieved in 2014/15 with revenue being \$20.8 million ahead of budget expectation, and total expenses being \$5.3 million beneath budget.

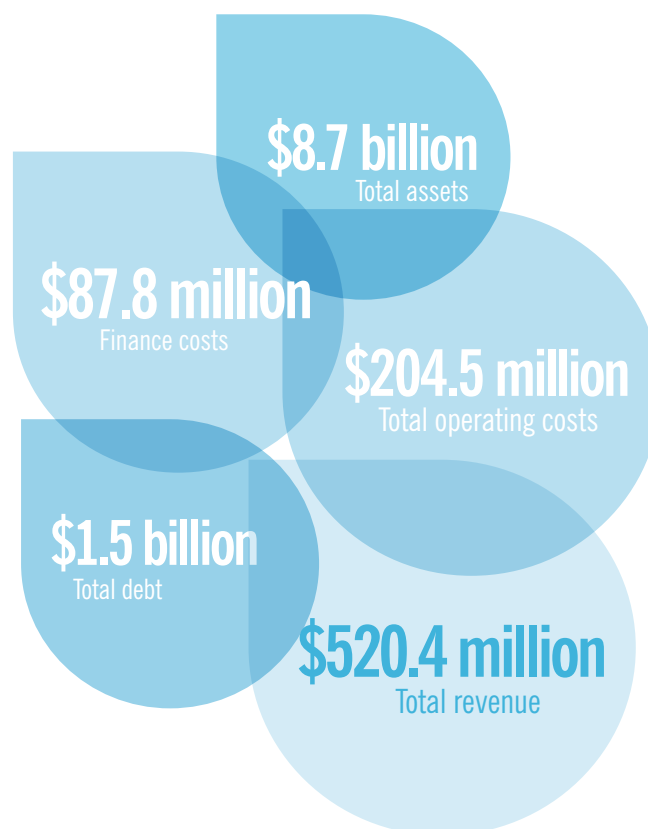
Net deficit

The reported operating surplus from trading operations was prior to a non-cash adjustment for the revaluation of derivative financial instruments and the (non-cash) loss on disposal of property, plant and equipment.

In order to enable a more smooth and predictable future price path, the company utilises interest rate swap agreements to fix medium to long term interest rates on a proportion of its debt – thereby reducing the uncertainty created by fluctuations in floating interest rates. Under Accounting Standards, the company revalues its interest rate swaps to fair value. This revaluation resulted in a \$89.2 million (non-cash) write down due to the downward move in interest rates over the year. This loss on revaluation and other below the operating surplus from trading operations line items delivered a net deficit after tax for the year of \$55.4 million.

Net new debt

In 2014/15 \$354.9 million of new debt was entered into by Watercare. Consistent with our SOI undertaking, all of the new long term debt (\$340.0 million) was sourced from Auckland Council as this is the lowest cost source of debt for Watercare. Short term debt, primarily commercial paper, increased by \$14.9 million.



During the year \$291.4 million of debt from previous years was repaid resulting in an overall \$63.5 million net debt increase for the year. Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and also a share of the capital expenditure required to service the effects of population and construction growth in Auckland.

Commercial paper standby facilities and a revolving credit facility were renegotiated during the year.

Total assets

Total Watercare assets grew from \$8.4 billion to \$8.7 billion in 2014/15. The majority of the increase related to the cost of new asset spending during the year (\$286.9 million) together with an uplift in asset values resulting from the two-yearly valuation review of Watercare's property, plant and equipment assets.

Minimum funds from operations (FFO) to interest cover before any price adjustment

SOI TARGET: ≥ 2.5

ACHIEVED: 3.32

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2015 was 3.32. Funds from operations were boosted by higher-than-budgeted revenue, while interest expense benefited from a combination of lower-than-budgeted new borrowings and lower-than-projected cost of funds.



Customer debt

In 2014/15, Watercare continued to reduce the level of outstanding aged debt for retail customers. The company’s primary performance measure for the management of debtors is the level of payments outstanding for 60 days or more. At the end of the 2014/15 financial year, the aged debt has decreased by \$368,599 from the year before. The company implements a debt-collection process that includes progressive reminders, warnings and ultimately, restriction of water supply to those with outstanding payments.

A more detailed ageing analysis of trade receivables, inclusive of accounting adjustments, is on page 95.

| | | % of total |
|---|-------------|------------|
| Debit balance 60+ days (end of June 2015) | \$3,978,424 | 11.4% |
| Number of accounts with 60+ days debt | 13,525 | 4.6% |
| Average debt (60+ days) | \$294.15 | |

Supply chain and savings

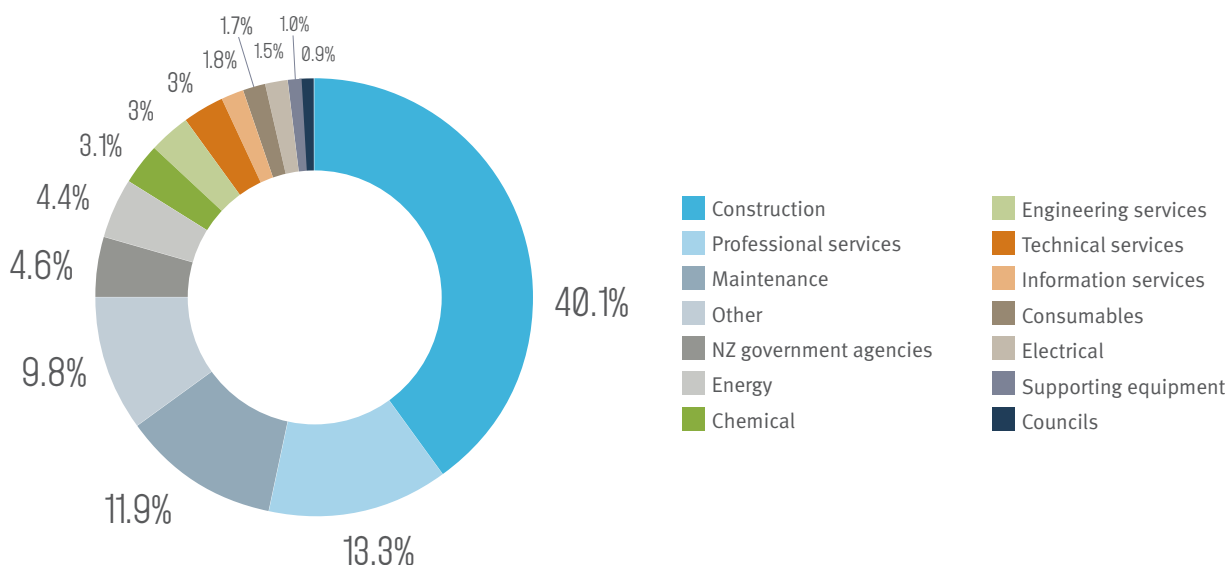
In 2014/15, total savings of \$6.2 million were achieved, exceeding the targeted amount of \$4.5 million. Major savings were realised through the procurement process for the North-western Network Maintenance Agreement. Other savings were achieved through the award of the Underwater Services Preferred Supplier Agreement and through a collaborative procurement strategy with Auckland Council for the supply of electricity. For 2015/16, Watercare plans to introduce the United Nations’ Standard Products and Services Code to allow greater detail and analysis of procurement data.

Top 15 suppliers

Watercare’s major suppliers during 2014/15 are displayed below. All have branches in New Zealand and are governed by New Zealand law.

| Supplier | Value excluding GST (000s) |
|---|----------------------------|
| Fulton Hogan/John Holland Joint Venture | \$42,519 |
| Lend Lease Infrastructure Services | \$26,200 |
| Fulton Hogan | \$19,552 |
| Steelpipe Limited | \$13,035 |
| HEB Construction Limited | \$12,674 |
| City Care | \$11,791 |
| McConnell Dowell Constructors Limited | \$11,732 |
| Pipeline & Civil Limited | \$10,635 |
| Beca Infrastructure Limited | \$10,214 |
| Ixom Operations Pty Limited | \$9,119 |
| Trustpower Limited | \$8,276 |
| Hawkins Infrastructure | \$6,202 |
| PipeWorks Rehabilitation Solutions | \$5,976 |
| Downer New Zealand Limited | \$5,714 |
| DrillTech (1996) Limited | \$5,502 |

Percentage of expenditure by industry





Independent Limited Assurance Report to the Directors of Watercare Services Limited

We were engaged by the Board of Directors of Watercare Services Limited (“Watercare”) to perform a limited assurance engagement in relation to Watercare’s Annual Report for the period from 1 July 2014 to 30 June 2015 (“the Report”).

Our assurance engagement involves providing a limited assurance conclusion as to whether anything has come to our attention that causes us to believe that:

- The “Selected Non-Financial Information”, as defined below, has not been prepared in all material respects in accordance with the Global Reporting Initiative (“GRI”) G4 reporting principles and guidelines; and
- The self-declared GRI in accordance assertion made on page 16 of the Report does not comply in all material respects with the relevant GRI G4 requirements.

Selected non-financial information

The “Selected Non-Financial Information” covers the collation and presentation of the significant indicators and claims made in the Report on pages 16 to 19 and 22 to 64.

The scope of our assurance specifically excludes any information that incorporates Statement of Intent targets and information that is included in the 2015 Financial Statements.

We have not been engaged to provide assurance over any comparative indicators outside of the reporting period.

Management responsibility

Management is responsible for the preparation and presentation of the “Selected Non-Financial Information” in accordance with the criteria set out in the GRI G4 guidelines, for each of the principles of materiality, stakeholder inclusiveness, sustainability context and completeness. Management is also responsible for determining Watercare’s objectives in respect of sustainability reporting and for establishing and maintaining appropriate performance management and internal control systems from which the information is derived.

Our responsibility

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements ISAE (NZ) 3000 (Revised): *Assurance Engagements other than Audits or Reviews of Historical Financial Information*.

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 (Revised) issued by the New Zealand Auditing and Assurance Standards Board, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Professional and Ethical Standard 3 (Amended) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance approach

We planned and performed our work to obtain all the evidence, information and explanations we considered necessary in relation to the above scope. A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate.

Our procedures included:

- Enquiries of Watercare personnel to understand the process for deriving the “Selected Non-Financial Information”;
- Analytical review and other testing to assess the reasonableness of the information presented;
- Comparing the GRI Content Index, referenced in the Report, to the requirements of the GRI G4 guidelines; and
- Overall sense check of the Report against our findings and understanding of Watercare.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

Use of our report

Our assurance report is made solely to the Directors of Watercare in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Watercare those matters we have been engaged to state in this assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors of Watercare for our work, for this assurance report, or for the conclusions we have reached.

Independence

KPMG also provides advisory services to Watercare. Subject to certain restrictions the Partners and employees of our firm may also deal with Watercare on normal terms within the ordinary course of trading activities. This has not impaired our independence in respect of this engagement. The firm has no other relationship with, or interests in, Watercare.

Conclusion

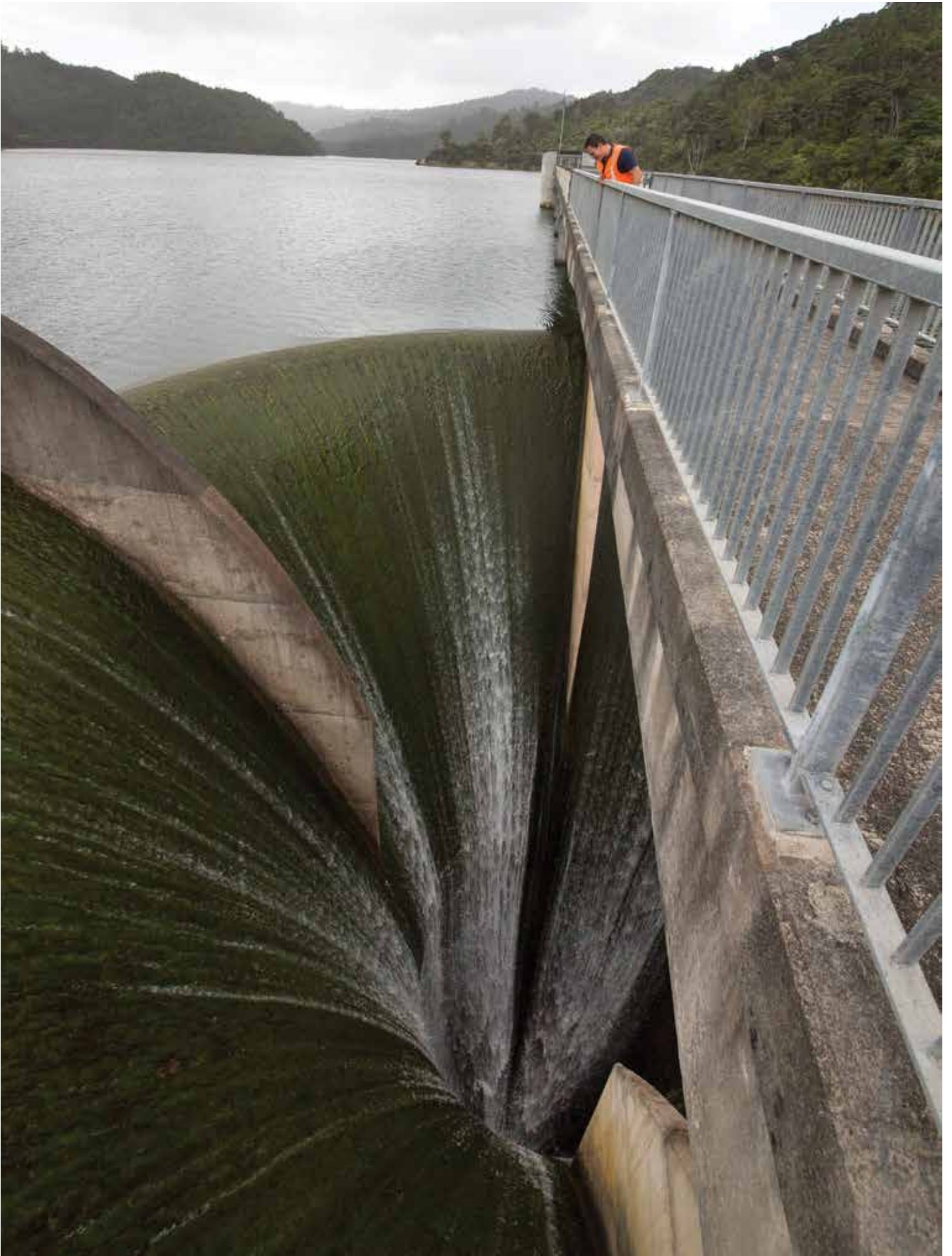
Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the:

- “Selected Non-Financial Information” has not, in all material respects, been prepared in accordance with the GRI G4 reporting principles and guidelines.
- The self-declared GRI ‘in accordance’ assertion of Core does not comply in all material respects with the relevant GRI G4 requirements.

Our assurance engagement was completed as at 16 September 2015 and our conclusion is expressed as at that date.



KPMG
Auckland



Air Quality Technician Jason Thongplang at the lower Huia Dam spillway in the Waitakere Ranges.

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HISTORICAL FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------------------|------------------|------------------|------------------|------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Financial performance | | | | | |
| Total revenue | 373,107 | 441,950 | 482,620 | 500,470 | 520,407 |
| Operating expenses | 156,540 | 184,590 | 191,907 | 196,611 | 204,572 |
| Depreciation and amortisation | 143,626 | 179,822 | 184,980 | 205,947 | 208,739 |
| Finance costs | 61,107 | 72,586 | 71,632 | 69,149 | 73,992 |
| Total expenses | 361,273 | 436,998 | 448,519 | 471,707 | 487,303 |
| Operating surplus from trading operations | 11,834 | 4,952 | 34,101 | 28,763 | 33,104 |
| Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs | (6,162) | (8,517) | (10,210) | (11,975) | (11,052) |
| Net (loss)/gain on revaluation of derivative financial instruments | (13,567) | (60,618) | 39,628 | 13,050 | (88,644) |
| Operating (deficit)/surplus before tax | (7,895) | (64,183) | 63,519 | 29,838 | (66,592) |
| Income tax benefit/(expense) | 4,438 | (18,878) | 23,173 | 38,230 | 11,236 |
| Net (deficit)/surplus after tax | (12,333) | (45,305) | 40,346 | (8,392) | (55,356) |
| Financial position | | | | | |
| Current assets | 87,586 | 78,744 | 72,090 | 78,118 | 79,692 |
| Non-current assets | 7,733,750 | 7,820,142 | 8,167,043 | 8,308,101 | 8,605,062 |
| Total assets | 7,821,336 | 7,898,886 | 8,239,133 | 8,386,219 | 8,684,754 |
| Current liabilities | 333,907 | 325,077 | 541,753 | 533,685 | 320,837 |
| Non-current liabilities | 1,906,034 | 2,037,500 | 1,930,629 | 2,069,089 | 2,488,916 |
| Total liabilities | 2,239,941 | 2,362,577 | 2,472,382 | 2,602,774 | 2,809,753 |
| Total equity | 5,581,395 | 5,536,309 | 5,766,751 | 5,783,445 | 5,875,001 |
| Cash flows | | | | | |
| Net cash flows – operating | 176,035 | 163,394 | 208,980 | 222,570 | 224,712 |
| Net cash flows – investing | (192,231) | (229,173) | (261,639) | (328,411) | (285,494) |
| Net cash flows – financing | 16,116 | 67,167 | 51,876 | 106,025 | 63,487 |
| Net change in cash flows | (80) | 1,388 | (783) | 184 | 2,705 |
| Key statistics | | | | | |
| Property, plant and equipment | 7,688,196 | 7,730,309 | 8,084,978 | 8,235,338 | 8,528,217 |
| Capital expenditure | 191,943 | 234,670 | 289,289 | 313,391 | 286,913 |
| Net debt | 1,229,425 | 1,295,204 | 1,347,863 | 1,453,464 | 1,513,996 |
| EBITDA to interest expense ratio | 3.5 | 3.5 | 3.8 | 4.1 | 4.0 |
| Funds flow from operations to average net debt | 23% | 20% | 20% | 20% | 20% |
| Increase in net debt to capex | 8% | 29% | 18% | 34% | 22% |
| Number of employees | 611 | 645 | 731 | 772 | 817 |

