2016 Annual Report

Our journey towards customer centricity

Watercare
An Auckland Council Organisation

Watercare staff hand out cups of water to the participants at 2016 Round the Bays annual fun-run. Watercare has supported Round the Bays for 23 years. This year, more than a hundred Watercare employees volunteered at the water stops, distributing thousands of cups of water to runners.

Contents

Feedback

Watercare remains committed to improving future annual reports. Please provide feedback on this report by emailing communications@water.co.nz

Cover: Glen Eden resident Shelley Scarlett with her son Ben. Shelley registered for Watercare's free water efficiency programme last year. After undergoing a water audit at her house and armed with customised advice to reduce waste, Shelley is well on her way to becoming a waterwise consumer.

Our vision

Trusted by our communities for exceptional performance every day.

Better tomorrow than we are today | Pai ake apōpō atu i tēnei rā

Our mission

Reliable, safe and efficient water and wastewater services.

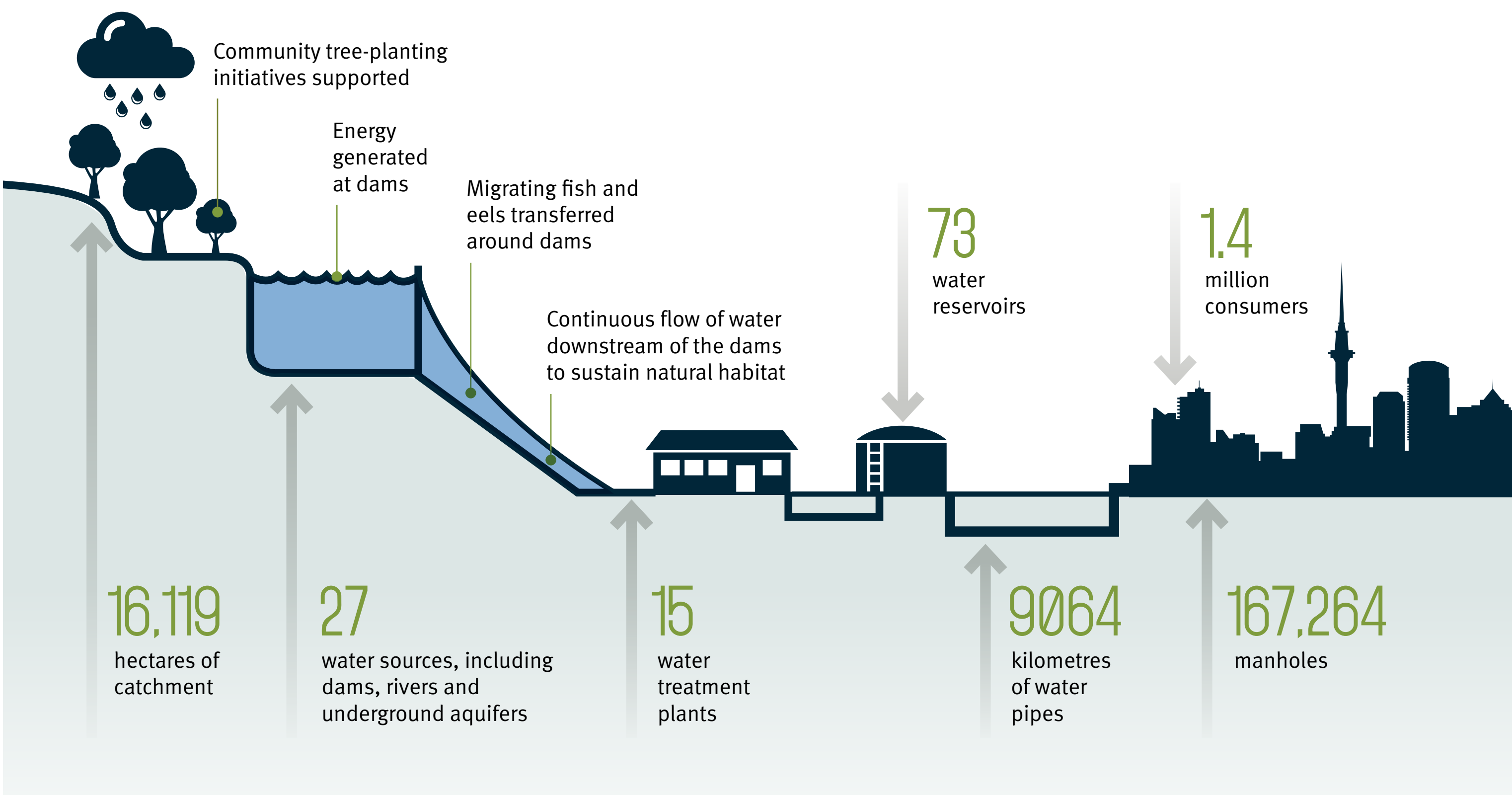
Watercare Services Limited (Watercare) provides lifeline services to Auckland. Our water supply and wastewater services are critical to the economic, social and environmental health and well-being of our communities.

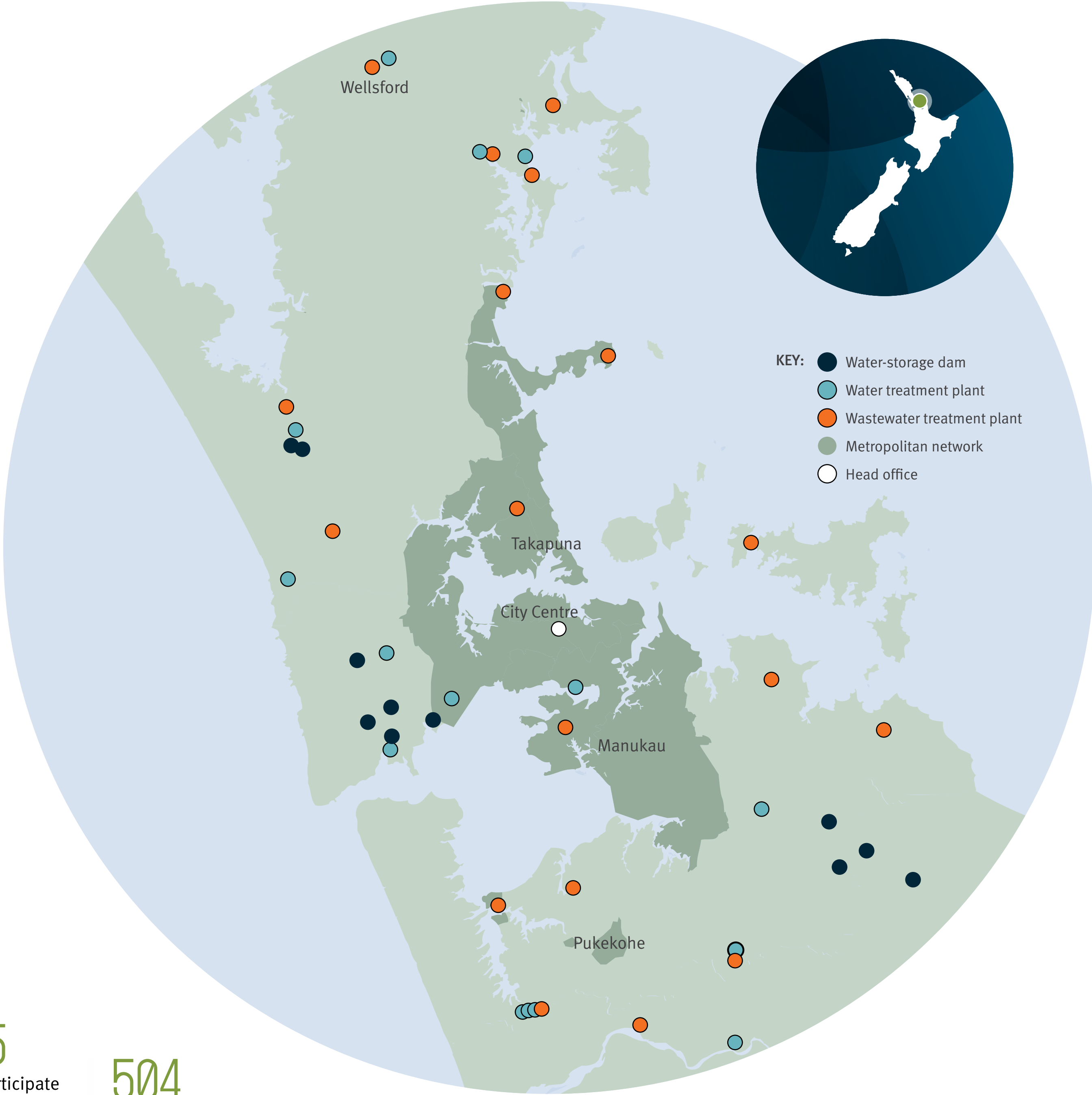
Each day, we supply around 354 million litres of water to the people of Auckland and treat around 392 million litres of wastewater to a high standard. We also carry out significant work to upgrade and construct infrastructure in order to maintain levels of service and provide capacity for population growth.