FINANCIAL COMMENTARY

FOR THE YEAR ENDED 30 JUNE 2015

| | 2015 | 2014 | 2015 |
|---|-----------------|-----------------|----------------|
| | Actual | Actual | Budget |
| | \$000 | \$000 | \$000 |
| Revenue | 520,407 | 500,470 | 499,581 |
| Operating expenses | (204,572) | (196,611) | (201,592) |
| Depreciation and amortisation | (208,739) | (205,947) | (210,440) |
| Finance costs | (73,992) | (69,149) | (80,573) |
| Operating surplus from trading operations | 33,104 | 28,763 | 6,976 |
| Net loss on disposal of and provision for redundant property, plant and equipment | (11,052) | (11,975) | (7,000) |
| Net (loss)/gain on revaluation of derivative financial instruments | (88,644) | 13,050 | - |
| Operating (deficit)/surplus before tax | (66,592) | 29,838 | (24) |
| Income tax benefit/(expense) | 11,236 | (38,230) | (4,512) |
| Net deficit for the year | (55,356) | (8,392) | (4,536) |
| Gain on revaluation of property, plant and equipment | 146,912 | 25,086 | 357,463 |
| Total comprehensive revenue and expense for the year, net of tax | 91,556 | 16,694 | 352,927 |

Key Points

- The company is reporting revenue of \$520.4 million which was \$20.8 million ahead of budget expectations. With water and wastewater revenue in line with budget, the improvement in revenues primarily related to infrastructure growth charge income which was \$16.1 million ahead of budget reflecting the growing level of development activity in Auckland over the course of the year. The infrastructure growth charge revenue contributes to the funding of growth based water and wastewater infrastructure.
- Cost savings were achieved in finance costs of \$6.6 million due to the lower than budgeted debt and interest rates. Additionally depreciation and amortisation was \$1.7 million lower than budget due to lower depreciation on assets identified for replacement as part of new capital projects. These savings were partially offset by higher operating costs of \$3.0 million above budget primarily due to higher unplanned maintenance and asset operating costs on the retail network.
- The company reports an operating surplus from trading operations of \$33.1 million compared with a budgeted operating surplus from trading operations of \$7.0 million being a favourable variance of \$26.1 million. Both business units are reporting an operating surplus from trading operations being \$14.7 million for water and \$18.4 million for wastewater.
- The reported operating surplus from trading operations was prior to a non-cash adjustment for the revaluation of derivative financial instruments and the (non-cash) loss on disposal of property, plant and equipment.
- In order to enable a more smooth and predictable future price path, the company utilises interest rate swap agreements to fix medium to long term interest rates on a proportion of its debt – thereby reducing the uncertainty created by fluctuations in floating interest rates. Under Accounting Standards, the company revalues its interest rate swaps to fair value. This revaluation resulted in a \$89.2 million (non-cash) write down due to the downward move in interest rates over the year. This was partially offset by a \$0.6 million gain on forward foreign exchange contracts.
- The company has recorded a loss on disposal of property, plant and equipment of \$11.0 million being the write-down of assets that were replaced during the year and the partial write-off of costs for several projects in capital work in progress.
- The resulting net deficit after tax of \$55.4 million was compared with a budgeted net deficit of \$4.5 million. (2014: net deficit after tax of \$8.4 million).
- The property, plant and equipment asset classes were revalued in accordance with accounting standard requirements at 30 June 2015. The impact of the asset revaluation was an uplift of \$146.9 million (net of tax) in the value of property, plant and equipment.
- Total assets of the company have increased from \$8.4 billion to \$8.7 billion during the last year, reflecting the company's continued investment in new infrastructure assets and the upward revaluation of property, plant and equipment to fair value at 30 June 2015.
- Net debt increased by \$60.5 million during the year, funding the shortfall between operating cash flows and capital expenditure. The increase in net debt was \$79.5 million lower than budget, reflecting better operating cash flows and lower capital expenditure during the period.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

Financial statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2015 and its financial performance and cash flows for the year ended on that date.

We have ensured that the accounting policies used by the company comply with the applicable public benefit entity (PBE) accounting standards.

We believe that proper accounting records have been kept, enabling the financial position of the company to be determined, and that the financial statements comply fully with the Financial Reporting Act 2013 and the Companies Act 1993.

We consider adequate steps have been taken to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

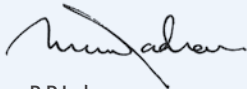
Statement of service performance

We are responsible for establishing a Statement of Intent, which sets targets and other measures by which the company's performance can be judged in relation to its objectives.

We consider the results reported in the statement of service performance fairly reflect the achievements for the year ended 30 June 2015.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2015 were approved and authorised for release on 20 August 2015.

For and on behalf of management:



R P Jaduram
Chief Executive

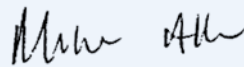


B T Monk
Chief Financial Officer

For and on behalf of the board of directors:



D J Clarke
Chairman



M N Allen
Deputy Chairman



INDEPENDENT AUDITOR'S REPORT

To the readers of Watercare Services Limited and Group's financial statements and statement of service performance for the year ended 30 June 2015

The Auditor-General is the auditor of Watercare Services Limited (the Group). The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte, to carry out the audit of the financial statements and the performance information of the Group on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 74 to 112, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 114 to 117.

In our opinion,

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's service performance and outcomes for the year ended 30 June 2015, including its service performance compared against the performance targets and other measures by which performance can be judged in relation to the Group's objectives.

Our audit was completed on 20 August 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported service performance within the Group's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and in the performance information;
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

REPORT OF THE AUDITOR-GENERAL

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand and Public Benefit Entity Standards. The Board of Directors is also responsible for preparation of the performance information for the Group.

The Board of Directors responsibilities arise from the Local Government Act 2002.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and the performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

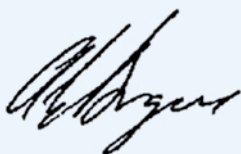
Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of half year reviews, audits of the financial statements of the subsidiaries, reporting on the negative pledge deed poll and providing assistance with asset data analytics which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.



Andrew Burgess
Deloitte
On behalf of the Auditor-General
Auckland, New Zealand

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2015

| | Notes | 2015 | 2014 | 2015 |
|--|-------------------|------------------|------------------|------------------|
| | | Actual | Actual | Budget |
| | | \$000 | \$000 | \$000 |
| Revenue | Note 12, page 100 | 520,407 | 500,470 | 499,581 |
| Total revenue | | 520,407 | 500,470 | 499,581 |
| Operating expenses | | | | |
| Asset operating costs | | (61,423) | (62,218) | (57,244) |
| Maintenance costs | | (37,927) | (32,385) | (36,671) |
| Employee benefit expenses | | (57,695) | (51,674) | (56,898) |
| Other expenses | | (47,527) | (50,334) | (50,779) |
| Total operating expenses | Note 13, page 101 | (204,572) | (196,611) | (201,592) |
| Depreciation | Note 4, page 85 | (195,430) | (195,225) | (202,222) |
| Amortisation | Note 7, page 89 | (13,309) | (10,722) | (8,218) |
| Finance costs | Note 9, page 92 | (73,992) | (69,149) | (80,573) |
| Total expenses | | (487,303) | (471,707) | (492,605) |
| Operating surplus from trading operations | | 33,104 | 28,763 | 6,976 |
| Net loss on disposal of and provision for redundant property, plant and equipment | | (11,052) | (11,975) | (7,000) |
| Net (loss)/gain on revaluation of derivative financial instruments | Note 11, page 99 | (88,644) | 13,050 | - |
| Operating (deficit)/surplus before tax | | (66,592) | 29,838 | (24) |
| Income tax benefit/(expense) | Note 15, page 103 | 11,236 | (38,230) | (4,512) |
| Net deficit for the year | | (55,356) | (8,392) | (4,536) |
| Other comprehensive revenue and expense net of tax | | | | |
| Gain on revaluation of property, plant and equipment | Note 6, page 88 | 146,912 | 25,086 | 357,463 |
| Other comprehensive revenue and expense for the year, net of tax | | 146,912 | 25,086 | 357,463 |
| Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax | | 91,556 | 16,694 | 352,927 |

The financial statements should be read in conjunction with the notes on pages 78 to 112 inclusive.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

| | Notes | 2015 | 2014 | 2015 |
|--|-------------------|------------------|------------------|------------------|
| | | Actual | Actual | Budget |
| | | \$000 | \$000 | \$000 |
| Assets | | | | |
| Current | | | | |
| Cash and cash equivalents | | 2,968 | 263 | - |
| Trade and other receivables from exchange transactions | Note 17, page 105 | 67,350 | 67,639 | 61,219 |
| Inventories | Note 18, page 105 | 4,061 | 4,500 | 3,684 |
| Prepaid expenses | Note 20, page 106 | 3,003 | 4,149 | 698 |
| Derivative financial instruments | Note 10, page 98 | 2,310 | 1,567 | 1,084 |
| Total current assets | | 79,692 | 78,118 | 66,685 |
| Non-current | | | | |
| Property, plant and equipment | Note 4, page 85 | 8,528,217 | 8,235,338 | 8,837,865 |
| Intangible assets | Note 7, page 89 | 40,183 | 39,784 | 44,837 |
| Inventories | Note 18, page 105 | 3,884 | 3,459 | 4,211 |
| Prepaid expenses | Note 20, page 106 | 23,692 | 24,208 | 23,815 |
| Derivative financial instruments | Note 10, page 98 | 9,086 | 5,312 | 5,664 |
| Total non-current assets | | 8,605,062 | 8,308,101 | 8,916,392 |
| Total assets | | 8,684,754 | 8,386,219 | 8,983,077 |
| Liabilities | | | | |
| Current | | | | |
| Borrowings | Note 8, page 90 | 197,875 | 420,457 | 168,195 |
| Derivative financial instruments | Note 10, page 98 | 22,179 | 13,180 | 194 |
| Trade and other payables for exchange transactions | Note 19, page 106 | 19,789 | 23,138 | 31,452 |
| Accrued expenses | Note 21, page 106 | 68,898 | 69,599 | 68,797 |
| Provisions | Note 22, page 107 | 12,096 | 7,311 | 6,635 |
| Total current liabilities | | 320,837 | 533,685 | 275,273 |
| Non-current | | | | |
| Borrowings | Note 8, page 90 | 1,319,089 | 1,033,270 | 1,425,339 |
| Derivative financial instruments | Note 10, page 98 | 135,247 | 51,085 | 62,576 |
| Deferred tax liability | Note 16, page 104 | 1,011,128 | 965,231 | 1,085,179 |
| Trade and other payables for exchange transactions | Note 19, page 106 | 4,049 | 5,182 | - |
| Accrued expenses | Note 21, page 106 | 14,652 | 13,120 | 12,408 |
| Provisions | Note 22, page 107 | 4,751 | 1,201 | 848 |
| Total non-current liabilities | | 2,488,916 | 2,069,089 | 2,586,350 |
| Total liabilities | | 2,809,753 | 2,602,774 | 2,861,623 |
| Equity attributable to owners of the parent | | | | |
| Retained earnings | | 3,802,099 | 3,855,998 | 3,861,905 |
| Revaluation reserves | Note 6, page 88 | 1,812,209 | 1,666,754 | 1,998,856 |
| Issued capital | Note 23, page 108 | 260,693 | 260,693 | 260,693 |
| Total equity | | 5,875,001 | 5,783,445 | 6,121,454 |
| Total equity and liabilities | | 8,684,754 | 8,386,219 | 8,983,077 |

The financial statements should be read in conjunction with the notes on pages 78 to 112 inclusive.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

| | | 2015 | 2014 | 2015 |
|--|-------------------|------------------|------------------|------------------|
| | | Actual | Actual | Budget |
| | Notes | \$000 | \$000 | \$000 |
| Operating activities | | | | |
| Cash was provided from: | | | | |
| Receipts from customers | | 483,068 | 476,187 | 475,623 |
| Dividends received | | 108 | 93 | 100 |
| Interest received | | 350 | 302 | 300 |
| Income tax refund | | 7 | 15 | - |
| Subvention receipt | Note 15, page 102 | 8,466 | 5,363 | 6,884 |
| | | 491,999 | 481,960 | 482,907 |
| Cash was applied to: | | | | |
| Employees and suppliers | | (187,526) | (189,504) | (201,686) |
| Finance costs paid | | (79,761) | (69,886) | (80,573) |
| | | (267,287) | (259,390) | (282,259) |
| Net cash flows – operating activities | Note 14, page 102 | 224,712 | 222,570 | 200,648 |
| Investing activities | | | | |
| Cash was provided from: | | | | |
| Sale of property, plant and equipment, and intangibles | | 2,561 | 175 | - |
| | | 2,561 | 175 | - |
| Cash was applied to: | | | | |
| Purchase and construction of property, plant and equipment, and intangibles | | (274,261) | (311,906) | (314,078) |
| Interest capitalised on construction of property, plant and equipment, and intangibles | Note 9, page 92 | (13,794) | (16,680) | (15,012) |
| | | (288,055) | (328,586) | (329,090) |
| Net cash flows – investing activities | | (285,494) | (328,411) | (329,090) |
| Financing activities | | | | |
| Cash was provided from: | | | | |
| Commercial paper issued (net) | | 14,882 | - | 20,000 |
| Proceeds from Auckland Council loans – related party | Note 23, page 109 | 340,000 | 390,000 | 401,334 |
| | | 354,882 | 390,000 | 421,334 |
| Cash was applied to: | | | | |
| Repay commercial paper (net) | | - | (5,221) | - |
| Repay revolving credit facility (net) | | (5,000) | (30,000) | (5,000) |
| Repay medium-term notes issue | | (150,000) | (220,000) | (150,000) |
| Repay loans from Auckland Council – related party | Note 23, page 109 | (136,395) | (28,754) | (137,892) |
| | | (291,395) | (283,975) | (292,892) |
| Net cash flows – financing activities | | 63,487 | 106,025 | 128,442 |
| Net change in cash flows | | 2,705 | 184 | - |
| Cash and cash equivalents at the beginning of the year | | 263 | 79 | - |
| Cash and cash equivalents at the end of the year | | 2,968 | 263 | - |
| Cash and cash equivalents comprises: | | | | |
| Bank balances | | 2,968 | 263 | - |
| | | 2,968 | 263 | - |

The financial statements should be read in conjunction with the notes on pages 78 to 112 inclusive.

STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2015

| | Notes | 2014 | | | |
|---|-----------------|-------------------|----------------------|----------------|------------------|
| | | Retained earnings | Revaluation reserves | Issued capital | Total |
| | | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2013 | | 3,885,312 | 1,620,746 | 260,693 | 5,766,751 |
| Comprehensive revenue and expense | | | | | |
| Net deficit for the year | | (8,392) | - | - | (8,392) |
| Other comprehensive revenue and expense | | | | | |
| Gain on revaluation of property, plant and equipment | Note 6, page 88 | - | 25,086 | - | 25,086 |
| Transfer between reserves on disposal of property, plant and equipment | Note 6, page 88 | (20,922) | 20,922 | - | - |
| Total comprehensive revenue and expense for the year, net of tax | | (29,314) | 46,008 | - | 16,694 |
| Balance at 30 June 2014 | | 3,855,998 | 1,666,754 | 260,693 | 5,783,445 |
| | Notes | 2015 | | | |
| | | Retained earnings | Revaluation reserves | Issued capital | Total |
| | | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2014 | | 3,855,998 | 1,666,754 | 260,693 | 5,783,445 |
| Comprehensive revenue and expense | | | | | |
| Net deficit for the year | | (55,356) | - | - | (55,356) |
| Other comprehensive revenue and expense | | | | | |
| Gain on revaluation of property, plant and equipment | Note 6, page 88 | - | 146,912 | - | 146,912 |
| Transfer between reserves on disposal of property, plant and equipment | Note 6, page 88 | 1,457 | (1,457) | - | - |
| Total comprehensive revenue and expense for the year, net of tax | | (53,899) | 145,455 | - | 91,556 |
| Balance at 30 June 2015 | | 3,802,099 | 1,812,209 | 260,693 | 5,875,001 |

The financial statements should be read in conjunction with the notes on pages 78 to 112 inclusive.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

1. Reporting entity and basis of preparation

Reporting Entity

These financial statements are for Watercare Services Limited (Watercare), incorporated and domiciled in New Zealand and a council-controlled organisation (CCO) wholly owned by Auckland Council, as defined in the Local Government Act 2002. The consolidated financial statements of the group are for the economic entity of Watercare and its subsidiaries. The group's registered office and principal place of business is at 73 Remuera Road, Remuera, Auckland 1050, New Zealand.

Watercare's primary objective is to provide water and wastewater services at a minimum cost to the Auckland region (except Papakura district which has been franchised to Veolia Water Services (ANZ) Pty Limited), and bulk wastewater services to parts of the Waikato region. Watercare does not operate to make a financial return on its assets and is restricted by legislation from paying dividends to its shareholder.

Watercare's operations are governed by the Local Government Act 2002 and it is audited under the Public Audit Act 2001. Watercare is a public sector public benefit entity (PBE) as defined under the External Reporting Board (XRB) Standard A1.

Basis of Preparation

Watercare is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Local Government Acts 1974 and 2002, the Local Government (Auckland Council) Act 2009 and the Companies Act 1993.

These consolidated financial statements have been prepared on a historical cost basis, except for land and buildings, certain infrastructural assets and financial instruments which are measured at fair value, as disclosed in the notes to the financial statements. The financial statements are presented in New Zealand dollars. All values are rounded to the nearest thousand dollars (\$000), unless otherwise stated. All items in the financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST. The net amount of GST recoverable from or payable to Inland Revenue is included as part of receivables or payables in the statement of financial position.