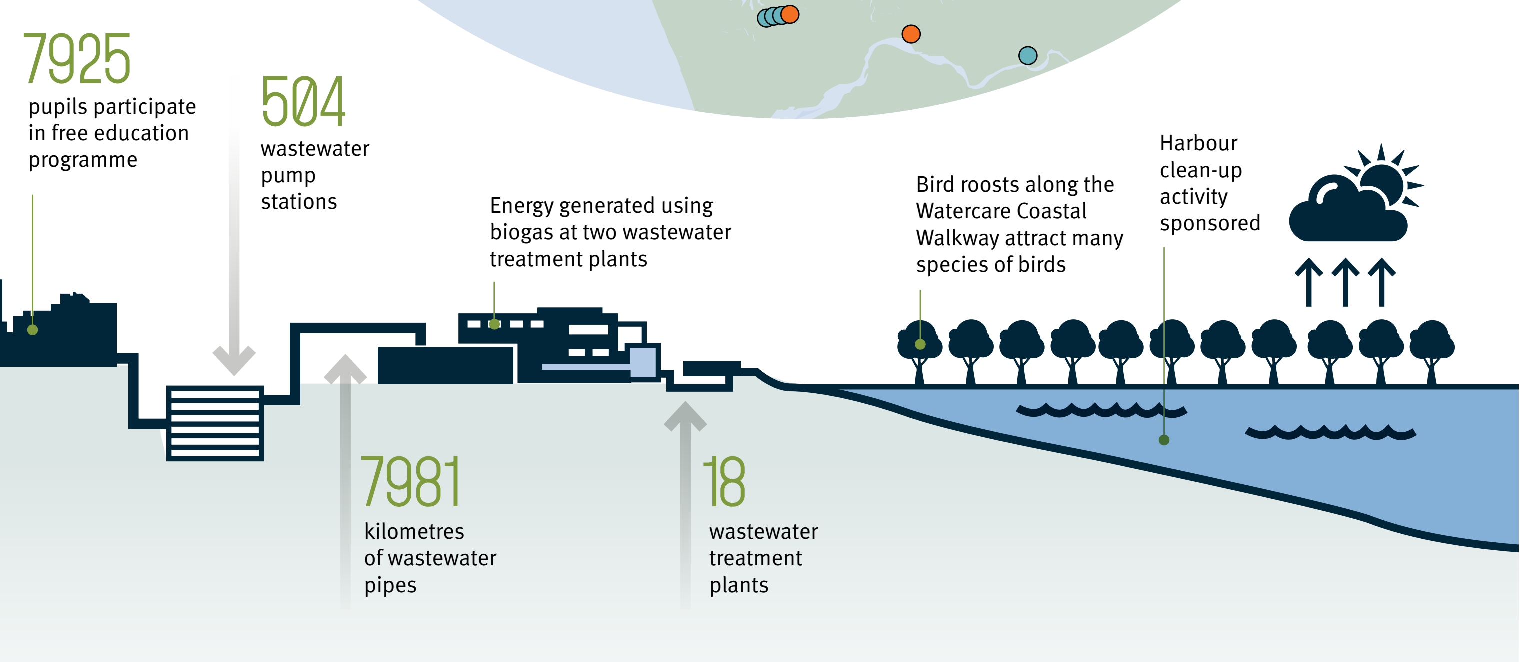
Watercare is a council-controlled organisation, wholly owned by Auckland Council. We do not operate to make a profit and we are prohibited from paying a dividend to Auckland Council by statute. Our company is also self-funding; we receive no funding from local or central government.

From sky to sea

An overview of Watercare's assets and operations




Wellsford
Takapuna
City Centre
Manukau
Pukekohe
KEY:
Water-storage dam
Water treatment plant
Wastewater treatment plant
Metropolitan network
Head office


7925
pupils participate in free education programme
504
wastewater pump stations
Energy generated using biogas at two wastewater treatment plants
Bird roosts along the Watercare Coastal Walkway attract many species of birds
Harbour clean-up activity sponsored
7981
kilometres of wastewater pipes
18
wastewater treatment plants

Our journey towards customer centricity: 2010 – 2016

Watercare is on a transformational journey towards customer centricity. In November 2010, we became responsible for the end-to-end provision of services including managing relationships with around 423,000 customers and 1.4 million Aucklanders.

Since then, we have been working to standardise the way we transact with and charge our bill payers. We have also been working to deliver to our service users 'Aa'-grade water that meets Drinking Water Standards for New Zealand.

The timeline below highlights our progress over the past six years. The strategic framework, launched in April 2015, aims to ensure we remain focused on our customers going forward.




2010

November
As part of the reorganisation of local bodies in Auckland, Watercare became the integrated provider of water and wastewater services for the region. This saw our customer base grow from seven local network operators to more than 400,000 properties and 1.4 million consumers overnight.

2011

July
Watercare introduced a standardised charge of $1.30 for 1000 litres of water. Previously, the amount customers were charged for services was determined by their location. For example, customers in rural Rodney were charged $3.50 for 1000 litres of water and customers in central Auckland were charged $1.62. The standardised charge introduced by Watercare was universally lower than the previous rates.

December
Watercare set up the Water Utility Consumer Assistance Trust to provide financial support to domestic customers who struggle to pay their water and wastewater bills. Since its inception, the trust has helped hundreds of customers.

2012

May
Watercare introduced a self-service portal for customers on our website.

July
Watercare introduced monthly billing in response to customer feedback. Previously, customers were billed on a quarterly or six-monthly basis. Monthly billing is helping customers to manage their household budgets and to detect leaks in a timely manner.

We also standardised wastewater charges for domestic customers and began charging them directly for these services. Previously, Auckland Council had collected wastewater charges from ratepayers in many areas and passed the money on to Watercare.

2013

August
Auckland Council adopted Watercare's proposal for a standardised trade waste regulation across Auckland. The Auckland Trade Waste Bylaw seeks to protect people, the environment and the public wastewater system from the risks associated with adverse effects of business discharges to the public wastewater system. It also assists in the treatment of trade waste, and encourages waste minimisation and cleaner production. It replaced the existing four bylaws that regulated trade waste in Franklin, Auckland, North Shore and Rodney.

December
As part of our commitment to managing Auckland's water demand, we launched a free advice and water audit service for households in Auckland. The programme includes phone consultations, home visits and a booklet with tips and practical advice on how to use water more efficiently. A similar programme for businesses was introduced in 2015.

2014

July
Watercare began transitioning non-domestic customers onto a standardised wastewater tariff with five pricing plans. This process was challenging as we had inherited 44 tariffs from the former councils and local network operators. Phased in over a three-year period, the standardised wastewater tariff ensures non-domestic customers pay the same amount for the services they receive, regardless of their location.

2015

April
Internally, Watercare launched a new strategic framework with a new vision, mission, priorities and values.

June
Watercare completed a $116 million project to transform Franklin's water supply. When we inherited the treatment plants in Franklin in 2010, many of them were producing water that did not comply with the Ministry of Health's standards. Delivering 'Aa'-grade water to the area became an immediate priority. We constructed infrastructure to supply properties in Pukekohe, Buckland, Patumāhoe, Clarks Beach, Waiau Pā and Glenbrook with water from the Waikato Water Treatment Plant. We also upgraded the treatment plants in Waiuku and Bombay. The work enabled us to take six rural treatment plants out of service.

2016

June
Prepared for the final stage of transition to standardised wastewater tariff for non-domestic customers.

A voluntary objection process for Infrastructure Growth Charges was introduced.

Our performance highlights

Watercare measures and manages its performance based on four strategic priorities: customer focus, business excellence, financial responsibility and being fully sustainable. Each of these priorities comprises a range of measures that illustrate the company's performance in that area. This year, we had a significant number of new measures that where mandated by the Department of Internal Affairs (DIA) and incorporated in our statement of intent (SOI).

Customer focus

In 2015/16, Watercare:

- Supplied 'Aa'-graded drinking water that was fully compliant with the Ministry of Health's drinking water standards, to 1.4 million people throughout Auckland
- Met all statement of intent (SOI) targets relating to attendance and resolution of water and wastewater issues such as outages, blockages and other faults
- Reduced the number of customer complaints by more than half by adopting a first-call resolution approach to customer enquiries
- Commenced work on a project to replace the company website with one that enables customers to source information and transact online more easily
- Strengthened the engagement with property developers and informed them about Watercare's plans to respond to growth and support housing development in Auckland
- Introduced a new payment option for landlords that makes it easier for them to pass charges on to their tenants (see page 26)
- Partnered with Xero to enable customers to receive water bills directly into their accounting system
- Made available wastewater meters for industrial customers to improve the accuracy of charging for wastewater
- Continued work 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, East Auckland and Māngere. One Tree Hill and surrounding suburbs will start to receive supply from this pipeline in late 2016
- Introduced a voluntary objection process for Infrastructure Growth Charges.