These consolidated financial statements have been prepared on a going concern basis, and the accounting policies have been applied consistently throughout the period. The accounting policies that materially affect the measurement of comprehensive revenue and expense, financial position and cash flows are stated within the respective notes in these financial statements.

Statement of compliance

The group applies New Zealand Tier 1 PBE accounting standards (PBE standards). The consolidated financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of the PBE standards and New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the specific recognition, measurement and disclosure requirements of the PBE standards and Authoritative Notices that apply to entities applying PBE standards.

Transition to PBE standards

This is the first set of annual financial statements presented in accordance with the PBE standards. Significant changes arising on transition to the new PBE accounting standards are explained in note 28, page 112.

Budget figures

The budget figures presented are as approved by the board on 29 May 2014. The budget figures were prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by Watercare in preparing these financial statements. The budget figures included in the financial statements are for the controlling entity (Watercare) and therefore exclude the budget for its subsidiaries. The budgets of the subsidiaries are immaterial to the consolidated group.

Critical accounting estimates and judgments

The group is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and judgments are based on historical experience and other relevant factors. Actual results may differ from the estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised or in the current and/or future period(s) which the revisions affect. Refer to the notes below for a discussion of estimates and judgments in applying the accounting policies.

- Revaluation of property, plant and equipment, note 4, page 83
- Unbilled revenue estimate, note 12, page 99
- Provisions, note 22, page 107

Accounting standards and interpretations

In May 2013, the XRB issued a new suite of PBE accounting standards for application by public sector entities for reporting periods beginning on or after 1 July 2014. Watercare applied these standards in preparing the 30 June 2015 financial statements.

In October 2014, the PBE suite of accounting standards was updated to incorporate the enhancements for the not-for-profit sector. These updated standards apply to PBEs with reporting periods beginning on or after 1 April 2015. These enhancements do not change the requirements for the public sector PBEs; hence, they have no impact for Watercare.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Explanation of major variances to budget

Commentary is provided for variances to budget greater than \$5.0 million or 10%.

Statement of comprehensive revenue and expense – extract

| | 2015 Actual | 2015 Budget | Variance | Variance |
|---|-------------|-------------|-----------|----------|
| | \$000 | \$000 | \$000 | % |
| Revenue | 520,407 | 499,581 | 20,826 | 4.2% |
| Depreciation | 195,430 | 202,222 | 6,792 | 3.4% |
| Amortisation | 13,309 | 8,218 | (5,091) | (61.9%) |
| Finance costs | 73,992 | 80,573 | 6,581 | 8.2% |
| Net loss on disposal of and provision for redundant property, plant and equipment | 11,052 | 7,000 | (4,052) | (57.9%) |
| Net loss on revaluation of derivative financial instruments | 88,644 | - | (88,644) | - |
| Gain on revaluation of property, plant and equipment | 146,912 | 357,463 | (210,551) | (58.9%) |

- Revenue was \$20.8 million or 4.2% higher than budget primarily due to higher infrastructure growth charge revenue resulting from the increasing volume of development activity in the Auckland region.
- Depreciation was \$6.8 million or 3.4% lower than budget primarily due to lower accelerated depreciation on assets identified for replacement as part of new capital projects during the year.
- Amortisation was \$5.1 million or 61.9% higher than budget due to the shortening of the useful lives and resulting increased amortisation on resource consents which have been identified for replacement during the year.
- Finance costs were \$6.6 million or 8.2% lower than budget due primarily to lower than budgeted debt levels during the year.
- The net loss on disposal of property, plant and equipment was \$4.1 million or 57.9% higher than budget due primarily to the partial write-off of costs for several projects in capital work in progress.
- Under PBE accounting standards the company revalues its interest rate swaps and forward foreign exchange contracts to fair value. This revaluation decreased the current year surplus by \$88.6 million. The revaluation is a (non-cash) unbudgeted accounting adjustment primarily reflecting the lowering of interest rates during the June 2015 year.
- The gain on asset revaluation of \$146.9 million was \$210.6 million lower than budget due primarily to a reassessment of the useful lives of assets as part of the asset revaluation process. This has led in general to a shortening of the assumed asset lives and an associated reduction in the asset revaluation increase.

Statement of financial position – extract

| | 2015 Actual | 2015 Budget | Variance | Variance |
|-------------------------|-------------|-------------|-----------|----------|
| | \$000 | \$000 | \$000 | % |
| Current assets | 79,692 | 66,685 | 13,007 | 19.5% |
| Non-current assets | 8,605,062 | 8,916,392 | (311,330) | (3.5%) |
| Current liabilities | 320,837 | 275,273 | (45,564) | (16.6%) |
| Non-current liabilities | 2,488,916 | 2,586,350 | 97,434 | 3.8% |
| Equity | 5,875,001 | 6,121,454 | (246,453) | (4.0%) |

- Current assets were \$13.0 million higher than budget primarily due to higher closing trade receivables from exchange transactions than was assumed in the budget and cash on hand of \$3.0 million at year end.
- Non-current assets were \$311.3 million lower than budget primarily due to the increase in property, plant and equipment resulting from the asset revaluation at June 2015 being less than was assumed in the budget and lower capital expenditure during the year.
- Current liabilities were \$45.6 million higher than budget at year-end primarily due to the increase in financial liabilities resulting from the revaluation of derivative financial instruments. Additionally there were higher levels of short term borrowings being primarily commercial paper than was assumed in the budget.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

2. Explanation of major variances to budget (continued)

Statement of financial position – extract (continued)

- Non-current liabilities were \$97.4 million lower than budget due to lower term borrowings and lower deferred tax liability. The lower deferred tax liability was a result of the lower than anticipated upward revaluation of property, plant and equipment. Within non-current liabilities, the financial liability resulting from the revaluation of derivative financial instruments has increased.
- Equity was lower than budget at year-end primarily due to the lower than anticipated upward revaluation of property, plant and equipment and lower current year earnings as a result of the loss on revaluation of derivative financial instruments.

Statement of cash flows – extract

All of the company's cash flow from operations was available for either capital expenditure or debt repayment. Borrowings increased as a result of the shortfall between operating cash flows and capital expenditure.

| | 2015 Actual | 2015 Budget | Variance | Variance |
|--------------------------|-------------|-------------|----------|----------|
| | \$000 | \$000 | \$000 | % |
| Net operating cash flows | 224,712 | 200,648 | 24,064 | 12.0% |
| Net investing cash flows | (285,494) | (329,090) | (43,596) | (13.2)% |
| Net financing cash flows | 63,487 | 128,442 | 64,955 | 50.6% |

- Net operating cash flows at \$224.7 million were 12.0% higher than budget due to a combination of higher revenue inflows and lower finance and operating costs payments.
- The net cash flow from investing activities was 13.2% lower than budget due to lower spend on capital expenditure projects.
- The net cash flow from financing activities shows a net increase in borrowings in 2015 from the prior year of \$63.5 million. This was lower than budget due to the increased net operating cash inflows and lower capital expenditure outflows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

3. Business unit reporting

Business unit comprehensive revenue and expense, financial position and cash flows for water and wastewater activities of Watercare are presented below. Revenues and expenses (except those directly attributable to debt) are apportioned to each unit on a direct basis plus an allocation of non-specific and overhead costs proportional to each unit's actual revenues at balance date. The costs directly attributable to debt, such as finance costs and gain/loss on revaluation of derivative financial instruments, have been allocated in proportion to the debt as at balance date in water and wastewater activities. Where possible, other assets and liabilities are apportioned to each unit on a direct basis and non-specific assets and liabilities are allocated proportional to each unit's actual revenues at balance date. There are no material transactions between the two business units.

Business unit comprehensive revenue and expense

| | 2015 | | | 2014 | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Water | Wastewater | Total | Water | Wastewater | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Revenue | | | | | | |
| Water and wastewater | 136,896 | 289,722 | 426,618 | 133,340 | 280,012 | 413,352 |
| Other revenue | 50,900 | 42,889 | 93,789 | 38,041 | 49,077 | 87,118 |
| Total revenue | 187,796 | 332,611 | 520,407 | 171,381 | 329,089 | 500,470 |
| Operating expenses | | | | | | |
| Asset operating costs | (21,821) | (39,602) | (61,423) | (22,235) | (45,709) | (67,944) |
| Maintenance costs | (17,188) | (20,739) | (37,927) | (13,728) | (18,657) | (32,385) |
| Employee benefit expenses | (21,164) | (36,531) | (57,695) | (19,199) | (32,475) | (51,674) |
| Other expenses | (16,284) | (31,243) | (47,527) | (15,529) | (29,079) | (44,608) |
| Total operating expenses | (76,457) | (128,115) | (204,572) | (70,691) | (125,920) | (196,611) |
| Depreciation | (87,926) | (107,504) | (195,430) | (84,666) | (110,559) | (195,225) |
| Amortisation | (3,937) | (9,372) | (13,309) | (4,123) | (6,599) | (10,722) |
| Finance costs | (4,813) | (69,179) | (73,992) | (1,887) | (67,262) | (69,149) |
| Total expenses | (173,133) | (314,170) | (487,303) | (161,367) | (310,340) | (471,707) |
| Operating surplus from trading operations | 14,663 | 18,441 | 33,104 | 10,014 | 18,749 | 28,763 |
| Net loss on disposal of and provision for redundant property, plant and equipment | (4,101) | (6,951) | (11,052) | (9,535) | (2,440) | (11,975) |
| Net (loss)/gain on revaluation of derivative financial instruments | (12,321) | (76,323) | (88,644) | 1,419 | 11,631 | 13,050 |
| Operating (deficit)/surplus before tax | (1,759) | (64,833) | (66,592) | 1,898 | 27,940 | 29,838 |
| Income tax benefit/(expense) | (3,391) | 14,627 | 11,236 | (10,199) | (28,031) | (38,230) |
| Net deficit for the year | (5,150) | (50,206) | (55,356) | (8,301) | (91) | (8,392) |
| Other comprehensive revenue and expense net of tax | | | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | 181,165 | (34,253) | 146,912 | 11,253 | 13,833 | 25,086 |
| Other comprehensive revenue and expense for the year, net of tax | 181,165 | (34,253) | 146,912 | 11,253 | 13,833 | 25,086 |
| Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax | 176,015 | (84,459) | 91,556 | 2,952 | 13,742 | 16,694 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

3. Business unit reporting (continued)

Business unit financial position

| | 2015 | | | 2014 | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | Water | Wastewater | Total | Water | Wastewater | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Assets | | | | | | |
| Current | | | | | | |
| Current assets | 27,043 | 52,649 | 79,692 | 28,373 | 49,745 | 78,118 |
| Total current assets | 27,043 | 52,649 | 79,692 | 28,373 | 49,745 | 78,118 |
| Non-current | | | | | | |
| Property, plant and equipment | 3,734,070 | 4,794,147 | 8,528,217 | 3,425,153 | 4,810,185 | 8,235,338 |
| Intangible assets | 13,054 | 27,129 | 40,183 | 14,789 | 24,995 | 39,784 |
| Inventories | 106 | 3,778 | 3,884 | 85 | 3,374 | 3,459 |
| Prepaid expenses | 2 | 23,690 | 23,692 | 9 | 24,199 | 24,208 |
| Derivative financial instruments | 1,293 | 7,793 | 9,086 | 578 | 4,734 | 5,312 |
| Total non-current assets | 3,748,525 | 4,856,537 | 8,605,062 | 3,440,614 | 4,867,487 | 8,308,101 |
| Total assets | 3,775,568 | 4,909,186 | 8,684,754 | 3,468,987 | 4,917,232 | 8,386,219 |
| Liabilities | | | | | | |
| Current | | | | | | |
| Current liabilities | 63,488 | 257,349 | 320,837 | 80,056 | 453,629 | 533,685 |
| Total current liabilities | 63,488 | 257,349 | 320,837 | 80,056 | 453,629 | 533,685 |
| Non-current | | | | | | |
| Borrowings | 187,774 | 1,131,315 | 1,319,089 | 112,369 | 920,901 | 1,033,270 |
| Derivative financial instruments | 19,252 | 115,995 | 135,247 | 5,556 | 45,529 | 51,085 |
| Deferred tax liability | 324,457 | 686,671 | 1,011,128 | 311,366 | 653,865 | 965,231 |
| Trade and other payables for exchange transactions | 2,201 | 1,848 | 4,049 | 2,746 | 2,436 | 5,182 |
| Accrued expenses | 5,235 | 9,417 | 14,652 | 5,526 | 7,594 | 13,120 |
| Provisions | 407 | 4,344 | 4,751 | 387 | 814 | 1,201 |
| Total non-current liabilities | 539,326 | 1,949,590 | 2,488,916 | 437,950 | 1,631,139 | 2,069,089 |
| Total liabilities | 602,814 | 2,206,939 | 2,809,753 | 518,006 | 2,084,768 | 2,602,774 |
| Equity attributable to owners of the parent | 3,172,754 | 2,702,247 | 5,875,001 | 2,950,981 | 2,832,464 | 5,783,445 |
| Total equity and liabilities | 3,775,568 | 4,909,186 | 8,684,754 | 3,468,987 | 4,917,232 | 8,386,219 |

Business unit cash flows

| | 2015 | | | 2014 | | |
|---------------------------------------|-----------|------------|-----------|-----------|------------|-----------|
| | Water | Wastewater | Total | Water | Wastewater | Total |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Net cash flows – operating activities | 104,498 | 120,214 | 224,712 | 95,439 | 127,131 | 222,570 |
| Net cash flows – investing activities | (162,035) | (123,459) | (285,494) | (134,603) | (193,808) | (328,411) |
| Net cash flows – financing activities | 57,930 | 5,557 | 63,487 | 39,186 | 66,839 | 106,025 |
| Net change in cash flows | 393 | 2,312 | 2,705 | 22 | 162 | 184 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Property, plant and equipment

Property, plant and equipment (PPE) is initially measured at cost. The cost of PPE may include the initial purchase price plus directly attributable material, labour, finance costs, and other overheads incurred for bringing the assets to the location and condition necessary for their intended use. Assets under construction are recorded as capital work in progress and include operational and intangible assets under construction. Finance costs incurred during the course of construction that are attributable to a project are capitalised, using the finance rate applicable to the funding. Costs cease to be capitalised as soon as an asset is ready for productive use. The cost of assets purchased with foreign currencies is initially recorded using the exchange rate on the date of the transaction. Any foreign exchange gain or loss arising from the differences in exchange rates between the transaction date and the settlement date is recognised as revenue or expense in the period in which they arise.

| Asset Class | Category | Subsequent measurement basis | Estimated useful lives in years | |
|--------------------------------------|-----------------------------|--|---------------------------------|---------|
| | | | 2015 | 2014 |
| Land | Operational asset | Land at fair value that reflects current market value and forestry assets at fair value less costs to sell | - | - |
| Buildings | Operational asset | Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation | 12 - 117 | 1 - 117 |
| Pipelines | Infrastructure asset | Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation | 3 - 200 | 1 - 364 |
| Tanks, tunnels, roads and reservoirs | Infrastructure asset | Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation | 8 - 117 | 1 - 219 |
| Dams | Infrastructure asset | Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation | 15 - 200 | 1 - 204 |
| Landfill | Infrastructure asset | Cost less accumulated depreciation and impairment losses | 3 - 35 | - |
| Machinery | Infrastructure asset | Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation | 3 - 200 | 1 - 200 |
| Motor vehicles | Operational asset | Cost less accumulated depreciation and impairment losses | 4 - 25 | 1 - 15 |
| Office equipment | Operational asset | Cost less accumulated depreciation and impairment losses | 2 - 20 | 1 - 20 |
| Capital work in progress | Infrastructure asset mainly | Cost less accumulated impairment losses | - | - |

Forestry assets owned by Watercare are included within the land asset class. Changes in fair value less costs to sell relating to forestry assets and gains and losses on disposal of PPE are recognised in the statement of comprehensive revenue and expense for the period in which they arise.

Any PPE relating to the revalued asset classes that has been acquired after the most recent valuation is carried at cost less accumulated depreciation until the next revaluation.

Reclassification

The reclassification of assets between categories results from the ongoing project to improve asset data quality. The predominant reason for reclassification was to split broadly categorised assets into their component assets. It was not practical to reclassify the prior year's comparatives, due to the size of the asset register.

Revaluation

All PPE except for landfill, motor vehicles, office equipment and capital work in progress are revalued after initial recognition. Also refer to Revaluation reserves, note 6, page 88.

Revaluations are carried out on a class of asset basis at least every three years. During the off-cycle years for revaluation, the carrying values of previously revalued assets are assessed to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Revaluation assumptions

The most recent valuation for all infrastructure assets was completed at 30 June 2015 by Beca Valuations Limited (Beca). By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the market place, therefore fair value is assessed by the optimised depreciated replacement cost (ODRC) approach. ODRC uses the assessment of replacement cost of an asset with a new or a modern equivalent asset and applies optimisation and depreciation to adjust for age, condition, performance and remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Property, plant and equipment (continued)

Revaluation assumptions (continued)

The revaluation process involves physical inspection of selected assets at various water and wastewater treatment plants and associated plants to note aspects such as condition, utilisation, replacement timing and asset optimisation to determine an assessed remaining useful life. If the assessed remaining useful lives are not accurate, the annual depreciation charge may be either higher or lower in the statement of comprehensive revenue and expense. To minimise the estimation risk of assets' useful lives, the group continually assesses the condition of infrastructural assets and their remaining useful lives. Physical inspections and condition assessments are also used by Watercare to ensure that the condition of major assets is understood and the carrying value of an asset reflects its actual condition.

The assumptions used in determining the depreciated replacement cost of infrastructure assets were that:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets
- The useful lives of assets are calculated as the lesser of their physical lives or at the point where the assets are to be replaced for economic reasons
- The capital goods price index (CGPI) was used where indexation is appropriate (at the time of valuation, the CGPI was available to the March 2015 quarter and an estimate was made for the June 2015 quarter)
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The most recent valuation for land and buildings was during the previous financial year. Therefore, the movement in the fair value of land and buildings since 30 June 2014 was assessed at balance date using indices deemed suitable by management. The assessment indicated an increase of 12.7% in land value and 4.0% in buildings value at balance date. Aligning with Auckland Council Group, a revaluation of operational land and buildings will be completed in 2016 financial year. Accordingly, land and buildings were not revalued during the year.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than for landfills, freehold land and work in progress, at rates calculated to allocate their cost or revalued amounts over their estimated useful lives. PPE are depreciated to a nil residual value. Landfill assets are amortised on a usage basis over the expected life of the landfill.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Property, plant and equipment (continued)

| | Land | Buildings | Pipelines | Tanks, tunnels, roads and reservoirs | Dams | Landfill | Machinery | Motor vehicles | Office equipment | Capital work in progress | Total |
|----------------------------------|----------------|----------------|------------------|--------------------------------------|----------------|---------------|----------------|----------------|------------------|--------------------------|------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2013 | | | | | | | | | | | |
| Cost or valuation | 124,557 | 116,979 | 5,614,540 | 670,479 | 212,000 | - | 919,879 | 6,979 | 14,156 | 438,805 | 8,118,374 |
| Accumulated depreciation | - | (7,591) | (6,942) | (186) | - | - | (4,533) | (3,823) | (10,321) | - | (33,396) |
| Carrying amount | 124,557 | 109,388 | 5,607,598 | 670,293 | 212,000 | - | 915,346 | 3,156 | 3,835 | 438,805 | 8,084,978 |
| Year ended 30 June 2014 | | | | | | | | | | | |
| Additions to work in progress | - | - | - | - | - | - | - | - | - | 313,391 | 313,391 |
| Additions to PPE | 1,762 | - | 25,052 | - | - | - | - | 9 | - | - | 26,823 |
| Transfers from work in progress | 4,025 | 5,870 | 163,878 | 15,864 | 4,251 | - | 84,094 | 2,780 | 6,865 | (295,609) | (7,982) |
| Disposals | - | (86) | (4,988) | (3,085) | - | - | (3,413) | (8) | (102) | - | (11,682) |
| Revaluation | 25,217 | (182) | - | - | - | - | - | - | - | - | 25,035 |
| Transfer from/(to) other classes | 478 | (36,170) | 420 | 22 | - | - | 26,339 | 2 | 8,909 | - | - |
| Depreciation | - | (3,789) | (124,271) | (11,513) | (1,983) | - | (48,369) | (821) | (4,479) | - | (195,225) |
| Closing carrying amount | 156,039 | 75,031 | 5,667,689 | 671,581 | 214,268 | - | 973,997 | 5,118 | 15,028 | 456,587 | 8,235,338 |
| Balance at 30 June 2014 | | | | | | | | | | | |
| Cost or valuation | 156,039 | 75,031 | 5,795,386 | 683,129 | 216,251 | - | 1,026,221 | 9,274 | 28,735 | 456,587 | 8,446,653 |
| Accumulated depreciation | - | - | (127,697) | (11,548) | (1,983) | - | (52,224) | (4,156) | (13,707) | - | (211,315) |
| Carrying amount | 156,039 | 75,031 | 5,667,689 | 671,581 | 214,268 | - | 973,997 | 5,118 | 15,028 | 456,587 | 8,235,338 |
| Year ended 30 June 2015 | | | | | | | | | | | |
| Additions to work in progress | - | - | - | - | - | - | - | - | - | 286,913 | 286,913 |
| Additions to PPE | 100 | 155 | 17,153 | 75 | - | 3,201 | 4,112 | - | - | - | 24,796 |
| Transfers from work in progress | 1,127 | 1,007 | 225,018 | 2,082 | 2,387 | 44,739 | 53,639 | 4,943 | 4,134 | (352,770) | (13,694) |
| Disposals | (1,912) | - | (4,759) | (16) | - | - | (1,524) | (20) | (11) | (4,314) | (12,556) |
| Revaluation | - | - | 197,416 | 26,183 | 17,647 | - | (37,201) | - | - | - | 204,045 |
| Impairments | - | - | - | - | - | - | - | - | (39) | (1,141) | (1,180) |
| Transfer from/(to) other classes | - | - | - | (4,169) | - | - | 4,144 | - | 10 | - | (15) |
| Depreciation | - | (1,737) | (122,372) | (11,500) | (2,024) | (2,829) | (50,070) | (1,357) | (3,541) | - | (195,430) |
| Closing carrying amount | 155,354 | 74,456 | 5,980,145 | 684,236 | 232,278 | 45,111 | 947,097 | 8,684 | 15,581 | 385,275 | 8,528,217 |
| Balance at 30 June 2015 | | | | | | | | | | | |
| Cost or valuation | 155,354 | 76,193 | 5,981,345 | 684,238 | 232,282 | 47,940 | 948,018 | 14,049 | 32,271 | 385,275 | 8,556,965 |
| Accumulated depreciation | - | (1,737) | (1,200) | (2) | (4) | (2,829) | (921) | (5,365) | (16,690) | - | (28,748) |
| Carrying amount | 155,354 | 74,456 | 5,980,145 | 684,236 | 232,278 | 45,111 | 947,097 | 8,684 | 15,581 | 385,275 | 8,528,217 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Property, plant and equipment (continued)

Service concession assets – included in the above

Service concession assets are infrastructure assets owned by Watercare and operated by Veolia Water Services (ANZ) Pty Limited (Veolia) for the provision of water and wastewater services in the Papakura district. The franchise agreement stipulates the services Veolia must provide, to whom it must provide them and regulates the price. Veolia is responsible for upgrading and maintaining the entire network in Papakura so that at the end of the contract period (initial term of 30 years ending on 30 June 2027 with a 20-year right of renewal), the network shall be in a better overall condition than that which existed at the time the contract was commenced in 1997. At the commencement of the contract, a franchise fee was paid in exchange for the rights to operate the assets as detailed in note 21, page 106. Watercare retains ownership of the infrastructure assets franchised to Veolia.

Where Watercare recognises an asset for the upgrades made by Veolia to the existing service concession assets, Watercare also recognises a liability at the same amount as the asset. The liability so recognised is reduced over the remaining period of the service concession arrangement.

| | Pipelines | Machinery | Total |
|--------------------------------|----------------|--------------|----------------|
| | \$000 | \$000 | \$000 |
| Balance at 1 July 2013 | | | |
| Cost or valuation | 98,045 | 7,438 | 105,483 |
| Accumulated depreciation | (22) | (16) | (38) |
| Carrying amount | 98,023 | 7,422 | 105,445 |
| Year ended 30 June 2014 | | | |
| Additions to PPE | 1,191 | - | 1,191 |
| Disposals | (114) | - | (114) |
| Adjustment | (3,025) | (513) | (3,538) |
| Depreciation | (2,179) | (128) | (2,307) |
| Closing carrying amount | 93,896 | 6,781 | 100,677 |
| Balance at 30 June 2014 | | | |
| Cost or valuation | 96,097 | 6,925 | 103,022 |
| Accumulated depreciation | (2,201) | (144) | (2,345) |
| Carrying amount | 93,896 | 6,781 | 100,677 |
| Year ended 30 June 2015 | | | |
| Additions to PPE | 812 | - | 812 |
| Disposals | (33) | - | (33) |
| Revaluation | 60,143 | (2,462) | 57,681 |
| Depreciation | (2,170) | (130) | (2,300) |
| Closing carrying amount | 152,648 | 4,189 | 156,837 |
| Balance at 30 June 2015 | | | |
| Cost or valuation | 152,702 | 4,190 | 156,892 |
| Accumulated depreciation | (54) | (1) | (55) |
| Carrying amount | 152,648 | 4,189 | 156,837 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

| | 2015 | 2014 |
|---|----------------|----------------|
| Work in progress relates to the following projects: | \$000 | \$000 |
| Water treatment plant | 5,949 | 20,211 |
| Wastewater treatment plant | 69,174 | 93,547 |
| Wastewater pump station and sewer | 141,449 | 123,834 |
| Watermains, pump stations and reservoirs | 138,373 | 200,969 |
| Dams and raw water transmission pipelines | 6,294 | 6,516 |
| Other | 24,036 | 11,510 |
| Total work in progress | 385,275 | 456,587 |

5. Impairment of property, plant and equipment, and intangible assets

Non-financial assets other than revalued assets, primarily consisting of landfill, motor vehicles, office equipment, work in progress and intangibles, are separated into cash generating and non-cash generating assets and are annually assessed for impairment.

Cash-generating assets

Assets are considered cash generating where their primary objective is to generate a commercial return. At each reporting date, the group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets. At each reporting date, the group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable service amount. An asset's recoverable service amount is the higher of the non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Where the carrying amount of the non-cash-generating asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The total impairment loss for both cash-generating and non-cash-generating assets is recognised in the surplus/deficit. Any reversal of an impairment loss is recognised in the surplus/deficit.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

6. Revaluation reserves

The group maintains a revaluation reserve for each class of assets. The changes in the value of each class of PPE as a result of the revaluations are recorded in other comprehensive revenue and expense and accumulated in a revaluation reserve. Any revaluation increase is credited to the asset class revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously charged as an expense in determining the surplus/deficit for the year. Any accumulated depreciation at the date of the revaluation is transferred to the gross carrying amount of the asset and the asset cost is restated to the revalued amount. When revalued assets are disposed of, the amounts included in other reserves are transferred to retained earnings.

| | Land | Buildings | Pipelines | Tunnels, roads and reservoirs | Dams | Machinery | Total |
|--|---------------|---------------|------------------|-------------------------------------|---------------|----------------|------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2013 | 47,196 | 31,086 | 978,345 | 307,722 | 88,150 | 168,247 | 1,620,746 |
| Revaluation during the year – net of deferred tax | 25,217 | (131) | - | - | - | - | 25,086 |
| Transfer (to)/from other classes | - | (11,281) | 5 | (3) | - | 11,279 | - |
| Transferred to retained earnings on disposal of property, plant and equipment (net of tax) | - | (225) | 30,317 | (6,817) | - | (2,353) | 20,922 |
| Balance at 30 June 2014 | 72,413 | 19,449 | 1,008,667 | 300,902 | 88,150 | 177,173 | 1,666,754 |

| | Land | Buildings | Pipelines | Tunnels, roads and reservoirs | Dams | Machinery | Total |
|--|---------------|---------------|------------------|-------------------------------------|----------------|----------------|------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2014 | 72,413 | 19,449 | 1,008,667 | 300,902 | 88,150 | 177,173 | 1,666,754 |
| Revaluation during the year – net of deferred tax | - | - | 142,138 | 18,852 | 12,706 | (26,784) | 146,912 |
| Transfer from/(to) other classes | - | - | 19,110 | 5,514 | - | (24,624) | - |
| Transferred to retained earnings on disposal of property, plant and equipment (net of tax) | (96) | - | (750) | 17 | - | (628) | (1,457) |
| Balance at 30 June 2015 | 72,317 | 19,449 | 1,169,165 | 325,285 | 100,856 | 125,137 | 1,812,209 |

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

| Asset Class | Subsequent measurement basis | Estimated useful lives in years | |
|-------------------|--|---------------------------------|--------|
| | | 2015 | 2014 |
| Network models | Cost less accumulated amortisation and impairment losses | 1 - 8 | 1 - 5 |
| Computer software | Cost less accumulated amortisation and impairment losses | 1 - 10 | 1 - 12 |
| Resource consents | Cost less accumulated amortisation and impairment losses | 1 - 38 | 1 - 38 |

Amortisation

Amortisation is provided on a straight-line basis on all intangibles, other than easements, at rates calculated to allocate their cost over their estimated useful lives. Intangibles are amortised to a nil residual value. Easements have an indefinite useful life and are not amortised but are, instead, tested for impairment annually.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

7. Intangible assets (continued)

| | Network models | Computer software | Resource consents | Easements | Total |
|-----------------------------------|----------------|-------------------|-------------------|------------|---------------|
| Carrying amount | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2013 | | | | | |
| Cost | 6,952 | 52,522 | 25,253 | 498 | 85,225 |
| Accumulated amortisation | (4,721) | (30,665) | (6,785) | - | (42,171) |
| Carrying amount | 2,231 | 21,857 | 18,468 | 498 | 43,054 |
| Year ended 30 June 2014 | | | | | |
| Transferred from work in progress | 833 | 3,380 | 3,769 | - | 7,982 |
| Impairment | - | (10) | (520) | - | (530) |
| Amortisation | (1,206) | (8,490) | (1,026) | - | (10,722) |
| Closing carrying amount | 1,858 | 16,737 | 20,691 | 498 | 39,784 |
| Balance at 30 June 2014 | | | | | |
| Cost | 7,380 | 49,792 | 27,909 | 498 | 85,579 |
| Accumulated amortisation | (5,522) | (33,055) | (7,218) | - | (45,795) |
| Carrying amount | 1,858 | 16,737 | 20,691 | 498 | 39,784 |
| Year ended 30 June 2015 | | | | | |
| Transferred from work in progress | 753 | 6,504 | 6,305 | 131 | 13,693 |
| Transfer from other classes | - | 15 | - | - | 15 |
| Amortisation | (791) | (7,959) | (4,559) | - | (13,309) |
| Closing carrying amount | 1,820 | 15,297 | 22,437 | 629 | 40,183 |
| Balance at 30 June 2015 | | | | | |
| Cost or valuation | 6,514 | 55,746 | 34,214 | 629 | 97,103 |
| Accumulated amortisation | (4,694) | (40,449) | (11,777) | - | (56,920) |
| Carrying amount | 1,820 | 15,297 | 22,437 | 629 | 40,183 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

8. Borrowings

Borrowings are recorded at fair value, net of transaction costs. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis. Fees and expenses for establishing new borrowings are amortised over the term of those borrowings using the effective interest method. Accrued interest is presented separately within accruals.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Covenants

All borrowings are unsecured. Lenders of bank loans and holders of medium-term notes and short-term commercial paper receive the benefit of a negative pledge undertaking from the group. This undertaking limits the extent to which the group can give security to lenders and requires the group to ensure that the following financial ratios are achieved at all times:

- Total liabilities do not exceed 60 per cent of total tangible assets
- Total liabilities plus total contingent liabilities do not exceed 65 per cent of total tangible assets
- Shareholder's funds are not less than \$500.0 million
- Earnings before interest, tax, depreciation and amortisation is greater than 1.75 times interest expense
- Total tangible assets of the group are to be greater than 90 per cent of total tangible assets of the borrowing group.

All of these have been met for the years 30 June 2015 and 30 June 2014. The group has an agreement with Auckland Council under which Auckland Council guarantees repayment of the group's external borrowings and obligations under interest rate swaps.

| | 2015 | | | 2014 | | |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Face value | Unamortised cost | Carrying value | Face value | Unamortised cost | Carrying value |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Current | | | | | | |
| Related party term loan (unsecured) | 18,918 | - | 18,918 | 136,395 | - | 136,395 |
| Medium-term notes (unsecured) | 30,000 | 264 | 30,264 | 150,000 | 251 | 150,251 |
| Commercial paper (unsecured) | 150,000 | (1,307) | 148,693 | 135,000 | (1,189) | 133,811 |
| Total current borrowings | 198,918 | (1,043) | 197,875 | 421,395 | (938) | 420,457 |
| Non-current | | | | | | |
| Related party term loan (unsecured) | 1,043,422 | - | 1,043,422 | 722,339 | - | 722,339 |
| Medium-term notes (unsecured) | 125,000 | 667 | 125,667 | 155,000 | 931 | 155,931 |
| Term loan (unsecured) | 150,000 | - | 150,000 | 150,000 | - | 150,000 |
| Bank loan (unsecured) | - | - | - | 5,000 | - | 5,000 |
| Total non-current borrowings | 1,318,422 | 667 | 1,319,089 | 1,032,339 | 931 | 1,033,270 |
| Total borrowings | 1,517,340 | (376) | 1,516,964 | 1,453,734 | (7) | 1,453,727 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

8. Borrowings (continued)

| | 2015 | 2014 |
|--|------|------|
| Interest rates at balance date: | % | % |
| Related-party term loan | | |
| Weighted average | 4.74 | 5.22 |
| Average including interest rate swaps | 5.98 | 6.31 |
| Medium-term notes | | |
| Weighted average | 5.81 | 5.77 |
| Weighted average including interest rate swaps | 5.11 | 4.77 |
| Term loan | | |
| Weighted average | 4.93 | 4.77 |
| Weighted average including interest rate swaps | 7.09 | 6.87 |
| Bank loan | | |
| Weighted average | 4.01 | 4.32 |
| Weighted average including interest rate swaps | 4.01 | 4.32 |
| Commercial paper | | |
| Weighted average | 3.50 | 3.56 |
| Weighted average including interest rate swaps | 4.80 | 5.03 |
| Total debt | | |
| Weighted average | 4.74 | 5.13 |
| Weighted average including interest rate swaps | 5.88 | 5.92 |

The group had the following undrawn committed facilities available:

| | 2015 | 2014 |
|---|----------------|----------------|
| | \$000 | \$000 |
| Bank overdraft facility; expires on cancellation | 2,000 | 2,000 |
| Revolving advances; expires November 2018 (2014: expires November 2015) | 60,000 | 55,000 |
| Commercial paper stand-by facility; expires July 2017 (2014: \$100.0 million expires July 2015 and \$100.0 million expires in July 2017) | 175,000 | 200,000 |
| Total undrawn committed facilities | 237,000 | 257,000 |

Commercial paper issued by the group is represented by multiple tranches that spread funding risk. As each tranche matures, the group replaces it with a new issue, if required. The provider of the commercial paper stand-by facility acts as a lender of last resort, should the group be unable to reissue new commercial paper as it matures. The group's treasury policy requires that sufficient stand-by facilities be maintained to meet 50 per cent of outstanding commercial paper and other uncommitted short-term debt repayable within 60 days. The group complied with this requirement during the years ended 30 June 2015 and 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

9. Finance costs

Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds. Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes more than 12 months to become ready for its intended use or sale are capitalised as part of the cost of that asset. During the year an average interest rate of 5.39% (2014: 5.42%) was applied to capitalise interest. All other finance costs are expensed in the period they occur.