Next financial year:

- Continue to refine the customer channel strategy, which describes the channels through which our customers transact with us; this strategy will identify the areas for improvement and initiatives that will benefit customers
- Develop an online solution for reporting water leaks more easily
- Build dedicated online portals for key customers and solicitors to enable easy management of multiple accounts and change-of-ownership transactions respectively
- Replace the company website.

Business excellence

In 2015/16, Watercare:

- Continued to run the annual staff engagement survey; 90% of staff participated and a company-wide engagement score of 69 was achieved
- Met all SOI targets related to health and safety: increased engagement with workers and the contracting community on health and safety; improved reporting of incidents, near-misses and observations by implementing a new incident management system
- Published the forward works programme to inform the consulting and contracting market of upcoming capital works as part of strengthening our engagement with them
- Began an assessment programme to rate the criticality of equipment within Watercare's enterprise resource planning system to enable operational and maintenance activities to be planned and executed more efficiently
- Commenced upgrades of both the Huia and Waikato water treatment plants to increase maximum production capacities, improve process reliability and provide operational resilience
- Upgraded Helensville, Waiheke and Wellsford wastewater treatment plants to improve their performance in preparation for renewing resource consents and major capacity upgrades
- Began trialling the use of smart meters in the Waiuku district to help inform customers early on about leaks and build a better understanding of water flows and usage for Watercare.

Next financial year:

- Execute the service level agreement between the service delivery and maintenance services operations (MSO) units of the business to better prescribe a standard of delivery for work undertaken by MSO at our operational sites. This will enable us to become a 'best in industry' practitioner of maintenance related to water and wastewater treatment
- Continue upgrade works at the Waikato and Huia water treatment plants and advance renewals at the Ponsonby and Redoubt Road reservoirs and the Fairview Pump Station to ensure security of supply to central Auckland
- Continue to develop our leadership strategy: to enhance leadership capabilities and deliver a leadership training programme for all managers
- Further develop the safety cases and assurance systems for Ardmore Water Treatment Plant and Māngere Wastewater Treatment Plant.

Strategic priority three

Financial responsibility

In 2015/16, Watercare:

- Achieved revenue of $570.4 million, which is an increase of $50 million compared to the previous year, resulting from a combination of increase in volume of water sold and the 2.5% price increase for 2015/16
- Met the statement of intent (SOI) target relating to cash flow/interest cover ratio
- Achieved savings of $4.4 million through the procurement process for mobile, voice and data services and solid waste disposal from wastewater plants
- Implemented the final phase of the standardised wastewater tariff for non-domestic customers
- Completed the Water Services Association of Australia (WSAA) benchmarking exercise to compare our operating costs metrics with our Australian peers and identify areas for improvement
- Released a 20-year Asset Management Plan that outlines $11 billion of capital investment to cater for Auckland's growing population, asset renewals and improving levels of service
- Invested in the strategic development of the procurement function to deliver reduced cost and improved service from our suppliers.

Next financial year:

- Continue to target savings in operating and capital costs through a series of initiatives including internal benchmarking, targeted savings in cost categories and further strategic development of the procurement function
- Complete a review of the funding principles and strategies that will be reflected in the pricing and funding projections for our 2017 statement of intent, to continue to ensure affordability of service and prudency in forward planning.

Strategic priority four

Fully sustainable

In 2015/16, Watercare:

- Signed a three-year agreement with the Energy Efficiency and Conservation Authority (EECA) to achieve energy-efficiency gains of 8GWh within three years
- Committed to making the Māngere and Rosedale wastewater treatment plants energy neutral by 2025
- Generated 26% of total energy needs through co-generation and hydro turbines at water and wastewater treatment plants
- Received an 'excellence' rating in energy efficiency from NABERS NZ for Watercare's office in Newmarket
- Participated in six public shows/events, in partnership with EcoMatters Environment Trust, to promote waterwise behaviours among Aucklanders
- Registered 93 households for water audits, which are conducted by EcoMatters. Water audits can help pinpoint ways to be more water efficient and is a free service offered by our company to Auckland residents
- Committed to funding and developing scientific research by National Institute of Water and Atmospheric Research (NIWA) on the water quality of the Manukau Harbour through hydrodynamic modelling.

Next financial year:

- Implement the company-wide Energy Management Plan at Watercare
- Develop the plan for achieving energy neutrality in Māngere and Rosedale wastewater treatment plants
- Begin the development of a hydrodynamic model for Manukau Harbour in collaboration with NIWA and Auckland Council
- Launch the Manukau Harbour Centre of Excellence, which will include a series of workshops to improve our understanding of the harbour's water quality
- Publish the 2017–2020 Auckland Regional Water Demand Management Plan, which will set out our demand management strategy.

Auckland is experiencing unprecedented growth, with the population expected to rise by around 700,000 people over the next 30 years.

Through our Asset Management Plan (AMP), this year we committed to investing $4.9 billion in infrastructure over the next 10 years. Almost half of this investment will go towards providing for growth, increasing capacity for a further 195,000 dwellings.

Responding to growth

Our company acknowledges that when planning for growth, size and location matter. We have been working closely with Auckland Council to identify areas where there is sufficient capacity to support growth in the short term. We have also been aligning the planning of new or upgraded infrastructure to meet council's spatial development priorities. This means our infrastructure will enable growth in the areas identified for development by council.

Unlike other infrastructure providers, we are self-funding. We fund capital projects through our water and wastewater service charges (47 per cent), infrastructure growth charges (21 per cent) and borrowings (32 per cent). This means we have the financial ability to fulfil the $4.9 billion commitment we made to the Auckland community in the AMP.

One of the challenges we face in servicing is land located outside the rural urban boundary and away from the main transmission spines. This places pressure on us to extend networks or build small isolated treatment plants which would need to be operated and maintained. Where a proposed development is not contiguous with the existing system, we require the developer to fund the connection from their development to our existing network of water and wastewater pipes, plants and other assets. Often for small developments away from existing networks, this can be costly.

Infrastructure growth charges (IGCs) are paid by new or existing customers who increase demand on our networks as opposed to developers – for example, a person who builds a new house or a business that significantly increases water use in the existing network.

The IGC means the cost of increasing the capacity of our bulk infrastructure is partly paid for by those who increase demand on the system now, rather than by existing customers or future generations.

Without the IGC, we would need to recover a greater proportion of our growth-related capital investment costs through our operational charges. This means it would cost all customers considerably more for their water and wastewater services.

Delivering safe and secure infrastructure

Watercare made strong progress on a number of infrastructure projects during the year, including:

- **Hunua 4 Watermain** ($380 million): Once complete, Hunua 4 will run for 32 kilometres from Manukau to central Auckland, increasing the security of the water supply and allowing for population growth. Over the past 12 months, six kilometres of watermain was installed. It is being commissioned in stages and is already providing water to parts of east Auckland, Wiri, Manukau and Māngere.
- **Biological Nutrient Removal (BNR)** ($141 million): BNR will enable a higher volume of liquid to be treated at the Māngere Wastewater Treatment Plant thereby accommodating population growth. This year, significant progress was made on the civil structures.
- **Māngere solids stream upgrade** ($53.4 million): This upgrade will enable a higher volume of solids to be treated at the Māngere Wastewater Treatment Plant to allow for population growth and to increase infrastructure resilience. This year, the detailed design was completed and early works packages commenced.
- **Pukekohe trunk sewer and pump station upgrade** ($53 million): Approximately nine kilometres of sewer as well as two pump stations and structures are being constructed to replace ageing assets, reduce the frequency of overflows, and provide for population growth. Over the past 12 months, the first kilometre was installed and work began on the pump stations.
- **Northern Interceptor** ($538 million): The Northern Interceptor will divert wastewater flows from north-west Auckland – which currently travel to the Māngere Wastewater Treatment Plant – to the Rosedale Wastewater Treatment Plant on the North Shore. The project has two major benefits: it utilises spare capacity at the Rosedale plant and it gives the Māngere plant greater capacity to support growth in the central and southern areas. This year, Watercare applied for a route designation to protect the land from activities that might compromise the proposed infrastructure. Construction work for stage one will begin in 2017.
- **North Harbour No. 2 Watermain** ($264 million): This watermain will run for 33 kilometres from Titirangi to Albany, increasing the security of the water supply and allowing for population growth in the north-west. This year, we applied for a route designation to protect the land from activities that might compromise the proposed infrastructure.