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Interest on bank overdraft and borrowings, paid and payable | 87,786 | 85,829 |
| Capitalised interest on construction of property, plant and equipment | (13,794) | (16,680) |
| Net finance costs | 73,992 | 69,149 |

10. Financial instruments and risk management

Risk management objectives and policies

The group's management monitor and manage financial risks relating to the operations of the group through internal risk reports, which analyse exposures by the degree and magnitude of risks. The main types of risk are market risk, credit risk and liquidity risk.

| Risk | Exposure arising from | Measurement | Management |
|--------------------------------|---|-----------------------------|---|
| Market risk – interest rate | Long-term borrowings at variable rates | Sensitivity analysis | Interest rate swaps and interest rate options |
| Market risk – foreign exchange | Future commercial transactions denominated in foreign currency | Sensitivity analysis | Forward foreign exchange contracts |
| Credit risk | Cash and cash equivalents, trade receivables from exchange transactions and derivatives | Credit ratings | Credit limits, performance guarantees and third-party bonds |
| Liquidity risk | Maturing liabilities and timing mismatches between revenue and expenses | Rolling cash flow forecasts | Availability of committed credit lines and borrowing facilities |

The group's risk management is carried out by a treasury function (Treasury) under policies approved by the board of directors. Treasury identifies, evaluates and hedges financial risks in conjunction with the group's business units. The board provides written principles for overall risk management as well as policies covering specific risk areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivatives and non-derivatives, and investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the board on a regular basis. The group does not apply hedge accounting.

Market risk

The group is exposed to market risk such as interest rate risk, foreign exchange risk and certain other price risks. The group manages its market risk by regularly assessing the impact of changes in market interest rates and foreign currency rates on the group's portfolio.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group is exposed to interest rate risk when it borrows funds at floating interest rates. The risk is managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures.

The group's borrowings comprise both fixed rates and floating rates of interest. It is group policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group enters into contracts that allow some of its floating interest rate exposure to be swapped from floating to fixed, and vice versa. As interest rates change, these derivative financial instruments are revalued to fair value and the change in fair value is recorded in the surplus/deficit.

The group's exposure to market interest rates relates primarily to the group's debt obligations, which are disclosed in note 8, page 90. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

| | 2015 | | 2014 | |
|---|---------------------|-----------------|---------------------|-----------------|
| | Fixed interest rate | Notional amount | Fixed interest rate | Notional amount |
| Interest rate swaps | % | \$000 | % | \$000 |
| Receivable maturities (fixed to floating): | | | | |
| Within one year | 5.10 | 30,000 | 5.74 | 150,000 |
| One to two years | - | - | 5.10 | 30,000 |
| Three to four years | 5.69 | 125,000 | - | - |
| Four to five years | - | - | 5.69 | 125,000 |
| Beyond five years | 6.24 | 60,000 | 6.24 | 60,000 |
| Payable maturities (floating to fixed): | | | | |
| Within one year | 4.33 | 130,000 | - | - |
| One to two years | 4.56 | 105,000 | 4.33 | 130,000 |
| Two to three years | 3.55 | 25,000 | 4.56 | 105,000 |
| Three to four years | 5.85 | 200,000 | 5.20 | 55,000 |
| Four to five years | 5.23 | 60,000 | 5.85 | 200,000 |
| Beyond five years | 5.26 | 1,250,000 | 5.61 | 970,000 |

| | 2015 | | | 2014 | | |
|--------------------------|----------|---------------------|-----------------|----------|---------------------|-----------------|
| | Cap rate | Fixed interest rate | Notional amount | Cap rate | Fixed interest rate | Notional amount |
| Interest rate option | % | % | \$000 | % | % | \$000 |
| Beyond five years | 5.25 | 4.35 | 50,000 | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Interest rate sensitivity

The following sensitivity analysis is based on the group's interest rate risk exposures at balance date.

At balance date, if interest rates had moved as illustrated in the table below, with all other variables held constant, post-tax surplus/deficit before capitalised interest and equity would have been affected as follows:

| | 2015 | | 2014 | |
|--|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | Post-tax deficit (Higher)/lower | Equity Higher/(lower) | Post-tax deficit (Higher)/lower | Equity Higher/(lower) |
| Sensitivity to possible movements: | \$000 | \$000 | \$000 | \$000 |
| Interest paid | | | | |
| 1% (100 basis points) higher for the year | (2,232) | (2,232) | (3,060) | (3,060) |
| 1% (100 basis points) lower for the year | 2,232 | 2,232 | 3,060 | 3,060 |
| Revaluation of derivative financial instruments | | | | |
| 1% (100 basis points) higher at year-end | 68,608 | 68,608 | 46,762 | 46,762 |
| 1% (100 basis points) lower at year-end | (76,165) | (76,165) | (51,670) | (51,670) |

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the group's transactions are carried out in New Zealand dollars.

From time to time the group is exposed to foreign exchange risk on foreign currency transactions related to the purchase of equipment, parts and chemicals. Where amounts exceed NZ\$250,000 (2014: NZ\$250,000), the group manages this risk with forward foreign exchange contracts or options.

The group had forward foreign exchange contracts at balance date as follows:

| | 2015 | | | |
|---|-----------------------|------------------|----------------|-------------------------------|
| | Average exchange rate | Foreign currency | Contract value | Mark to market gain/(loss) |
| | | FC 000 | NZ\$000 | NZ\$000 |
| United States Dollar (USD) | | | | |
| Less than three months | 0.8317 | 1,000 | 1,202 | 277 |
| Three months and beyond | 0.7983 | 862 | 1,080 | 210 |
| Australian Dollar (AUD) | | | | |
| Less than three months | 0.7991 | 185 | 232 | (23) |
| Three months and beyond | 0.9366 | 270 | 288 | 17 |
| Total forward foreign exchange contracts | | | 2,802 | 481 |

| | 2014 | | | |
|---|-----------------------|------------------|----------------|-------------------------------|
| | Average exchange rate | Foreign currency | Contract value | Mark to market gain/(loss) |
| | | FC 000 | NZ\$000 | NZ\$000 |
| United States Dollar (USD) | | | | |
| Less than three months | 0.8339 | 300 | 360 | (14) |
| Three months and beyond | 0.8206 | 2,122 | 2,586 | (84) |
| Australian Dollar (AUD) | | | | |
| Less than three months | 0.8040 | 79 | 99 | (13) |
| Three months and beyond | 0.8070 | 275 | 341 | (44) |
| Total forward foreign exchange contracts | | | 3,386 | (155) |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Foreign exchange sensitivity

The following sensitivity analysis is based on the group's foreign exchange risk exposures at year-end. At balance date, had the New Zealand dollar exchange rate changed as illustrated in the table below, with all other variables held constant, post-tax surplus/deficit and equity would have been affected as follows:

| | 2015 | | 2014 | |
|---|------------------------------------|--------------------------|------------------------------------|--------------------------|
| | Post-tax deficit (Higher)/lower | Equity Higher/(lower) | Post-tax deficit (Higher)/lower | Equity Higher/(lower) |
| Sensitivity to possible movements: | \$000 | \$000 | \$000 | \$000 |
| Change in United States dollar exchange rate | | | | |
| 10% increase | (181) | (181) | (186) | (186) |
| 10% decrease | 222 | 222 | 228 | 228 |
| Change in Australian dollar exchange rate | | | | |
| 10% increase | (34) | (34) | (25) | (25) |
| 10% decrease | 41 | 41 | 31 | 31 |

Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the group to credit risk consist mainly of cash and cash equivalents, derivative assets held for risk management, and trade and other receivables.

The group's cash and cash equivalents and derivatives are placed with major trading banks or other parties with a minimum A- long-term credit rating assigned by Standard & Poor's, or its Moody's equivalent. Debtors and other receivables arise from the group's statutory functions. Therefore, there are no procedures in place to monitor the creditworthiness of debtors and other receivables with regard to credit evaluations or external credit rating. However, there is no concentration of credit risk in respect of receivables, as the company has a large number of customers. The ageing of trade receivables from exchange transactions at balance date was as follows:

| | 2015 | | | 2014 | | |
|----------------------------|-----------------|---------------------------------|------------------------|-----------------|---------------------------------|------------------------|
| | Carrying amount | Provision for doubtful debts | Net carrying amount | Carrying amount | Provision for doubtful debts | Net carrying amount |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Not past due | 33,163 | - | 33,163 | 28,481 | (98) | 28,383 |
| Past due 1 to 30 days | 3,207 | (158) | 3,049 | 3,169 | (233) | 2,936 |
| Past due 30 to 60 days | 887 | (73) | 814 | 938 | (140) | 798 |
| Past due more than 60 days | 2,114 | (1,003) | 1,111 | 4,524 | (1,638) | 2,886 |
| Total | 39,371 | (1,234) | 38,137 | 37,112 | (2,109) | 35,003 |

| | 2015 | 2014 |
|--|--------------|--------------|
| Movement in the provision for doubtful debts | \$000 | \$000 |
| Balance at 1 July 2014 | 2,109 | 2,384 |
| Additions during the year | - | 570 |
| Bad debts written off | (734) | (807) |
| Unused provisions reversed during the year | (141) | (38) |
| Balance at 30 June 2015 | 1,234 | 2,109 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Liquidity risk

Liquidity risk is the risk that the group is unable to meet its financial obligations.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has an appropriate liquidity risk-management framework for the management of the group's short, medium and long-term funding and liquidity-management requirements. The group manages liquidity risk by maintaining adequate reserves and banking facilities, monitoring forecast and actual cash flows, and by matching these with the maturity profile of financial liabilities.

The group's objective is to maintain a balance between continuity of funding through long-term borrowings, sourced mainly through Auckland Council but also comprising medium-term notes and term loans, and the flexibility provided by a bank overdraft, revolving credit facility and commercial paper. The liquidity risk associated with the commercial paper is mitigated by a stand-by facility of \$175.0 million.

The following tables detail the gross undiscounted cash flows of the financial liabilities on the basis of their earliest possible contractual maturity (including interest payments where applicable). Cash flows for financial liabilities without fixed amounts or timing restrictions are based on the conditions existing at balance date.

Gross contractual maturity analysis

| | 2015 | | | | | | Gross nominal cash outflow | Carrying Amount |
|--|----------------|---------------|----------------|----------------|------------------|------------------|----------------------------|-----------------|
| | Current | | Non-Current | | | | | |
| | 0-6 months | 7-12 months | 1-2 years | 2-3 years | Over 3 years | | | |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | |
| Financial liabilities | | | | | | | | |
| Trade and other payables for exchange transactions | 23,838 | - | - | - | - | 23,838 | 23,838 | |
| Accrued expenses* | 62,237 | - | - | - | - | 62,237 | 62,237 | |
| Forward exchange contracts | 23 | - | - | - | - | 23 | 23 | |
| Interest rate swaps | 11,701 | 12,931 | 20,307 | 15,760 | 95,682 | 156,381 | 155,816 | |
| Interest rate option | - | - | 78 | 42 | 145 | 265 | 1,587 | |
| Borrowings | 199,165 | 61,041 | 288,522 | 134,905 | 1,276,524 | 1,960,157 | 1,516,964 | |
| Total | 296,964 | 73,972 | 308,907 | 150,707 | 1,372,351 | 2,202,901 | 1,760,465 | |

| | 2014 | | | | | | Gross nominal cash outflow | Carrying Amount |
|--|----------------|----------------|----------------|----------------|------------------|------------------|----------------------------|-----------------|
| | Current | | Non-Current | | | | | |
| | 0-6 months | 7-12 months | 1-2 years | 2-3 years | Over 3 years | | | |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | |
| Financial liabilities | | | | | | | | |
| Trade and other payables for exchange transactions | 28,320 | - | - | - | - | 28,320 | 28,320 | |
| Accrued expenses* | 55,504 | - | - | - | - | 55,504 | 55,504 | |
| Forward exchange contracts | 100 | 50 | 5 | - | - | 155 | 155 | |
| Interest rate swaps | 7,705 | 6,064 | 7,654 | 6,125 | 25,294 | 52,842 | 64,110 | |
| Borrowings | 217,401 | 268,184 | 115,917 | 282,545 | 1,040,117 | 1,924,164 | 1,453,727 | |
| Total | 309,030 | 274,298 | 123,576 | 288,670 | 1,065,411 | 2,060,985 | 1,601,816 | |

* Excludes current and non-current revenue received in advance of \$21.3 million (2014: \$27.2 million) as it was not categorised as a financial liability; refer note 21, page 106.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had \$237.0 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2014: \$257.0 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Fair values

The calculation of fair value for each category of financial assets and liabilities is explained below.

Loans and receivables

Due to the relatively short-term nature of trade receivables, their carrying amount was considered a reasonable approximation of fair value.

Amortised cost

Due to the relatively short-term nature of trade payables and accrued expenses, their carrying amounts were considered a reasonable approximation of fair value.

The fair value of loans and borrowings was calculated based on the present value of contractual principal and interest cash flows, discounted at the market rate of interest in the reporting period.

Fair value through profit and loss

Interest rate swaps and interest rate options were measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Forward foreign exchange contracts were measured using observable market forward exchange rates.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to those used in the previous reporting period. No reclassification of financial assets was made during the years ended 30 June 2015 or 30 June 2014.

Fair value hierarchy

The fair value hierarchy classifies financial assets and liabilities into three levels, as explained below, based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in which the financial asset or liability has been classified was determined based on the lowest level of significant input to the fair value measurement.

The only financial assets and liabilities that were measured at fair value in the statement of financial position were derivative financial instruments. The valuation for derivative financial instruments was based on the level 2 fair value hierarchy. The derivative financial instruments that the group held at balance date comprised interest rate swaps, interest rate options and forward foreign exchange contracts.

Watercare's derivative transactions under the ISDA Master Agreement do not meet the criteria for offsetting in the balance sheet, such as a default on the bank loans or other credit events. As Watercare, presently, does not have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet.

There were no transfers between levels 1, 2 and 3 during the year ended 30 June 2015. Fair values at balance date were assessed using a range of market interest rates of between 3.09 per cent and 4.14 per cent (2014: 3.64 per cent and 5.10 per cent), derived from the interest rate swap curve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

| | 2015 | | 2014 | |
|--|------------------|------------------|------------------|------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | \$000 | \$000 | \$000 | \$000 |
| Financial assets – current | | | | |
| Loans and receivables | | | | |
| Cash and cash equivalents | 2,968 | 2,968 | 263 | 263 |
| Trade and other receivables from exchange transactions | 67,350 | 67,350 | 67,639 | 67,639 |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | 2,310 | 2,310 | 1,567 | 1,567 |
| Financial assets – non-current | | | | |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | 9,086 | 9,086 | 5,312 | 5,312 |
| | 81,714 | 81,714 | 74,781 | 74,781 |
| Financial liabilities – current | | | | |
| Amortised cost | | | | |
| Trade and other payables for exchange transactions | 19,789 | 19,789 | 28,320 | 28,320 |
| Accrued expenses* | 62,237 | 62,237 | 55,504 | 55,504 |
| Related party term loan (unsecured) | 18,918 | 19,085 | 136,395 | 138,053 |
| Medium-term notes (unsecured) | 30,264 | 31,521 | 150,251 | 155,036 |
| Commercial paper (unsecured) | 148,693 | 149,244 | 133,811 | 134,219 |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | 22,179 | 22,179 | 13,180 | 13,180 |
| Financial liabilities – non-current | | | | |
| Amortised cost | | | | |
| Related party term loan (unsecured) | 1,043,422 | 1,048,883 | 722,339 | 726,559 |
| Medium-term notes (unsecured) | 125,667 | 135,391 | 155,931 | 162,069 |
| Term loan (unsecured) | 150,000 | 150,950 | 150,000 | 150,929 |
| Bank loan (unsecured) | - | - | 5,000 | 5,010 |
| Fair value through profit or loss | | | | |
| Derivative financial instruments | 135,247 | 135,247 | 51,085 | 51,085 |
| | 1,756,416 | 1,774,526 | 1,601,816 | 1,619,964 |

*Excludes current and non-current revenue received in advance of \$21.3 million (2014: \$27.2 million) as it was not categorised as a financial liability; refer note 21, page 106.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

10. Financial instruments and risk management (continued)

Capital management

The capital structure of the group consists of equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings as disclosed on page 77, and debt including borrowings and covenants compliance as disclosed in note 8 on pages 90 and 91.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In ensuring that the group has sufficient solvency to satisfy all its operational needs, it closely monitors the ratio between the funds it receives from operations and its finance costs.

The group continues to focus on the maintenance of the long-term integrity of its assets whilst keeping the overall costs to its customers at minimum levels. There has been no change in the group's overall strategy for capital management during the years ended 30 June 2015 and 30 June 2014.

11. Revaluation of derivative financial instruments

| | 2015 | 2014 |
|--|--------|----------|
| | \$000 | \$000 |
| Interest rate swaps contracts loss/(gain) | 89,280 | (13,182) |
| Forward foreign exchange contracts (gain)/loss | (636) | 132 |
| Net revaluation loss/(gain) | 88,644 | (13,050) |

12. Revenue

Revenue is classified as exchange or non-exchange revenue based on whether it arises from an exchange or a non-exchange transaction. In an exchange transaction, assets or services are received, or liabilities are extinguished, directly in exchange for an approximately equal value. In a non-exchange transaction, value is either received or given from/to another entity without directly exchanging an approximately equal value. The group's significant items of revenue are as follows:

Revenue from exchange transactions

Water and wastewater revenue

Water revenue comprises the amounts received and receivable at balance date for water supplied to customers in the ordinary course of business. Wastewater revenue is a combination of a fixed charge and a volumetric charge for a percentage of water used. Water and wastewater revenue includes estimated unbilled amounts for unread meters at balance date. As meter reading is cyclical, management must apply judgment when estimating the daily average water consumption of customers between meter readings. Unbilled revenues from the last billed reading date to the end of the month are recognised as revenue during the month water and wastewater services are provided.

Revenue from rendering of services

Revenue from rendering of services is recognised at fair value of the amounts received or receivable as the services are delivered, or to reflect the percentage completion of the related services where delivered over time.

Interest income

Interest income is recognised using the effective interest method.

Dividend income

Dividend income is recognised on the date when the group's right to receive payment is established.

Infrastructure growth charge revenue

Infrastructure growth charge revenue received is recognised when payment is received for approved connections.

Revenue from non-exchange transactions

All non-exchange revenue earned by Watercare is from transfers.

Vested assets revenue

Vested assets revenue arises when developers are required under consent conditions to build infrastructure assets in the development area and vest them to Watercare upon completion of construction. Vested assets revenue is recognised at fair value of the assets received, being the values provided by the developers, at the date of transfer to Watercare. Vested assets received are recorded as additions to property, plant and equipment and not classified as capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

12. Revenue (continued)

| | Notes | 2015 \$000 | 2014 \$000 |
|--|-------------------|----------------|----------------|
| Revenue from exchange transactions | | | |
| Revenue from sale of goods | | | |
| Water revenue – gross | | 138,298 | 134,645 |
| Water leak remission | | (1,406) | (1,305) |
| Water revenue – net of leak remissions | | 136,892 | 133,340 |
| Revenue from sale of services | | | |
| Wastewater revenue – gross | | 292,639 | 282,857 |
| Wastewater leak remission | | (2,916) | (2,845) |
| Wastewater revenue – net of leak remissions | | 289,723 | 280,012 |
| Total water and wastewater revenue – net of leak remissions | | 426,615 | 413,352 |
| New meters and service connections | | 6,616 | 5,496 |
| Laboratory revenue | | 5,597 | 5,567 |
| Total revenue from sale of goods and services | | 438,828 | 424,415 |
| Infrastructure growth charge revenue | | 50,187 | 32,990 |
| Developer and financial contributions | | - | 250 |
| Dividend income | | 108 | 100 |
| Subvention income | Note 15, page 102 | 6,450 | 15,443 |
| Interest income | | 350 | 302 |
| Other revenue | | 4,789 | 6,083 |
| Total other revenue from exchange transactions | | 61,884 | 55,168 |
| Total revenue from exchange transactions | | 500,712 | 479,583 |
| Revenue from non-exchange transactions | | | |
| Transfers revenue | | | |
| Vested assets revenue | | 19,695 | 20,887 |
| Total revenue from non-exchange transactions | | 19,695 | 20,887 |
| Total revenue | | 520,407 | 500,470 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

13. Operating expenses

| | Notes | 2015 \$000 | 2014 \$000 |
|---|-------------------|---------------|---------------|
| Operating expenses include: | | | |
| Auditor's remuneration | | | |
| - annual audit and review of the financial statements – Deloitte | | 578 | 556 |
| - audit of financial statements – Office of the Auditor-General (OAG) contribution | | 36 | 35 |
| - OAG review of service performance | | - | 60 |
| - other services – Deloitte | | 18 | 6 |
| Directors' and trustees' fees | Note 27, page 111 | 534 | 502 |
| Environmentally significant costs | | | |
| - chemicals | | 11,032 | 10,878 |
| - energy | | 16,793 | 16,999 |
| Cost of consumables and spare parts consumed | | 10,138 | 5,397 |
| Operating leases and rent | | 5,419 | 5,691 |
| (Decrease)/increase in provision for doubtful debts | Note 10, page 95 | (141) | 570 |
| Bad debts written off | Note 10, page 95 | 734 | 807 |
| Salaries and wages | | | |
| - paid to employees | | 70,053 | 64,067 |
| - capitalised on construction of property, plant and equipment or recorded within asset operating costs and maintenance costs | | (15,417) | (15,216) |
| - included in employee benefit expenses | | 54,636 | 48,851 |

Auditor's remuneration for other services relates to a review of ERP systems and negative pledge reporting. Prior year fees for other services provided by the auditors relate to negative pledge reporting and to assistance with data analytics.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

14. Reconciliation of operating cash flows

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$000 | \$000 |
| Reconciliation of net deficit after tax to net cash flows from operating activities | | |
| Net deficit for the year | (55,356) | (8,392) |
| Non-cash and non-operating items: | | |
| Depreciation and amortisation | 208,739 | 205,947 |
| Net loss on disposal of and provision for redundant property, plant and equipment | 11,052 | 11,975 |
| Vested assets revenue | (19,695) | (20,887) |
| Developer and financial contributions | - | (250) |
| Net loss/(gain) on revaluation of derivative financial instruments | 88,644 | (13,050) |
| Fair value gain on forestry assets | - | (1,342) |
| Medium-term notes premium amortisation | (252) | (239) |
| Deferred tax | (11,236) | 38,230 |
| Movements in working capital: | | |
| (Increase)/decrease in assets: | | |
| Inventories | 14 | (616) |
| Trade and other receivables from exchange transactions | (2,257) | (10,202) |
| Prepaid expenses | 1,662 | 719 |
| Increase/(decrease) in liabilities: | | |
| Trade and other payables for exchange transactions | 2,122 | 3,357 |
| Accrued expenses | 516 | 16,859 |
| Provisions | 759 | 461 |
| Net cash flows from operating activities | 224,712 | 222,570 |

15. Income tax expense

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year. Current and deferred tax relating to items in other comprehensive revenue and expense is recognised against the respective items in other comprehensive revenue and expense. Current tax for current and prior years is recognised as a liability (or asset) to the extent it is unpaid (or refundable). The group's subsidiary, Watercare Harbour Clean-Up Trust, was exempt from tax and the group's other subsidiary, Auckland City Water Limited, was a non-trading entity.

Sale of tax losses

Watercare and Auckland Council tax group, a related party, enter into an arrangement each year for tax loss offset and subvention. The agreement outlines an estimated maximum of tax losses to be sold by Watercare to Auckland Council tax group for that income year. Actual amounts of tax loss offset and subvention are determined post balance date when the respective income tax calculations are completed by the parties. Under the agreement, subvention income of 45 cents per dollar of the tax impact of the losses sold is receivable by Watercare from Auckland Council tax group.

Tax loss offset

For the income year ended 30 June 2015, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of \$64.0 million (2014 \$80.0 million). Of which, \$8.1 million (2014 \$10.1 million) was accrued as subvention and the balance of \$55.9 million (2014 \$69.9 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2015, Watercare received a cash payment of \$8.5 million (2014 \$5.4 million) from Auckland Council tax group with a tax impact of \$67.2 million (2014 \$42.6 million).

This has resulted in subvention income of \$6.5 million (net) being recognised in the financial statements reflecting the \$8.1 million accrual at 30 June 2015 partially offset by an over accrual of \$1.6 million at 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

15. Income tax expense (continued)

| | 2015 | 2014 |
|---|----------|--------|
| | \$000 | \$000 |
| Operating (deficit)/surplus before tax | (66,592) | 29,838 |
| Income tax calculated at current tax rate of 28% | (18,646) | 8,355 |
| Increase/(decrease) in income tax due to: | | |
| - Dividend and other income exempt from taxation | (1) | (9) |
| - Non-deductible expenses | 1,880 | 25 |
| - Imputation credits on dividends received | (41) | (38) |
| - Prior year and other adjustments | (6,954) | (96) |
| - Losses offset with Auckland Council tax group | 12,526 | 29,993 |
| Tax effect of non-deductible items and prior period adjustments | 7,410 | 29,875 |
| Income tax expense | (11,236) | 38,230 |
| Represented by: | | |
| Deferred tax | (11,236) | 38,230 |
| Total income tax expense | (11,236) | 38,230 |

Imputation credits

The imputation credit account is a memorandum account and does not form part of the statement of financial position

| | 2015 | 2014 |
|--------------------------|--------|--------|
| | \$000 | \$000 |
| Total imputation credits | 30,252 | 30,211 |

16. Deferred tax liability

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

The depreciation temporary differences for property, plant and equipment arose because the carrying value of property, plant and equipment was higher for accounting purposes than it was for taxation purposes; for example, due to:

- The revaluation of certain assets
- The group's accounting depreciation rates being lower than those permitted by tax legislation.

The provisions and accrued expenses temporary differences principally related to the mark-to-market revaluation of financial instruments. These expenses were recognised for accounting purposes but cannot be deducted for tax purposes until the amounts become payable.

Current and deferred tax assets and liabilities are measured at the tax rates that are expected to apply to year(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) which have been enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

16. Deferred tax liability (continued)

(i) Recognised deferred tax assets and liabilities

| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
|--|----------------|----------------|--------------------|--------------------|--------------------|------------------|
| | Assets | Assets | Liabilities | Liabilities | Net | Net |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Property, plant and equipment | - | - | (1,258,761) | (1,161,117) | (1,258,761) | (1,161,117) |
| Financial instruments | 40,888 | 16,068 | - | - | 40,888 | 16,068 |
| Employee benefits and other provisions | 3,666 | 2,804 | - | - | 3,666 | 2,804 |
| Tax losses | 216,376 | 186,438 | - | - | 216,376 | 186,438 |
| Other | - | - | (13,297) | (9,424) | (13,297) | (9,424) |
| Total | 260,930 | 205,310 | (1,272,058) | (1,170,541) | (1,011,128) | (965,231) |

(ii) Movement in deferred tax

| | Property, plant and equipment | Financial instruments | Employee entitlements and other provisions | Tax losses | Other | Total |
|---|-------------------------------|-----------------------|--|------------------|---------------|------------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Balance as at 1 July 2013 | 1,119,281 | (19,722) | (2,793) | (174,349) | 4,635 | 927,052 |
| Charged/(credited) to comprehensive revenue and expense | 41,887 | 3,654 | (11) | (12,089) | 4,789 | 38,230 |
| Credited to other comprehensive revenue and expense, resulting from revaluation | (51) | - | - | - | - | (51) |
| Balance as at 30 June 2014 | 1,161,117 | (16,068) | (2,804) | (186,438) | 9,424 | 965,231 |
| Balance as at 1 July 2014 | 1,161,117 | (16,068) | (2,804) | (186,438) | 9,424 | 965,231 |
| Charged/(credited) to comprehensive revenue and expense | 40,511 | (24,820) | (862) | (29,938) | 3,873 | (11,236) |
| Charged to other comprehensive revenue and expense, resulting from revaluation | 57,133 | - | - | - | - | 57,133 |
| Balance as at 30 June 2015 | 1,258,761 | (40,888) | (3,666) | (216,376) | 13,297 | 1,011,128 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

17. Trade and other receivables from exchange transactions

Trade and other receivables from exchange transactions are initially recognised at fair value. These are generally due for settlement within 21 days (2014: 21 days). Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is recognised when there is objective evidence that the group will not be able to collect all amounts due. Impairment losses are recognised in surplus/deficit within other expenses. Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 10, page 95.

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Current | | |
| Trade receivables | 38,614 | 36,352 |
| Trade receivables – related parties | 757 | 760 |
| Provision for doubtful debts | (1,234) | (2,109) |
| | 38,137 | 35,003 |
| Other receivables – related parties | 9,466 | 10,431 |
| Other receivables | 223 | 2,753 |
| Unbilled revenue accrual | 19,524 | 19,452 |
| Trade and other receivables from exchange transactions | 67,350 | 67,639 |

18. Inventories

Consumables are recorded at the lower of weighted average cost and net realisable value.

Spare parts and consumables are recorded at cost less an adjustment for the reduction in economic benefits due to obsolescence. The cost of spare parts is recorded as an expense when used for repairs and maintenance on existing plant and equipment, or recorded as part of the cost of the new asset if used in the construction of new property, plant and equipment.

Project stock is recorded at cost and relates to items purchased for a capital project which have yet to be transferred to the project site. Treated water in the network and reservoirs is recorded at the lower of cost and net realisable value. The cost of inventories recognised as an expense during the year was \$10.1 million (2014: \$5.4 million).

| | 2015 | 2014 |
|----------------------------|--------------|--------------|
| | \$000 | \$000 |
| Spare parts at cost | 4,233 | 4,127 |
| Consumables at cost | 3,408 | 3,303 |
| Treated water at cost | 865 | 800 |
| Project stock | 236 | 632 |
| Provision for obsolescence | (797) | (903) |
| Total | 7,945 | 7,959 |
| Represented as: | | |
| Current inventory | 4,061 | 4,500 |
| Non-current inventory | 3,884 | 3,459 |
| Total | 7,945 | 7,959 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2014: 30 days) of recognition. Certain construction contracts entitle the group to retain specified amounts to ensure the performance of contract obligations. These retentions are recorded as a liability, and either used to remedy contract performance or paid to the contractor at the end of the retention period.

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Current | | |
| Trade creditors | 11,542 | 16,577 |
| Trade creditors – related parties | 44 | 194 |
| Contract retentions | 6,957 | 5,757 |
| Other payables | 1,246 | 610 |
| Total current trade and other payables for exchange transactions | 19,789 | 23,138 |
| Non-current | | |
| Contract retentions | 4,049 | 5,182 |
| Total non-current trade and other payables for exchange transactions | 4,049 | 5,182 |
| Total trade and other payables for exchange transactions | 23,838 | 28,320 |

20. Prepaid expenses

Prepayments include an amount of \$24.4 million (2014: \$24.4 million) paid to Kelliher Charitable Trust towards lease of land at Puketutu Island for disposal of biosolids by Watercare. The amount is amortised on a straight line basis over the lease period, which is 55 years with one right of renewal of 15 years, which is longer than the resource consent period of 35 years as the land will be used beyond the consent period for aftercare. At balance date, the unamortised amount was \$22.6 million (2014: \$23.1 million) of which \$0.4 million was included within current prepaid expenses (2014: \$0.4 million) and \$22.2 million within non-current prepaid expenses (2014: \$22.7 million). The remaining prepayments balance of \$2.6 million (2014: \$3.7 million) in current and \$1.5 million (2014: \$1.5 million) in non-current relate mainly to prepaid insurance, biosolids levy and software licensing fees.

21. Accrued expenses

| | 2015 | 2014 |
|---|---------------|---------------|
| | \$000 | \$000 |
| Current | | |
| Capital work in progress accruals | 26,310 | 21,975 |
| Interest payable | 10,380 | 12,681 |
| Revenue received in advance | 6,661 | 14,095 |
| Operating costs accruals | 25,547 | 20,848 |
| Total current accrued expenses | 68,898 | 69,599 |
| Non-current | | |
| Revenue received in advance | 14,652 | 13,120 |
| Total non-current accrued expenses | 14,652 | 13,120 |
| Total accrued expenses | 83,550 | 82,719 |

Revenue received in advance includes \$8.3 million (2014: \$8.6 million) relating to the amount received in accordance with the franchise fee agreement with the network operator Veolia Water Services (ANZ) Pty Limited. The \$13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement. Accrued expenses above include inter-entity accruals. Refer to note 23, page 109 for a breakdown of inter-entity accruals.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

22. Provisions

The group provides for the cost of employees' entitlements under the terms of their employment contracts. The liability is calculated as the present value of the expected future payments after allowing for wage and salary increases, the rate of staff turnover and terms of service with the group. These amounts, except for the long-service leave entitlement, are expected to be settled within one year and are, therefore, recorded in current provisions. The amount recorded in non-current provisions represents the portion of long-service leave which is due for payment beyond one year from the reporting date. The amount recorded as a provision is the best estimate of the consideration required to settle the obligation at the end of each year.

Decommissioning provisions relate to future costs for site restoration and removal work that must be completed by Watercare in accordance with resource consent conditions. Decommissioning provisions are recognised as part of the cost of the relevant asset. Current decommissioning provisions are those which are expected to be utilised within 12 months after balance date.

Other provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that there will be a future outflow of resources and that the amount of the provision can be reliably measured.

| | 2015 | 2014 |
|-------------------------------------|---------------|--------------|
| | \$000 | \$000 |
| Current | | |
| Employee entitlements | 6,926 | 6,383 |
| Decommissioning costs | 1,520 | 928 |
| Other provisions | 3,650 | - |
| Total current provisions | 12,096 | 7,311 |
| Non-current | | |
| Employee entitlements | 1,267 | 1,201 |
| Decommissioning costs | 3,484 | - |
| Total non-current provisions | 4,751 | 1,201 |
| Total provisions | 16,847 | 8,512 |

| | Employee entitlements | Decommissioning costs | Other provisions | Total |
|--|-----------------------|-----------------------|------------------|---------------|
| | \$000 | \$000 | \$000 | \$000 |
| Balance at 1 July 2014 | 7,584 | 928 | - | 8,512 |
| Additions during the year | 7,020 | 5,004 | 3,650 | 15,674 |
| Reductions resulting from payments | (6,358) | - | - | (6,358) |
| Unused provisions reversed during the year | (53) | (928) | - | (981) |
| Balance at 30 June 2015 | 8,193 | 5,004 | 3,650 | 16,847 |

Watercare is currently depositing biosolids on Puketutu Island in Mangere, Auckland. A non-current provision is recognised for the present value of costs to be incurred for the restoration of this site in line with consent conditions. It is expected that \$23.3 million will be required evenly over the 10 year period covering 2046 to 2055 financial years, with a net present value at balance date of \$3.2 million.

The major assumptions used in the estimation of this provision are:

- An average inflation rate over the 40 year provision period of 3.35%
- A 6% discount rate in calculating net present value
- An expected biosolids completion date of 30 years from 2015
- Aftercare activities will be required for a period spanning ten years from completion
- The exact extent of work required to restore the site along with quantities of materials and supplies is unknown and therefore an estimate has been made based on true information available at balance date.

Included within the decommissioning provisions is an additional provision of \$1.8 million (\$1.5 million recognised as current and \$0.3 million as non-current) for the restoration of Pond 2 located adjacent to the Mangere wastewater treatment plant. It is expected that \$1.5 million will be used in 2016 financial year to complete the final cover and landscaping of the pond, while \$0.3 million will be used evenly until 2032 financial year to meet aftercare requirements.