A view of the construction site, during a concrete pour, for the new BNR treatment facility at Māngere. Once commissioned, the facility will provide capacity to cater for Auckland's growth.

One of the challenges we face in delivering projects is obtaining regulatory approvals. For example, in December 2013 we submitted an application to Waikato Regional Council to increase our water take from the Waikato River. That application waits in a queue to be processed. Our AMP shows we are planning to expand the treatment capability of the Waikato Water Treatment Plant by 25 million litres a day by the end of 2018 in order to meet three-day peak demand and to provide system resilience. However, this plan is dependent upon us obtaining consent.

As a company, we are placing greater emphasis on stakeholder engagement during the planning stages of projects in order to address community and iwi concerns upfront and consider their feedback when deciding upon best practicable options. In doing so, we are proactively trying to streamline the resource application process.

With regards to our Waikato River application as well as our plans to upgrade the Pukekohe Wastewater Treatment Plant, we have been engaging with Te Taniwha o Waikato, a group that represents the interests of nine Waikato-Tainui marae along the lower Waikato River, and with Waikato-Tainui.

This engagement is about building trust in the communities we serve. We bring technical expertise to these conversations and iwi bring cultural expertise. The aim is to find alignment. This can result in real benefits for all parties.

Remaining affordable

Through our statement of intent, we set out to ensure the amount a household spends on water and wastewater services represents less than 1.5 per cent of the average household income. I am pleased to report that this year we easily met this target, with the average household water bill only representing 0.86 per cent of the average household income.

While we are working hard to drive efficiency through the business and keep our costs low, we are not immune to price rises. This year, the Capital Goods Price Index rose by 3.1 per cent. As construction-related costs make up more than 60 per cent of our total cash expenditure, we had to increase our prices by an average of 2.5 per cent for the 2016/17 financial year.

However, our focus on affordability has meant that over the past three years – while electricity prices have risen by nearly 11 per cent and council rates by over nine per cent – our prices have risen by less than six per cent. This highlights our commitment to being a minimum-cost service provider.

To be successful, Watercare requires the contribution of a large number of people. On behalf of the board, I would like to thank the executive team and staff for their unwavering commitment to the delivery of reliable, safe and efficient water and wastewater services in Auckland. I would also like to acknowledge our shareholder, Auckland Council, for its support throughout the year.

After seven years at Watercare, I will retire in October. I would like to thank all those I have worked with during that time. I have had the privilege of working with some outstanding people, in particular my fellow directors and the two chief executives: the late Mark Ford and recently Raveen Jaduram. I wish them, their teams and the new and existing board members all the best.

David Clarke
Chairman

This past year, our company has continued its journey towards customer centricity. We have been expanding our focus beyond operating and constructing infrastructure to also satisfying and delighting our customers – more than 1.4 million of them.

We provide lifeline services to Auckland. Our water supply and wastewater services are critical to the economic, social and environmental health and well-being of our communities. I am pleased to report that this year – as with previous years – we met Auckland's needs through the continued provision of safe, reliable and efficient services.

Watercare has a successful track record in terms of operating and constructing infrastructure: in essence, providing that lifeline. Our challenge over the past 18 months has been to orient our business towards our customers.

The time was right

From November 2010 – when we became responsible for the end-to-end provision of services in Auckland – to 2015, we placed considerable focus on standardising our business processes and customer charges. For example, our non-domestic customers are now able to select from five standardised pricing plans, whereas previously there were 44 location-based tariffs. In effect, the legacy tariffs meant that businesses on opposite sides of the city were paying different amounts for identical services. We removed that inequity by transitioning non-domestic customers on to new standardised pricing plans over a three-year period.

In April 2015, the board and executives released a new strategic framework to align our organisational efforts into the efficient and effective delivery of services and towards our customers.

Over the past 12 months, this framework has been used to develop a Strategic Business Plan that covers the delivery of 60 initiatives over a three-year period from 2015/16. Some of these initiatives have been implemented already and are delivering results; for example, the work we have undertaken to better understand our customers and respond to their needs.

First we must listen

This year, we have been seeking feedback from our customers in a variety of ways, including through face-to-face forums and focus groups as well as phone and online surveys. Early on, we realised we needed to address the needs of two specific stakeholder groups: developers and landlords.

Some developers were finding it difficult to engage with Watercare. As far as they were concerned, our processing times were slow and there was no single point of contact. In response, we have created a new position to account-manage this relationship. Development Services Manager Ilze Gotelli works with developers to understand their requirements and how we can best service their needs. Since her appointment, she has held two developer forums to inform them of how Watercare is planning for growth over the next 30 years and to express our commitment to partnering with the development community.

A number of landlords gave feedback that our billing practices were creating an administrative burden for them. Our bills are made up of fixed and volumetric charges. By law, fixed charges have to be paid by landlords, whereas volumetric charges can be passed on to tenants. This year, we responded to their feedback by enabling landlords to pay their fixed charge upfront at the start of the financial year. This means that for the rest of the year the bill can be passed on to their tenants for full payment. This process improvement did not go unnoticed: the New Zealand Property Investors' Federation sent out messages to its members and the media commending Watercare for our actions.

Soliciting and responding to feedback in a cycle of continuous improvement is being made possible through our Voice of the Customer system. In 2015/16, this qualitative and quantitative information-gathering tool was rolled out on a trial basis to the parts of the business that have the highest interaction with customers, such as our billing team and the customer self-service section on our website. In the next financial year, its reach will be extended to other parts of the business, such as our infrastructure projects, and work will be undertaken to ensure the feedback is used to drive process improvements.

Delivering value to customers

Just as we are seeking to improve the way Watercare engages and transacts with customers, we are also working to drive efficiency through the business. Combined, these focus areas will enable us to deliver value to our customers.

We are required by law to manage our operations efficiently, with a view to keeping the overall costs of our services to our customers (collectively) at minimum levels, consistent with the effective conduct of our undertakings and the maintenance of our assets.

This year, we set out to understand how efficient we are by comparison to other companies in the water industry. Watercare participated in a financial benchmarking exercise run by the Water Services Association of Australia. Of the 64 cost categories that were considered, we achieved favourable results in 43 areas and unfavourable results in 21 areas when compared to the median cost result.

Our 2016/17 Strategic Business Plan has efficiency initiatives that take into account the learnings from that benchmarking exercise. The aim will be to make smart cost savings which are sustainable over the medium term. In addition, we have developed a new set of internal cost metrics which will allow us to measure the improvements in cost efficiency across Watercare on an ongoing basis.

We made significant changes to the way in which we engage with the construction industry in an effort to be more transparent in the tendering and delivery of our capital projects. We now publish a forward capital works programme which outlines projects over $2 million that we plan to source from the market over the next five years. This gives the construction industry the ability to plan ahead and to resource their companies appropriately. For Watercare, it means we are less likely to compete with ourselves for the same external resources.

Building our team

Throughout Watercare, the focus has been on driving a positive cultural change. My aim is for productivity to increase because staff enjoy coming to work, feel appreciated and are challenged to deliver exceptional performance.

We have been actively working to remove barriers to career advancement. We had a rigid 8am to 5pm working day, which made it difficult for staff who are parents to manage family commitments. It meant that a number of staff did not return to work after having a baby. In effect, we were restricting our own pool of talent.

I am proud to say we have made a number of changes to our paternity, maternity and annual leave policies and now have introduced flexible working. The changes we have made – including the creation of a nursing mothers' room – acknowledge that the separation of home and work life is not black and white.

We are an equal opportunity employer. However, we have not set quotas or targets for gender, ethnicity or any type of diversity. Instead, we have set out to create an environment where individuals from various backgrounds earn roles on merit. This year, the number of women in the top three salary bands has grown because they were the best candidates for the positions available (refer to page 41).

Our staff survey results from May 2016 show the changes we have implemented have made a difference; however, there is still room for improvement. Overall, the employee engagement score remained stable at 69, up one point from 2014/15.

Pleasingly, the number of staff who would recommend Watercare as a great place to work rose nine percentage points. Our health and safety results were also positive, with 96 per cent of staff saying they take active responsibility for their own health and safety. The latter result may be attributed to ongoing efforts to embed health and safety into the company's DNA. Engaging with staff and contractors, and encouraging them to play an active role in staying safe and well at work, is a key theme underpinning the Health and Safety at Work Act 2015 and has been a major focus for us over the past 12 months.

Our focus over the next financial year will be on fostering a shared sense of purpose across the organisation through timely and consistent communication and engagement. To achieve this, we will continue to work on developing the leadership capability of our managers and we will roll out a new employee performance and development management tool. The new tool, known as E3, will ensure staff receive more frequent feedback and support.

Being fully sustainable

Being fully sustainable is one of our strategic priorities. This means we work with integrity and ethics to deliver positive outcomes within our organisation and for our community and environment.