Other provisions of \$3.7 million relate to claims made by contractors in respect of capital projects.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

23. Equity and related parties

Equity

Watercare is 100 per cent owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2014: 260,693,164) ordinary shares of \$1 each. Every ordinary issued share was fully paid and carries equal voting rights to:

- One vote on a poll at a meeting of the company on any resolution
- An equal share in the distribution of the surplus assets of the company.

Under Section 57(1)(b) of the Local Government (Auckland Council) Act 2009, the company must not pay any dividend or distribute any surplus in any way, directly or indirectly, to its shareholder. The capital management policy of the group is detailed in note 10, page 99.

The contribution value for the net assets of \$3.8 billion transferred to Watercare when the retail water and wastewater businesses in the Auckland region were integrated into the company on 1 November 2010, was recorded within retained earnings.

Subsidiaries

The consolidated financial statements comprise the financial statements of the controlling entity Watercare Services Limited and the three controlled entities noted below. Consolidation involves adding together like items of assets, liabilities, equity, revenue and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

The company provides funding to its subsidiaries in the form of grants; this is treated as expenditure in the company's books and as revenue in the subsidiaries' books. On consolidation, this expenditure is offset by the revenue in the subsidiaries' books whilst the actual expenditure is recognised in the group's accounts when the subsidiaries incur the expenditure.

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. Watercare has the power to appoint two out of five of the trustees on the trust board. Watercare exercises control over the trust as it fully funds the trust's running costs and the trust caters only to the customers of Watercare.

Watercare Harbour Clean-Up Trust

Watercare Harbour Clean-Up Trust was set up in December 2002 by several local authorities and is a charitable trust. During 2010/11, Watercare became the primary funder of this trust and, at 30 June 2015, three of the five trustees on the board were current Watercare employees while the chairman of the trust is also a director of Watercare.

Auckland City Water Limited

Auckland City Water Limited is 100 per cent owned by Watercare and it is a non-trading company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

23. Equity and related parties (continued)

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 8, page 90. Watercare also entered into interest rate swap arrangements with Auckland Council (with a notional value of \$35.0 million; 2014: \$35.0 million) with a fair value of \$0.05 million (2014: \$0.1 million) as at balance date, as included in note 10, page 93. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

| | 2015 | 2014 |
|--|-----------|---------|
| | \$000 | \$000 |
| Loans from Auckland Council, balance at 30 June | 1,062,340 | 858,734 |
| Interest payable on loans from Auckland Council | 5,969 | 5,481 |
| Interest expense on loans from Auckland Council | 45,034 | 30,273 |
| Loans borrowed from Auckland Council during the year | 340,000 | 390,000 |
| Loans repaid to Auckland Council during the year | 136,395 | 28,754 |
| Interest receivable (net) on interest rate swaps with Auckland Council | 226 | 237 |
| Interest expense (net) on interest rate swaps with Auckland Council | 265 | 1,123 |
| Debt guarantee fee payable to Auckland Council | 187 | 240 |
| Debt guarantee expense with Auckland Council | 815 | 993 |

During the year, the group provided funding to its subsidiaries. Also, in the normal course of business, Watercare received monies and incurred expenses on behalf of Te Motu A Hiaroa (Puketutu Island) Governance Trust and, at balance date, \$342,778 (2014: \$446,288) was payable to the trust by the group.

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 102.

The group provides retail water and wastewater services to its parent, Auckland Council, and its controlled, jointly controlled and significantly influenced entities as well as to key management personnel of the company and its parent. These sales take place in the normal course of its business. The group also entered into sales and purchases transactions with related parties in the normal course of its business, such as the payment of rates. These were not collectively significant.

| | 2015 | 2014 |
|--|--------|--------|
| | \$000 | \$000 |
| Sales to related parties | 16,525 | 24,658 |
| Trade receivables from exchange transactions – related parties | 757 | 760 |
| Purchases from related parties | 4,540 | 4,774 |
| Trade payables for exchange transactions – related parties | 44 | 194 |
| Receivables accruals – related parties | 9,466 | 10,431 |
| Payables accruals – related parties | 2,542 | 1,474 |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

24. Commitments

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$000 | \$000 |
| Capital expenditure | | |
| The capital expenditure committed to, but not recognised in, these financial statements at balance date was: | | |
| Buildings | 128 | 348 |
| Pipelines | 111,522 | 153,418 |
| Tanks, tunnels, roads and reservoirs | 9,156 | 16,073 |
| Intangibles | 1,074 | 601 |
| Other | 32,311 | 37,863 |
| Total capital expenditure commitments | 154,191 | 208,303 |
| Anticipated payment schedule: | | |
| Less than one year | 131,677 | 137,910 |
| One to two years | 14,428 | 66,122 |
| Two to five years | 8,086 | 4,271 |
| Total capital expenditure commitments | 154,191 | 208,303 |

The group leases certain property, plant and equipment where the lessor effectively retains substantially all the risks and benefits of ownership. Amounts payable under the lease terms are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are initially recorded as a liability and are recognised as a reduction of the lease expense on a straight-line basis over the lease term.

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expires in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expires in July 2092. The annual rental of \$0.6 million (2014: \$0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs, office equipment and motor vehicles.

| | 2015 | 2014 |
|--|----------------|----------------|
| | \$000 | \$000 |
| Operating leases | | |
| Anticipated payments under non-cancellable operating leases: | | |
| Less than one year | 5,586 | 5,369 |
| One to two years | 5,518 | 5,137 |
| Two to five years | 16,334 | 15,273 |
| Beyond five years | 74,690 | 78,585 |
| Total lease commitments | 102,128 | 104,364 |

25. Contingencies

Watercare issued performance bonds in 2014 of \$0.4 million to the Bank of New Zealand which were all extinguished during the year and no new performance bonds were issued. The performance bonds were to support Watercare's obligations to New Zealand Transport Agency for any potential defects or additional maintenance work resulting from the construction work being undertaken by Watercare to the State Highway.

In the normal course of its business, the group was exposed to claims, legal proceedings and arbitrations that may, in some cases, result in costs to the group. The directors believe that these were provided for adequately by the group within note 22, page 107, of these financial statements and no additional material contingent liabilities requiring disclosure have been identified.

26. Retirement benefit plans

Each of the employees of the group can elect to join the KiwiSaver scheme. KiwiSaver is a work-based savings scheme run through a selection of private providers. The obligation of the group is to contribute a specified percentage of payroll costs to the KiwiSaver scheme in line with employee contributions and the only obligation of the group to the KiwiSaver scheme was to make the specified contributions.

The total defined contribution expense recognised in the surplus/deficit for 2015 was \$1.7 million (2014: \$1.5 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

27. Key management personnel

The key management personnel of the group are the directors, the chief executive, and the senior management team of Watercare, and the trustees of the subsidiaries, who together constitute the governing body of the group. The number of individuals, on a full-time equivalent (FTE) basis, excluding directors and trustees, receiving remuneration from the group as key management personnel is 11 FTE.

The aggregate remuneration received by the key management personnel is shown below:

| | 2015 | 2014 |
|---|--------------|--------------|
| | \$000 | \$000 |
| Employees' salaries and wages, directors' fees and trustees' fees | 4,937 | 4,122 |
| Post-employment benefits | 102 | 105 |
| Aggregate remuneration | 5,039 | 4,227 |

| | | 2015 | 2014 |
|---|---------------|------------|------------|
| | | \$000 | \$000 |
| Directors' fees | Appointed | | |
| David Clarke (Chairman – appointed November 2013) | July 2008 | 106 | 93 |
| Mike Allen | December 2011 | 67 | 61 |
| Julia Hoare | November 2013 | 61 | 40 |
| Peter Drummond | January 2010 | 53 | 53 |
| Tony Lanigan | April 2011 | 53 | 53 |
| Catherine Harland | April 2011 | 53 | 53 |
| Nicola Crauford | April 2014 | 53 | 14 |
| David Thomas | November 2014 | 36 | - |
| Susan Huria (retired October 2014) | July 2008 | 26 | 53 |
| Ross Keenan (Chairman – retired October 2013) | March 2010 | - | 36 |
| Jeff Todd (retired October 2013) | May 2007 | - | 21 |
| Total | | 508 | 477 |

| | | 2015 | 2014 |
|--|--------------|-----------|-----------|
| | | \$000 | \$000 |
| Trustees' fees | Appointed | | |
| Watercare Utility Consumer Assistance Trust | | | |
| John Lusk (Chairman) | October 2011 | 8 | 8 |
| Bruce Hucker | October 2011 | 5 | 5 |
| Anne Candy (retired 30 June 2015) | October 2011 | 4 | 3 |
| Maureen Little | October 2011 | 4 | 5 |
| Lauren Godsiff | October 2011 | 5 | 4 |
| Total | | 26 | 25 |

Watercare Harbour Clean-Up Trust

| | | | |
|---------------------------------------|------------|----------|----------|
| Peter Drummond (Chairman) | April 2015 | - | - |
| Penny Whiting | April 2015 | - | - |
| Brian Monk | April 2015 | - | - |
| David Worsnop (retired December 2014) | June 2012 | - | - |
| Rob Fisher | April 2015 | - | - |
| Mark Bourne | April 2015 | - | - |
| Total | | - | - |

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

28. Significant changes on transition to PBE standards

Transition to PBE standards resulted mainly in disclosure and presentational changes for Watercare as detailed below.

- a) Classification impact on various revenue items as exchange and non-exchange revenue as presented in note 12, pages 99 and 100. There was no change required to the previously applied revenue recognition criteria.
- b) Classification of receivables and payables into receivables/payables from exchange/non-exchange transactions as required. Refer to the statement of financial position, note 17, page 105; and note 19, page 106.
- c) Budget figures are disclosed in respective lines in the statements of comprehensive revenue and expense, financial position and cash flows. Variances to budget are explained in note 2, pages 79 and 80.

29. Events occurring after balance date

No significant events have occurred since balance date requiring disclosure in these financial statements.

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2015

Employees' remuneration range

The table below shows the number of employees and former employees of the group who, in their capacity as employees, received remuneration and other benefits of at least \$100,000 during the year.

| | 2015 |
|-------------------|---------------------|
| | Number of employees |
| 100,000 – 110,000 | 52 |
| 110,001 – 120,000 | 34 |
| 120,001 – 130,000 | 22 |
| 130,001 – 140,000 | 12 |
| 140,001 – 150,000 | 18 |
| 150,001 – 160,000 | 11 |
| 160,001 – 170,000 | 3 |
| 170,001 – 180,000 | 4 |
| 180,001 – 190,000 | 4 |
| 190,001 – 200,000 | 1 |
| 200,001 – 210,000 | 2* |
| 210,001 – 220,000 | 1 |
| 220,001 – 230,000 | 3 |
| 230,001 – 240,000 | 3 |
| 240,001 – 250,000 | 2 |
| 250,001 – 260,000 | 1 |
| 260,001 – 270,000 | 1 |
| 270,001 – 280,000 | 2 |
| 290,001 – 300,000 | 1 |
| 300,001 – 310,000 | 1 |
| 390,001 – 400,000 | 1 |
| 590,001 – 600,000 | 2* |
| 710,001 – 720,000 | 1* |
| 770,001 – 780,000 | 1* |

* During the year final payments were made to a total of four staff who left the company. These payments included outstanding annual and long service leave entitlements and in some cases redundancy payments.

The Chief Executive earned remuneration in the \$590,000 to \$600,000 range for the year. All fees received from the Chief Executive's association with entities outside Watercare are paid directly to Watercare and are retained by Watercare.

2015 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

Safe and reliable water

(a) Potable Water Quality

- (i) Percentage compliance with the Ministry of Health's drinking water standards for graded plants (excluding minor or technical non-compliance)
(Target 2013/14: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014.

Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. Compliance with Drinking Water Standards New Zealand (DWSNZ) is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed Drinking Water Assessor. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.

- (ii) Percentage of metropolitan water treatment plants achieving Grade 'A'¹
(Target 2013/14: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014.

Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. All metropolitan water treatment plants were graded and each maintained an 'A' grade, meeting the target for 2013/14. The target for 2014/15 is 100%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.

- (iii) Percentage of metropolitan water supply reticulation achieving Grade 'a'²
(Target 2013/14: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014.

Watercare continued to meet this target. Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014. All metropolitan water treatment plants were graded and each maintained an 'a' grade, meeting the target for 2013/14. The target for 2014/15 is 100%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.

- (iv) Percentage of non-metropolitan water treatment plants achieving Grade 'A'¹
(Target 2013/14: ≥ 45% (100% by 2020) – Achieved: 50% – Previous year 37.5%)

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014.

Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ).

Out of 14 non-metropolitan water treatment plants, 6 were graded and achieved an 'A' grade. Four water treatment plants were not graded and four water treatment plants were decommissioned at the end of 2014, with the completion of the Southern Networks Upgrade Programme.

The target for 2014/2015 is 50%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.

- (v) Percentage of non-metropolitan water supply reticulation achieving Grade 'a'²
(Target 2013/14: ≥ 25% (100% by 2020) – Achieved: 64% – Previous year 40%)

The reported result is based on the grading achieved in November 2014, for the year beginning 1 July 2013 and ending 30 June 2014.

Water treated at all of the water treatment plants, both metropolitan and non-metropolitan, fully complied with the Drinking Water Standards for New Zealand (DWSNZ).

Out of the 11 non-metropolitan grading zones, seven have achieved an 'a' grade; these are the Huia Village, Glenbrook, and the five Rodney zones. The remaining four Franklin zones were not graded.

The target for 2014/15 is 50%. The 2014/15 result will be available after the grading in November 2015 for the year beginning 1 July 2014 and ending 30 June 2015.

1 Grade 'A' is awarded for water treatment plants achieving a 'completely satisfactory, extremely low level of risk'. The assessment is based on source and treatment factors, as defined in the Ministry of Health's 'Public Health Grading of Community Drinking – Water Supplies 2003'.

2 Grade 'a' is awarded for the water supply reticulation network achieving a 'completely satisfactory, extremely low level of risk'. The assessment is based on the reticulation condition, management and water quality, as defined in the Ministry of Health's 'Public Health Grading of Community Drinking – Water Supplies 2003'.

2015 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

(b) Continuity of Supply

- (i) **Percentage of unplanned water shutdowns restored within five hours**
(Target: $\geq 95\%$ – Achieved: 96.4% – Previous year: 97.4%)

In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 96.4% for the Auckland region.

While the target has been met for the year, it is getting taking longer to get to the sites as a result of increased traffic. Watercare has advised all workers that safety in driving to site and in carrying out the works is more important than meeting the KPI.

- (ii) **Number of unplanned water interruptions per 1000 connected properties**
(Target: ≤ 10 – Achieved: 6.6 – Previous year: 8.1)

The Auckland region covers a total 417,000 water supply connections. As a measure of reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 6.6 for the Auckland region.

(c) Water Conservation

- (i) **Per capita consumption (litres/person/day)**
(Target: $278 \pm 5\%$ l/p/d – Achieved: 270.69 l/p/d – Previous year 270 l/p/d)

As part of the Auckland Demand Management Plan, Watercare is committed to reducing per-capita consumption to 15% below the 2004 level of 298 litres per person per day by 2025. The per-capita consumption this year was 270.69 litres per person per day, which is even lower than the targeted consumption.

This year Watercare continued its demand management initiatives targeted at making Auckland region more water efficient, such as leakage management and a water-efficiency programme for businesses.

(d) Water Losses

- (i) **Percentage of annual potable water network losses measured as total network volume (losses is defined as 'real' losses, from the wholesale and retail distribution systems)**
(Target: $\leq 13\%$ – Achieved: 12.95% – Previous year: 13.9%)

Watercare continued to meet this target. The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the total volume of water produced. These allowable uses fall into three categories: Operational usage (pipeline flushing, fire-fighting etc.); meter-under-recording, and unauthorised usage.

The volumes attributed to these three activities are calculated based on the percentages recommended by Water New Zealand (0.5%, 3% and 0.45% respectively). For 2014/15, the percentages for the three allowable uses have stayed the same except for the addition of 100% of the water used for the flushing of sewers in the new service areas in Riverhead and Kumeu. These areas were commissioned in 2014 and as yet there have been limited connections to the network in the area. As a result, ongoing flushing of the sewers from the water network is required to prevent operational issues from arising. This brings Watercare's performance against this measure to 12.95%, within the target limit of 13% or less.

Healthy waterways

(a) Wastewater Network Performance

- (i) **Number of dry-weather sewer overflows per 100km of wastewater pipe length per year**
(Target: ≤ 5 – Achieved: 1.86 – Previous year: 1.8)

Watercare continued to meet this target. It reports on the number of wastewater overflows from its retail network during dry weather as a measure of the network's capability to meet current demand. The result for the year was 1.86 overflows per 100km of wastewater mains, which is well under the target limit of five or fewer.

- (ii) **Average number of wet-weather overflows per discharge location in priority receiving environments in areas serviced by the separated networks**
(Target: To have the Auckland-Wide Wastewater Network Discharge Consent application lodged and consent operational – Achieved)

The Auckland Wastewater Network Comprehensive Discharge Permit (NDC) was granted on 17 June 2014 for a period of 35 years. NDC provides a standard framework for regulating both wet weather and dry weather overflows from the majority of Watercare's existing metropolitan and satellite networks. As part of Watercare's deliverables for this compliance framework, there are four key work packages which will be progressed over the next 12 months:

- Annual Performance Report
- Network Strategy Plan
- Inflow and Infiltration Programme
- Targeted (Environmental) Monitoring Programme

2015 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

(iii) Number of sewer bursts and chokes per 1000 properties

(Target: ≤ 10 – Achieved: 7.7 – Previous year: 8.8)

The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. The target is to achieve fewer than 10; the result for the year was 7.7 for the Auckland region, well under the target limit.

(b) Wastewater Treatment Plant Compliance

Common Note for (b): A minor and technical non-compliance is treated as a transient, short term transgression from discharge consent standards that has no material long-term effect on the environment.