This year, we set an ambitious target for our two major wastewater treatment plants at Māngere and Rosedale: to become energy neutral by 2025. Currently biogas, a by-product of the wastewater treatment process, is used to power engines that meet 48 per cent of the electricity needs of both plants. Our intention is to make the plants increasingly self-sufficient over the next nine years.

In March 2016, we signed a three-year agreement with the Energy Efficiency and Conservation Authority (EECA) to work together to meet an interim energy savings target of 8GWh and 1300 tonnes of carbon emissions by 2019.

We have also entered into a strategic partnership with the National Institute of Water and Atmospheric Research (NIWA). Watercare is funding a three-year research programme by NIWA, which will establish a coupled hydrodynamic and water-quality model of the Manukau Harbour. This will provide information on how nutrients enter and move around the harbour and the lower levels of the food web. Importantly, what it will provide is a sound, scientific basis for collaborative decision-making in the future.

As a socially responsible business, we try to do the right thing by our communities. One of the ways we achieve this is through our support of the Water Utility Consumer Assistance Trust. The trust, which was established by us in 2011, has the ability to grant remissions to residential customers who are facing financial hardship and are struggling to manage their water bills. During the past year, 118 customers were granted relief on their charges.

This year was exceptionally challenging for staff as we sought to change our culture and orient our business towards our customers. I wish to thank staff for their goodwill and commitment. The hard work and can-do attitude I see around the organisation is uplifting and it means we are heading in the right direction. I would like to also thank our board of directors for their continued guidance and support.

Raveen Jaduram
Chief Executive

Directors' profiles

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; Chairman, Jucy Group Limited; Director, Hynds Limited; Chairman, Health Alliance NZ Limited; Chairman, Predictive Medical Data Analytics 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; Director, China Construction Bank (New Zealand) Limited.

Peter Drummond, MNZM, AFInstD
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 was world president. He rejoined 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; Director, NARTA New Zealand Limited; Director, NARTA International Pty Limited; Director, Fire Services Commission; 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 Limited 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 Limited; Director, Interface Partners Limited; Trustee, One Tree Hill Jubilee Educational Trust; Member, Auckland Regional Amenities Funding Board; Member, Water Allocation Technical Advisory Group.

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

Dr Tony Lanigan is a professional civil engineer (FIPENZ), project-management consultant and former general manager at Fletcher Construction. He was chancellor of Auckland University of Technology and a former director of Infrastructure Auckland and New Zealand Transport Agency.

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

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

Julia Hoare brings a comprehensive range of commercial, financial, tax, regulatory and sustainability expertise to Watercare which she developed 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 Chair, The A2 Milk Company Limited; Director, Port of Tauranga Limited; Member, Auckland Committee, Institute of Directors; Member, External Reporting Board Advisory Panel; 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). She is the deputy chair of the Fire Services Commission. Formerly Nicki was a director of Genesis Energy, the Centre of Advanced Engineering and Wellington Cable Car Limited.

Nicki is an accredited member of the Institute of Directors in New Zealand and a fellow of the Australian Institute of Company Directors. She holds a bachelor's degree in chemical engineering, a PhD in fluid dynamics and combustion, and is a chartered professional engineer and a fellow of the IPENZ.

General disclosure of interests: Deputy Chair, Fire Services Commission; Director, Environmental Protection Authority; Member of Electoral Authority - Cooperative Bank Limited; Senior Consultant, WorleyParsons New Zealand Limited; Director and Shareholder, Riposte Consulting Limited; Director and Shareholder, Crauford Robertson Consulting Limited; Director and Shareholder, Martin Crauford Limited; Director, Wellington Water Limited; Director, Orion New Zealand Limited; Chair, GNS Science International 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 Limited. David was on the founding board of the South Auckland Crown Health Enterprise and represented Fletcher Challenge Limited on the board of Māori Development Corporation.

General disclosure of interests: Chairman, Ngāti Whakaue Tribal Lands Inc.; Chairman, Gypsum Board Manufacturers of Australasia; Shareholder and Employee, Fletcher Building Limited; Director, New Zealand Ceiling & Drywall Supplies Limited.

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

Raveen Jaduram was appointed as chief executive of Watercare in November 2014 after performing in an acting capacity since February 2014. He rejoined 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.

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 procurement 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 and Chair of the Audit and Compliance Committee of the Manukau Institute of Technology.

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

Shayne Cunis is an 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 asset management and protection, and trade waste. Shayne has previously held senior operational management and executive 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 wastewater network.

Martin Smith, BE (Hons) (Civil), PGDipBusAdmin, FIPENZ, CPEng, MICE, CEng, MInstD
General Manager – Strategy and Planning

Martin Smith was appointed as general manager of strategy and planning after performing in the role in an acting capacity since November 2015. Prior to that he was acting general manager of the Maintenance Services business unit. Martin is a chartered professional engineer with 35 years' experience in senior leadership roles as a consultant, with Manukau Water as GM Infrastructure, and as a maintenance contractor. He is responsible for developing the water and wastewater regional servicing strategies, asset management, infrastructure planning, statutory consenting and environmental compliance, sustainability initiatives, and asset systems.

Adrienne Miller, BA/LLB (Hons)
General Manager – Corporate Services

Adrienne Miller has over 25 years of experience in the legal profession. She was appointed to the role of General Manager – Corporate Services at Watercare in March 2016. Adrienne is responsible for human resources, information services, health and safety, legal services and governance. She has held a number of general counsel positions for infrastructure and heavy-industry players such as Downer Group, Carter Holt Harvey and Waste Management NZ Limited. Adrienne also has substantial experience in executive management.

Rob Fisher, ONZM, LLB, DipTP
Company Secretary

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. 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 made an Officer of the New Zealand Order of Merit in the 2011 Queen's Birthday Honours. Previously, he was general counsel for Watercare and a board member of both Genesis Energy and Sport New Zealand, and a member of the Institute of Directors in New Zealand.

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.

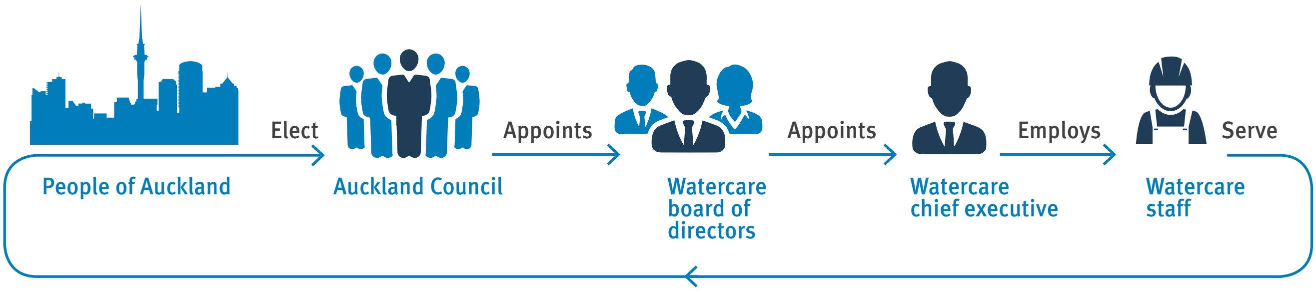
David Sellars, BCA, CA
Risk and Assurance Manager

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.

Rebecca Chenery, BBus, DipMgmt
Business Transformation Manager

Rebecca Chenery has been with Watercare since 2010 and was appointed to the role of Manager – Business Transformation in November 2015. She has 15 years of experience in programme management and business transformation projects across the information services, telecommunications and water industries in New Zealand and overseas. Rebecca is responsible for leading key organisation-wide change initiatives and ensuring alignment between programmes of work and Watercare's strategic priorities.

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 and deputy chair, are appointed by the shareholder. Their profiles and disclosures of interests are published on page 12.

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. We also provide these and other regulatory bodies with information on the potential for existing and proposed policy and regulation to effect our activities.

The legislative framework enabling and governing our operations as the provider of water and wastewater services in Auckland is found largely in five 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
- Companies Act 1993.

Our 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 the 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:

- We became a substantive council-controlled organisation (CCO) on 1 July 2012
- We must give effect to council's Long-Term Plan (LTP) and act consistently with other specified plans and strategies of the council, section 58 of the Local Government (Auckland Council) Act 2009
- 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 our performance under the SOI for the previous financial year. In practice, all board meetings have a session open to the public
- Our 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 Watercare'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.

Statement of intent and stakeholder engagement

The SOI is developed in association with Auckland Council the shareholder and is 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 us as the basis of consultation with the shareholder.

The SOI 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. We delivered the 2015/2016 SOI to the shareholder on 30 June 2015; this document is available on our 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. We maintain 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 throughout the year. The relationship and channels of communication recognise the diverse needs of Local Boards and communities and the varying levels of interest in our services and projects.