(i) Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for Metropolitan areas

(Target: 100% – Not achieved: 99% – Previous year: 100%)

Compliance with consents at the metropolitan wastewater treatment plants was 99.22% against a target of 100%. This result was due to a one-off, three-day incident at Mangere wastewater treatment plant in December 2014 where huge inflows caused by storms limited the effectiveness of the secondary treatment process.

(ii) Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas

(Target: $\geq 35\%$ – Achieved: 77% – Previous year: 64%)

There was significant work undertaken this year to improve the performance of some of the non-metropolitan wastewater treatment plants inherited by Watercare from local councils during integration. As a result, the non-metropolitan plants performed at 77% against a target of 35%, well on track to achieve 100% compliance on this measure by 2020.

(c) RMA Compliance

(i) Number of successful Resource Management Act (RMA) prosecutions against Watercare

(Target: 0 – Achieved: 0 – Previous year: 0)

There were no RMA prosecutions during the year.

Satisfied customers and stakeholders

(a) Customer Satisfaction

(i) Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services

(Target: $\geq 80\%$ – Achieved: 85.1% – Previous year: 84.7%)

In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7.2 out of a possible 9.0. The overall average score for the year was 7.7 out of 9.0. This equates to a performance of 85.1%.

This is an improvement over last year's results and can be attributed to the addition of two open-ended questions to the customer survey that drew greater detail from respondents. The additional feedback enabled teams to improve the quality of service offered. The sample of customers satisfied with the service was 2653 respondents out of 3121 surveyed.

(ii) Percentage of calls answered within 20 seconds

(Target: $\geq 80\%$ – Achieved: 85.5% – Previous year: 82.3%)

Grade of service is a call centre performance measure, aimed at ensuring calls are answered within 20 seconds. For the year 2014/15, the grade of service target of 80% was met – 85.5% of the calls were answered within 20 seconds.

The telephone calls received after hours are included in this total but were not included in the previous year. The focus for the next year is on quality of interactions, getting it right the first time and providing a more comprehensive level of service at the first point of contact.

(iii) Number of water quality complaints (taste, odour, appearance) per 1000 water supply connections

(Target: ≤ 5 – Achieved: 4.7 – Previous year: 5.9)

In order to ensure that a high level of service is provided to customers, Watercare monitors the number and type of water quality complaints received from its customers; Watercare's target for this measure is to keep the number of complaints to five or fewer for every 1000 connections. This year, we recorded 4.7 complaints per 1000 water connections, meeting the target.

(iv) Percentage of complaints 'resolved and closed' within 10 working days

(Target: $\geq 95\%$ – Achieved: 98.5% – Previous year: 94.2%)

The target of 'resolved' complaints measures the total time for each issue to be resolved and for feedback to be given to the customer. A 10-day target is considered industry best practice. In the 2014/15 year, 1675 complaints were received and of these complaints, 98.5% were resolved within the 10-day target. This meets and exceeds the target of 95%. The overall decrease in the number of complaints from 2300 in the 2013/14 financial year to 1675 in 2014/15, can be attributed to the root-cause analysis and resolution approach implemented during the year.

2015 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

Effective asset management

- (i) **Percentage of actual capital expenditure relative to budget**
(Target: $\geq 85\%$ – Achieved: 86% – Previous year: 96%)

Watercare aims to ensure capital expenditure is greater than 85% of the approved financial budget. For 2014/15, the actual capital expenditure was 86%, which meets the target for this measure. Watercare achieved a saving of 14% against budgeted capital expenditure due to a combination of planned projects being deferred and net efficiencies on projects that are underway.

Sound financial management

(a) Prudency

- (i) **Minimum funds flow from operations (FFO) to interest cover before any price adjustment**
(Target: ≥ 2.5 – Achieved: 3.32 – Previous year: 3.30)

The funds from operations (FFO) to interest cover ratio for the year ended 30 June 2015 was 3.32. Funds from operations were boosted by higher-than-budgeted revenue, while interest expense benefited from a combination of lower-than-budgeted new borrowings and lower-than-projected cost of funds.

(b) Affordability

- (i) **Percentage of expenditure on water supply services relative to the average household income**
(Target: $\leq 1.5\%$ – Achieved: 0.87% – Previous year: 0.90%)

Watercare continued to meet this target. The average monthly household water and wastewater bill from Watercare was \$69.24 for the period 1 July 2014 to 30 June 2015 inclusive. Statistics New Zealand's current (2013/14) average monthly household income in Auckland is \$7982.

This means that the average household water bill represents 0.87% of the average household income. This compares to 0.90% for 2013/14. Although Watercare tariffs increased by 2.5% in 2014/15, the increase in average Auckland salaries was 6%. These two factors influenced the 0.3% reduction in the measure.

Stable workforce

(a) Lost-time Injuries

- (i) **Lost-time injury frequency rate (LTIFR) per million hours worked**
(Target: ≤ 5 – Not Achieved: 6.42 – Previous year: 2.53)

Watercare did not achieve this target. The LTIFR rate for 2014/15 was 6.42 compared to 2.53 for the previous year. While this year's result appears to be significantly higher than the previous year's result, a full review of the reporting of all incidents over the preceding two years has shown a small number of lost time injuries were not accurately captured in previous years. Had these incidents been accurately captured, the previous year's LTIFR rate would have been 7.70. This year there has been an increased focus on accurate reporting of all incidents as well as improved clarity around the reporting criteria for all injuries, near misses and safety observations.

- (ii) **Level of ACC workplace management practices accreditation**
(Target: Tertiary – Achieved: Tertiary – Previous year: Tertiary)

Watercare's ACC tertiary level accreditation was maintained. Audits are carried out every two years, with the last audit conducted in March 2015.

(b) Staffing

- (i) **Percentage of total hours absent due to illness**
(Target: $\leq 2.5\%$ – Achieved: 2.16% – Previous year: 2.14%)

Watercare achieved an unplanned absenteeism rate of 2.16% which is within the target limit of 2.5% or less for this measure. The performance for 2014/15 is a marginal increase on 2013/14 performance of 2.14% the previous year. The increase is partly due to a number of long term absences during the year due to personal illness and, work and non-work related accidents.

Overall sick leave utilisation remains at approximately 5 days per employee per annum. Watercare provides a comprehensive occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are available to all staff, either through the company or by self-referral.

- (ii) **Percentage of voluntary leavers relative to number of permanent staff**
(Target: $\leq 12\%$ – Achieved: 10.9% – Previous year: 12.5%)

Staff turnover for the 2014/15 year was down from the previous year and is at the lower end of the target percentage. This is a reflection, in part, of the ongoing stability in employment retention resulting from the decision in late 2013 to centralise the company's support activities in the Newmarket office.

GRI INDEX – 'IN ACCORDANCE' CORE

This Content Index provides an overview of the G4 Standard Disclosures based on the selections made.

GRI's Standard Disclosures are comprised of one or more disclosure requirements. Following the link on a specific disclosure label in this Index will take you to the next sheet, 'Overview – Standard Disclosures', where the requirements are listed from "a" to "z" under the column "Disclosure Requirements". In order to report 'in accordance', an organization must answer each of the disclosure requirements for all the required Standard Disclosures.

In exceptional cases, if it is not possible to disclose certain required information, reasons for omission may apply for those Standard Disclosures marked with (*) in tables 3 and 4 on page 12 of Guidelines – Reporting Principles and Standard Disclosures. Consult the "Reasons for omission" on page 13 of the Guidelines – Reporting Principles and Standard Disclosures. There are also macros embedded in this sheet to assist you in disclosing accepted reasons for omission; click on the cell in the Reason(s) for Omission(s) column that you want to provide such a reason for and a selection form will open.

The GRI Guidelines contain the authoritative text. In case of any discrepancies between this Content Index template and the GRI Guidelines, the GRI Guidelines' text shall prevail.

General standard disclosures

General Standard Disclosures Page Number (or Link)

Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found.

| Strategy and analysis | |
|--|--|
| G4-1 | Governance section p.15, CE's report p.9 |
| Organizational profile | |
| G4-3 | Watercare Services Limited |
| G4-4 | Water supply and wastewater services |
| G4-5 | Auckland, New Zealand |
| G4-6 | New Zealand |
| G4-7 | 100% owned by Auckland Council |
| G4-8 | Auckland, New Zealand |
| G4-9 | Overview p.2; Financials p.70; Healthy, Safe and Engaged workforce p.37 |
| G4-10 | Healthy, Safe and Engaged workforce p.37 |
| G4-11 | Healthy, Safe and Engaged workforce p. 37 |
| G4-12 | Sound Financial Management p.64 |
| G4-13 | p.24 (Franklin's water) and p. 57 (water facts) |
| G4-14 | Watercare does not explicitly mention precautionary approach. It is however included in the risk management process explained in the Governance section on page 15 |
| G4-15 | Watercare has not endorsed external charters |
| G4-16 | Watercare is a member of Water Services Association of Australia, Water New Zealand and the Sustainable Business Network |
| Identified material aspects and boundaries | |
| G4-17 | Financials p.78 |
| G4-18 | Reporting and Materiality p.16 |
| G4-19 | Reporting and Materiality p.17, GRI Content index |
| G4-20 | Throughout annual report |
| G4-21 | Throughout annual report |
| G4-22 | Contrary to the year before, there has been no restatement this year |
| G4-23 | No significant change |

General standard disclosures (continued)

| General Standard Disclosures | Page Number (or Link) |
|-------------------------------|--|
| Stakeholder engagement | |
| G4-24 | Stakeholder engagement p.18-19 |
| G4-25 | Reporting and Materiality p.16 |
| G4-26 | Stakeholder engagement p.18-19 |
| G4-27 | Reporting and Materiality p.16; Stakeholder engagement p.18-19 |
| Report profile | |
| G4-28 | 1 July 2014 to 30 June 2015 |
| G4-29 | Sep-14 |
| G4-30 | Annual reporting cycle |
| G4-31 | communications@water.co.nz |
| G4-32 | In accordance with G4 'Core' guidelines |
| G4-33 | Annual report Assurance statements p.65-66, 72-73 |
| Governance | |
| G4-34 | Governance p.14-15 |
| Ethics and integrity | |
| G4-56 | Governance p.15 |

GRI INDEX – 'IN ACCORDANCE' CORE

Specific standard disclosures

| DMA and Indicators | Page Number (or Link) |
|--------------------|---|
| | Information related to Standard Disclosures required by the 'in accordance' options may already be included in other reports prepared by the organization. In these circumstances, the organization may elect to add a specific reference to where the relevant information can be found. |

Category: Economic

Material aspect: Economic performance

| | |
|--------|---|
| G4-DMA | Overview p.2; Sound financial management p.60 |
| G4-EC1 | Financials p.81, 82, Being fully sustainable p.51 |
| G4-EC2 | Being fully sustainable p.52 |
| G4-EC4 | Overview p.2 |

Material aspect: Indirect economic impacts

| | |
|--------|---|
| G4-DMA | Effective asset management p.59 |
| G4-EC7 | Effective asset management p.59; Stakeholder engagement p.18-19 |

Material aspect: Procurement practices

| | |
|--------|---------------------------------|
| G4-DMA | Sound Financial Management p.64 |
| G4-EC9 | Sound Financial Management p.64 |

Category: Environmental

Material aspect: Energy

| | |
|--------|------------------------------|
| G4-DMA | Being fully sustainable p.52 |
| G4-EN3 | Being fully sustainable p.52 |

Material aspect: Water

| | |
|---------|--|
| G4-DMA | Overview p.2, Effective asset management p.57 |
| G4-EN8 | Effective asset management p.57 |
| G4-EN9 | Effective asset management p.57 and Biodiversity online report |
| G4-EN10 | Being fully sustainable p.52 |

Material aspect: Biodiversity

| | |
|---------|---|
| G4-DMA | Being fully sustainable p.51 |
| G4-EN11 | Being fully sustainable p.52 and Biodiversity online report |
| G4-EN12 | Biodiversity online supplement (watercare.co.nz) |
| G4-EN13 | Being fully sustainable p.52 |
| G4-EN14 | Biodiversity online supplement (watercare.co.nz) |

Material aspect: Emissions

| | |
|---------|---|
| G4-DMA | Being fully sustainable p.51 |
| G4-EN15 | Energy and greenhouse gas emissions online supplement (watercare.co.nz) |
| G4-EN16 | Energy and greenhouse gas emissions online supplement (watercare.co.nz) |
| G4-EN17 | Energy and greenhouse gas emissions online supplement (watercare.co.nz) |
| G4-EN19 | Being fully sustainable p.51 |

Specific standard disclosures (continued)

| DMA and Indicators | Page Number (or Link) |
|--|--|
| Category: Economic (continued) | |
| Material aspect: Effluents and waste | |
| G4-DMA | Healthy waterways p.28; Being fully sustainable p.53 |
| G4-EN22 | Healthy waterways p.31; Wastewater online supplement (watercare.co.nz) |
| G4-EN23 | Being fully sustainable p.52, 53 |
| G4-EN24 | Healthy waterways p.32-33 |
| G4-EN25 | Being fully sustainable p.53; Wastewater online supplement (watercare.co.nz) |
| G4-EN26 | Being fully sustainable p.51; Biodiversity online supplement (watercare.co.nz) |
| Material aspect: Compliance | |
| G4-DMA | Healthy waterways p.32 |
| G4-EN29 | Healthy waterways p.32 |
| Category: Social | |
| Sub-category: Labor practices and decent work | |
| Material aspect: Employment | |
| G4-DMA | Healthy, safe and engaged team p.34-41 |
| G4-LA1 | Healthy, safe and engaged team p.38-39 |
| G4-LA3 | Healthy, safe and engaged team p.39 |
| Material aspect: Occupational health and safety | |
| G4-DMA | Healthy, safe and engaged team p.34 |
| G4-LA5 | Healthy, safe and engaged team p.40 |
| G4-LA6 | Healthy, safe and engaged team p.40 |
| G4-LA8 | Healthy, safe and engaged team p.40 |
| Material aspect: Training and education | |
| G4-DMA | Healthy, safe and engaged team p.38 |
| G4-LA9 | Healthy, safe and engaged team p. 38 |
| G4-LA11 | Healthy, safe and engaged team p. 37 |
| Material aspect: Diversity and equal opportunity | |
| G4-DMA | Healthy, safe and engaged team p.34, 37 |
| G4-LA12 | Governance p.10; Healthy, safe and engaged team p.37 |
| Material aspect: Equal remuneration for women and men | |
| G4-DMA | Healthy, safe and engaged team p. 38 |
| G4-LA13 | Healthy, safe and engaged team p. 38 |

Specific standard disclosures (continued)

| DMA and Indicators | Page Number (or Link) |
|--|--|
| Category: Social (continued) | |
| Sub-category: Society | |
| Material aspect: Local communities | |
| G4-DMA | Stakeholder engagement p.18-19 |
| G4-SO1 | Community engagement is required for all major infrastructure projects and is part of the consenting process |
| G4-SO2 | Being fully sustainable p.51; Healthy waterways p.30; Effective asset management p.59 |
| Material aspect: Compliance | |
| G4-DMA | Healthy waterways p.32 |
| G4-SO8 | Healthy waterways p.32 |
| Sub-category: Product responsibility | |
| Material aspect: Customer health and safety | |
| G4-DMA | Safe and reliable water p.25 |
| G4-PR1 | Safe and reliable water p.25 |
| G4-PR2 | Safe and reliable water p.25 |
| Material aspect: Product and service labeling | |
| G4-DMA | Safe and reliable water p.25; Customer satisfaction p.45 |
| G4-PR5 | Customer satisfaction p.45 |
| Material aspect: Compliance | |
| G4-DMA | Safe and reliable water p.25 |
| G4-PR9 | No non-compliance reported |

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| K | | | |
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GLOSSARY

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|---|---|
| Asset Management Plan (AMP) | A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period. |
| Biogas | A by-product of the wastewater treatment process that comprises approximately 65 per cent methane. |
| Biosolids | A treated solid by-product of the wastewater treatment process. |
| Capex | Capital expenditure. |
| Capitalised interest | The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use. |
| Central Interceptor | A large tunnel that will collect and carry wastewater. |
| EBITDA | Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash). |
| Global Reporting Initiative (GRI) | A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance. |
| Greenhouse gases | Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide. |
| Infrastructure assets | Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as water mains and sewers, and also treatment plants, tanks, dams and reservoirs. |
| Infrastructure growth charge | Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth. |
| Iwi | Tribal group/s (origin: Māori). |
| Kaitiaki | Custodian (origin: Māori). |
| Mana whenua | Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori). |
| Mauri | A material symbol of life (origin: Māori). |
| Net finance costs | Interest paid/payable less interest received/receivable. |
| Operational assets | Assets that are mainly held and used for the purpose of administration and/or to support infrastructure assets and activities. |
| Opex | Operational expenditure. |
| Regional Demand Management Plan | A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025. |
| Reliability-Centred Maintenance (RCM) | A framework which identifies the optimum time to maintain or replace assets based on operational performance, cost, health and safety and the environment. |
| Service concession arrangement | A binding arrangement between Watercare (grantor) and Veolia (operator) in which, the operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement. |
| Service Concession Assets | Assets owned and either provided by Watercare or upgraded for use by Veolia to provide public services in a service concession arrangement. |
| Statement of Intent (SOI) | The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder. |
| Statement of Service Performance (SSP) | The SSP is a retrospective record of the performance of the company against the measures in its SOI. |
| Subvention receipt | Amount received/receivable from a profit company by a loss company for the sale of tax losses. |
| Sustainability | Meeting current needs without compromising future generations' ability to meet their own needs. |
| Tāmaki Makaurau | The Auckland isthmus region (origin: Māori). |
| Tangata whenua | Indigenous people of the land (origin: Māori). |
| Taonga | Property, goods, possessions (origin: Māori). |
| Trade Waste | Any discharge into a sewer in the course of an industry or trade process. |
| Unaccounted-for water loss | Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (for example, through theft or metering inaccuracies). |
| Vested assets | Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited. |
| Wastewater | Liquid or solid matter discharged into the sewer network from domestic, commercial or industrial locations. |

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