For Watercare, sustainability entails an ongoing commitment to understanding the potential of our activities to affect the community and the natural environment, and to managing our operations accordingly. We report monthly to the board, and quarterly to the shareholder, on performance against sustainability targets.

Watercare's Environmental Advisory Group comprises experts who advise on how our activities affect the environment. Watercare's Māori advisory group, the Mana Whenua Kaitiaki Forum, advises us 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 22 and 23, respectively.

Performance

The performance of the board as a whole is reviewed by the shareholder annually. Board members' remuneration is determined by the shareholder. The board oversees the performance of the chief executive, who is formally reviewed annually. We report 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 110. A wider set of measures, including economic, social, environmental and selected SOI determinants, has been grouped under the four strategic priorities and our performance against these priorities is reported in the upcoming pages.

Board structure

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 our 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 2015/16 was Julia Hoare.

Remuneration and Appointments Committee

The Remuneration and Appointments Committee helps the board to fulfil its wider human resources responsibilities to 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 2015/16 was Peter Drummond.

Capital Projects Working Group

The Capital Projects Working Group is responsible for reviewing our 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 our 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 greater than $75 million require approval of the full board.

The chair of the Capital Projects Working Group for 2015/16 was Dr Tony Lanigan.

Health and Safety Committee

The Health and Safety Committee was established to help the board to fulfil its responsibilities to employees, contractors, the public and other stakeholders in respect of our health and safety practices. The committee provided oversight in three areas: policy framework and specific health and safety policies; health and safety planning and reporting; and reporting of serious harm incidents. In April 2016, the board resolved to disestablish the Health and Safety Committee in favour of health and safety being dealt with by the full board as a matter of significant importance. Health and safety matters are discussed by the board as a priority matter at each monthly board meeting.

The chair of the Health and Safety Committee for 2015/16 was Mike Allen.

Accountability

Reporting on performance

We remain committed to transparent reporting. Recognising this, we publish:

- 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, following 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 our website)
- Special reports and project newsletters for interested parties.

The board meets at regular intervals throughout the year. The board 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 our website and advertised in the *New Zealand Herald*, in advance of each meeting.

As a council-controlled organisation, we are 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. The average response time for requests this year was two days.

Setting standards of conduct for staff

We demand the highest standards of behaviour from our staff. All policies governing the conduct of employees are made available to staff including: Business Conduct and Ethics Policy,

Board participation

Board member attendance 2015/16	Board meetings	Audit and Risk Committee meetings	Capital Projects Working Group meetings	Remuneration and Appointments Committee meetings
Number of meetings	**12**	**5**	**4**	**6**
David Clarke	11	4	4	6
Mike Allen	9	2	2	3
Nicki Crauford	11	1*	3	3*
Peter Drummond	12	–*	3	6
Catherine Harland	11	4	3*	6
Julia Hoare	11	5	–*	5**
Tony Lanigan	10	1*	4	3*
David Thomas	11	1*	1*	3*

** Not a member of the committee.*

*** Appointed part way through the year.*

During the year, the board held four Health and Safety Committee meetings and some workshops prior to the disestablishment of the committee in April 2016.

Watercare's new strategic framework was launched across the company in April 2015. The framework outlines our vision, mission, strategic priorities and related outcomes. In order to realise our vision, and continue to achieve our mission, we have four core strategic priorities, which are: customer focus, business excellence, financial responsibility and being fully sustainable. Each of these priorities has specific outcomes and these outcomes set the agenda for our organisation and complement the goals specified in our SOI.

Gift and Inducement Policy, Conflict of Interest Policy, Control of Discretionary Expenditure Policy, Protected Disclosures Policy and the Delegated Authority Policy. Our 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 our planning, operations and reporting to regular independent review. This year, the board and the subcommittees received reports from specialist advisors on risk and control issues to inform the maintenance and development of good practice and procedures. We are committed to a culture of continuous improvement and seek independent feedback from specialist advisors as necessary to achieve this objective.

Risk management

Our 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 we meet and exceed good-practice measures in risk management.

As part of the risk-management framework, we have established a Risk Management Steering Committee, which meets four times per year to monitor emerging risk and consider 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 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 in New Zealand's Code of Practice for directors, relevant sections of New Zealand Exchange Limited's Corporate Governance Best Practice Code, and the former Securities Commission's nine principles of corporate governance.

Whistleblowing

We have 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 how our 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 our website.

Disclosures of interest

A register of directors' and senior management interests is maintained by Watercare and is updated as and when necessary. Directors' and management interests are 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.

Reporting and materiality

Global Reporting Initiative

Watercare uses the Global Reporting Initiative (GRI) guidelines to ensure the reporting of our 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 we have reported against is included on page 114 of this report. With a focus on continuous improvement, we aim to develop our reporting over the next few years so as to meet the G4 'Comprehensive' level of reporting.

Wherever possible, we have reported on three years of data in order to highlight trends and changes in performance, excluding those that were introduced in 2015 or 2016.

Reporting scope

This report covers all operations managed by Watercare. The majority of our operations and people are located in Auckland, New Zealand. We also operate two smaller laboratories in Queenstown and Invercargill (four staff members) and provides water and wastewater services to North Waikato. A map of the Auckland sites is available on page 3.

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

Stakeholder inclusiveness

Watercare is accountable to a wide range of stakeholders who are the entities or individuals that affect or can be affected by our activities. The issues that were considered important by our stakeholders during the year are included in the 2016 Materiality Assessment. This ensures that Watercare's reporting is aligned with the needs of our stakeholders.

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

We have a structured process of engagement with many of our stakeholders. Media enquiries, complaints and other public interaction have also helped us to understand stakeholders' expectations.

Materiality

Material matters are those that we view as having a potentially significant impact on our business model and those that stakeholders highlight as being important to them. This year we identified our material issues by consulting teams across the business on the issues that were important to our internal and external stakeholders. We also undertook a review of the internal risk-management framework and the issues that had been featured in the media in the past year. We assessed customer feedback and complaints, stakeholders' meeting agendas and minutes.

To make the materiality assessment more meaningful and relevant, the specific issues provided by our stakeholders have been set out under the overarching topics that will always be material to Watercare. We have listed the material issues for 2015/16 on the next page.

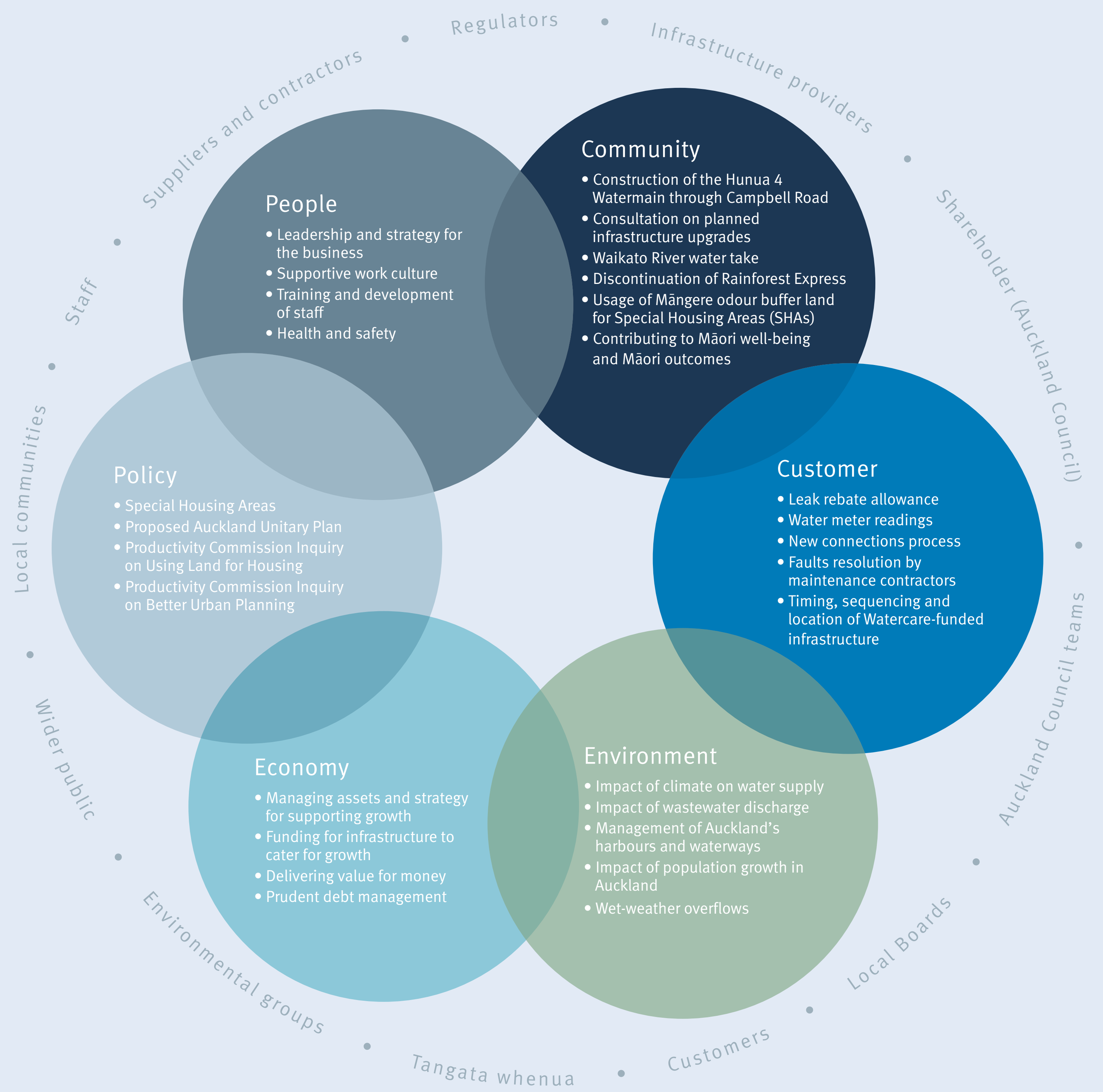
Watercare has taken efforts to ensure all material issues are included in our reporting, either in the Annual Report 2016 or supplementary reports made available online on our website, www.watercare.co.nz

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

The outcomes of our materiality assessment are displayed opposite.

This year we identified our material issues by consulting teams across the business on the issues that were important to our internal and external stakeholders.

Material issues for 2015/16



Watercare's role as Auckland's water and wastewater services provider has the ability to directly and indirectly affect the quality of life of all Aucklanders and, by extension, the economic, social, environmental well-being of New Zealand as a whole. Recognising this, we engage with our stakeholders through a wide range of forums.

This section identifies Watercare's stakeholders, outlines how we interact with them and highlights what we achieved during the 2015/16 financial year.

Customers

Watercare engages by:

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

What was achieved:

- Continued distributing our quarterly customer newsletter (*Tapped In*), providing news and updates on Watercare's services
- Introduced a simplified upfront bill payment option for landlords
- Redesigned our website homepage to enable customers to find the right information easily
- Introduced an option for property owners and businesses to receive water bills into their Xero accounting system
- Organised a forum for developers where we shared our plan to cater for housing development in Auckland.

Staff

Watercare engages by:

- Surveying employees annually
- Conducting annual performance reviews
- Providing opportunities for training and development
- Working with staff to ensure a safe workplace is maintained
- Providing opportunities for staff to hear from our management team at half-yearly road shows.

What was achieved:

- 90 per cent of staff participated in the survey this year, increasing from 87 per cent in 2014/15
- The staff engagement score improved by one point to 69, from last year's result of 68
- Developed and launched a new intranet to provide staff with a platform through which to collaborate and share news, updates and achievements
- Implemented policy changes to provide staff with greater flexibility.

Tangata whenua (Māori)

Watercare engages by:

- Promoting and supporting Mana Whenua relationships. From 1 July 2016 the Mana Whenua Kaitiaki Forum (MWKF) expanded its role to integrated decision-making on matters significant to Māori across the Auckland Council group. We will maintain our relationship with MWKF through quarterly meetings with the Mana Whenua Kaitiaki Managers' Group – Water Sector – and will expand this sector's work by facilitating group meetings with other stakeholders working in this area
- Developing, working and maintaining relationships with Mana Whenua affected by Watercare operations and initiatives
- Increasing the understanding of Māori values and cultural impact throughout Watercare.

What was achieved:

- MWKF continued to fulfil the role and objectives identified in the establishment agreement with us.
- Provided a forum to consider and submit on the Government's National Policy Statement on Freshwater Management
- Worked with the council to broaden the mandate of MWKF across the council family
- Appointed an iwi relationship manager to help maintain and develop the existing relationships between Mana Whenua and Watercare
- Co-ordinated the forum's regional input to the development of water and wastewater network strategies, our infrastructure projects and resource consents
- Facilitated co-ordination between the work of Mana Whenua, Watercare and Auckland Council Stormwater to promote integrated decision-making on water issues
- Established a Watercare waiata tautoko group (Ngā Korimako – the Bellbirds) used at formal engagements/hui to support us in our work with iwi
- Organised Māori cultural training programmes and created an internal resource – Te Puna – in order to provide day-to-day guidance and understanding of Tikanga Māori
- Promoted and participated in Māori events such as Tira Hoe Waikato and Te Wiki o Te Reo Māori 2015 including Te Reo in the workplace
- Organised an inaugural pōwhiri to welcome a group of iwi visitors from Te Taniwha o Waikato for consultation on the proposed discharge of treated wastewater to the Waikato River
- Consulted with affected Mana Whenua on consents and operational issues and facilitated direct on-site resolution of matters by our front-line staff
- Introduced the Mark Ford Ngā Tapuwae Scholarship for Māori Students.

Local residents and community groups that neighbour our worksites

Watercare engages by:

- Using a variety of channels to ensure there are no surprises regarding potentially disruptive works. Information is communicated via various channels, including: flyers, newsletters, door-to-door communication, advertisements, signage, Timesaver Traffic broadcasts, local resident and business association information meetings, community open days, and direct mail
- Sharing relevant information with communities during the planning of new infrastructure upgrades to minimise delays during statutory approval processes under the Resource Management Act.

What was achieved:

- Kept public and communities informed during major infrastructure projects. For example, we engaged with the local community extensively and through various channels during the Hunua 4 Watermain project, which involved the temporary closure of Campbell Road, a major arterial traffic route. As a result, works were completed ahead of schedule with minimal disruption.
- Public information events held for large projects such as the South West (Kingseat, Clarks Beach and Waiuku) and North East (Warkworth and Snells-Algies) wastewater servicing upgrades, along with the proposed Northern Interceptor and North Harbour No. 2 Watermain projects.

Regulators

Watercare engages by:

- Contributing and responding to the development of relevant statutory and regulatory changes affecting the water industry.

What we achieved:

- Developed technical evidence, provided expert witnesses, and advised the Independent Hearings Panel on Auckland Council's Proposed Auckland Unitary Plan (PAUP)
- Lodged and submitted resource consent applications relating to the provision of water supply and wastewater services
- Lodged submissions and advised central government on public policy matters in relation to using land for housing, better urban planning, and proposed National Policy Statements.

Auckland Council as shareholder

Watercare engages by:

- Providing quarterly performance and progress reports
- Delivering quarterly briefings
- Facilitating workshops with councillors
- 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 Auckland Council Long Term Plan.

What was achieved:

- Continued to contribute to key council outputs such as the Future Urban Land Supply Strategy (FULSS) service implications
- 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:

- Worked with Auckland Parks on the ongoing development of a Standard Operating Procedure for approvals related to our activities in parks and reserves
- Continued membership of the Integrated Consents Group
- Worked on council's co-sourcing procurement project to reduce servicing costs.

Environmental groups

Watercare engages by:

- Meeting with the Environmental Advisory Group (EAG) on a quarterly basis (refer to page 22).

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 our projects.

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
- Facilitating a free education programme to schools across Auckland to increase awareness about water and wastewater
- Supporting the Watercare Harbour Clean-Up Trust and Round the Bays fun-run
- Promoting our Be Waterwise programme at public events.

What was achieved:

- Responded to 51 requests for information made under the Local Government Official Information and Meetings Act (1987); average response time was two days
- A total of 7925 children from 38 schools participated in 317 water lessons as part of our Education Programme
- A total of 2.7 million pieces of litter was removed from the harbours around Auckland through the work of the Watercare Harbour Clean-Up Trust this year
- Participated in six public shows/events, in partnership with EcoMatters Environment Trust, to promote waterwise behaviours and tips to Auckland residents
- Held three open days at treatment plants to educate hundreds of visitors on how we provide safe and reliable water and wastewater services.

Local Boards

Watercare engages by:

- Building enduring relationships with Local Board chairs and representatives
- Working with Auckland Parks and Local Boards in their capacity as parks' landowners to obtain landowner approval for Watercare-related infrastructure
- Sharing information on Watercare-related matters ahead of infrastructure projects so there are no surprises.

What was achieved:

- Worked with Local Boards on major project planning for the South West and North East wastewater upgrades along with the Northern Interceptor wastewater and North Harbour No. 2 Watermain projects
- Continued engagement with Local Boards and parks staff as details of the Central Interceptor project works in parks was refined
- Engaged with some of the Local Boards on wastewater overflow issues to improve understanding of how Watercare responds to these issues. We also hosted a tour of the central control room for Local Board groups, where they met with key people from the our team.

Suppliers and contractors

Watercare engages by:

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

What was achieved:

- Held supplier briefings and published our capital forward works programme to provide greater visibility to the marketplace on our forthcoming projects.

Infrastructure providers

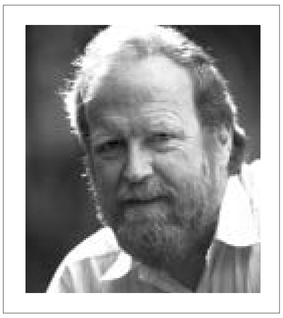
Watercare engages by:

- Participating in the Auckland Infrastructure and Procurement Group forums and working groups
- 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
- Working closely with industry experts and attending regular sessions with Civil Contractors New Zealand and the Association of Consulting Engineers New Zealand to ensure safe, practicable and sustainable outcomes.

What was achieved:

- Held contractor working forums to tackle construction issues with a particular focus on health and safety
- Organised consultant and contractor briefings on our forward programme of works and new developments
- Actively involved WorkSafe's High Hazard Unit in the planning and development of the design of the Central Interceptor
- Completed construction of the Kirkbride Road section of the Hunua 4 Watermain as part of the NZTA alliance's State Highway 20A airport link
- Entered into entrusted works agreements with Auckland Transport and Panuku Development Auckland for wastewater projects in Wynyard Quarter
- Agreed design with NZTA for the construction of the North Harbour No. 2 Watermain across the Greenhithe Bridge
- Minimised disruption to the public and optimised construction costs by undertaking early works for the North Harbour No. 2 Watermain at Fred Taylor Drive via an entrusted works agreement with Auckland Transport
- Through extensive consultation with affected parties and with a view to undertaking geographically co-located works, we obtained consents for the crossing of the Upper Waitemata Harbour for the North Harbour No. 2 Watermain and Northern Interceptor projects in a timely and efficient manner.

Environmental Advisory Group



22 June 2016

Now in its fifteenth year, the Environmental Advisory Group (EAG) 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 diverse 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 advising and questioning its handling of the environmental aspects of providing an integrated water supply and wastewater services across the region.

Of particular importance this year was the consideration of the future direction of the EAG to ensure its ongoing relevance to Watercare and optimise its input. This process began at the March 2016 meeting where discussion was centred on redefining the way Watercare engages with the Group, with the objective of ensuring that the Group views relevant programmes early in their development. In this way any environmentally-related issues can be identified, discussed and feedback included at a stage where any recommendations can better be incorporated. The Group may also add into its work programme other topics relevant to Watercare's functions.

Water allocation and raw water quality were big themes throughout the year. The EAG was kept up to date with the development of Waikato Regional Council's Healthy Rivers Plan Change, Auckland Council's implementation of the National Policy Statement for Freshwater Management (NPS-FM), and a number of submissions that Watercare has made on water-related initiatives.

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

- Watercare's major water and wastewater projects, including the Central Interceptor and the South-West Wastewater Servicing Project
- Operation and maintenance of Watercare's significant wastewater infrastructure
- Presentation of the Rain Tanks Scenario Model
- Biosolids management.

We look forward to the implementation of the proposed changes to our Group and to continuing to work with Watercare 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

21 July 2016

He pūtake nō tua whakarere
He whiringa o ngā aho mai i ngā tōpito i ngā tauranga
Tapuwae nuku tapuwae rangi
He nekeneke tāngata he nukunukunga o ngā aronga
Mai i ngā kāwai ki ngā uri kua heke ki ngā uri āmuri ake nei e.
E mihi ana ki te whenua e tangi ana mō te hunga kua okioki – rātou ki a rātou
Ki te hunga kua mahue mai ki muri tēnā rawa atu koe arā koutou katoa.

The 2015/16 year has seen important developments for the Mana Whenua Kaitiaki Forum.

As foreshadowed in last year's report, the Forum has continued to develop as the go-to place for public agencies to discuss important water-related issues with Mana Whenua. In January 2016 the Forum adopted a new, wide-ranging purpose that signalled the development of its role to include more than water-related issues. By June 2016 the Forum had adopted a refreshed terms of reference to reflect this new direction.

The Forum will expand the role and function initiated through the relationship with Watercare, adding a wider dimension on significant water-related issues and opportunities across all of the Auckland Council organisation.

Since 2012 the Forum has maintained an operations-focused group, the Kaitiaki Managers. This group has met quarterly to promote efficient and effective working relationships and processes with Watercare. Watercare will continue to sponsor these meetings as they provide a valuable opportunity for Mana Whenua representatives and Watercare management to share understanding of good practice as well as to address the many issues associated with serving Auckland's rapid growth.

In the 2015/16 year the Forum and the Kaitiaki Managers have worked with Watercare to advance work on key projects including the Regional Wastewater Network Strategy, the South West Wastewater Project, and the proposal to increase water take from the Waikato River. Other significant work has included gaining a better understanding of the water quality issues facing the Manukau Harbour via reports from Auckland Council and Watercare staff, submitting to the Government's freshwater reforms and changes to the National Policy Statement on Freshwater Management, as well as working with Auckland Council staff to help develop the approach to implementing the freshwater reforms within the Auckland region.

Provisions have been made in the refreshed terms of reference to maintain alignment with the Kaitiaki Managers Forum with regards to the strategic focus of the Forum and the operational focus of the Kaitiaki Managers. The Kaitiaki Managers group will continue to evolve its role in 2016/17, with meetings focusing on examples of good practice in terms of water and waste management and reducing the impacts of these on the environment. Council's significant stormwater projects will also be reported to the Kaitiaki Managers to help promote integration between the work of Watercare, Auckland Council Stormwater and Mana Whenua. This will facilitate the overarching goal of improving the efficient and effective working relationship between parties.

I would like to conclude by thanking Watercare for the enduring commitment to establish, then to enable, the Mana Whenua Kaitiaki Forum to date. The Forum membership will join in the acknowledgement of the ongoing commitment to continue working together in the years to come.

Kāti ki konei, ka puta ka ora e...

Tame Te Rangi
Chair
Mana Whenua Kaitiaki Forum

Members

Makaurau Marae Māori Trust:
Kowhai Olsen

Ngā Maunga Whakahii o Kaipara Trust:
Tracy Davis

Ngāti Manuhiri Settlement Trust:
Mook Hohneck

Ngāti Maru Rānanga Trust:
Wati Ngamane

Ngāti Rehua – Ngāti Wai ki Aotea Trust:
Nicola MacDonald

Ngāti Tamaoho Trust:
Hero Potini

Ngāti Paoa Iwi Trust:
Dean Ogilvie

Ngāti Tamaterā Settlement Trust:
Antony Royal

Ngāti Wai Trust Board:
Haydn Edmonds

Ngāti Whanaunga Incorporated:
Mike Baker

Ngāti Whātua Ōrākei Trust:
Moana Waa

Te Akitai Waiohua Iwi Authority:
Karen Wilson

Te Ara Rangatū o Te Iwi o Ngāti Te Ata Waiohua:
Riki Minhinnick

Te Kawerau Iwi Settlement Trust:
Te Warena Taua

Te Patukirikiri Incorporated:
David Williams

Te Rūnanga o Ngāti Whātua:
Tame Te Rangi

Te Uri o Hau Settlement Trust:
Gabriel Thompson

Te Whakakitenga o Waikato Incorporated:
Hemi Rau


CLARIFIED WAT
Watercare

Strategic priority one

Customer focus

Even though they may not have a billing relationship with us, everyone who uses our services or is impacted by our operations is viewed as our customer. We are seeking to understand these customers and be responsive to their needs. We believe all staff at Watercare have a role to play in ensuring positive customer experiences.

Outcomes for this strategic priority:

- We understand our customer needs and deliver value
- We consistently provide exceptional products and service
- We are trusted by our customers who understand our purpose and value our service.

Visitors Samuel and Maya Perera check a sample of clarified water at the Ardmore Water Treatment Plant during an open day. The plant is crucial to the safe supply of top-quality drinking water to the Auckland region as it provides nearly two thirds of the city's water. The Ardmore Water Treatment Plant treats water from four dams in the Hunua Ranges, before it's distributed to homes and businesses from Papakura to Whangaparāoa.

Watercare at work

Revenue manager Evan James with Auckland Property Investors Association (APIA) executive officer Andrew King.

Simplifying billing for landlords and tenants

More than 5700 landlords and property managers have signed up to a new payment option from Watercare that gives them the ability to make a one-off, upfront payment of their fixed wastewater charge.

Watercare announced the new option in June, which enables monthly bills for the rest of the year to show usage charges only – making it much simpler for tenants to pay.

The change was implemented following conversations between Watercare and the Auckland Property Investors Association (APIA) about how to simplify billing and make charges more transparent for both landlords and tenants.

Under the Residential Tenancies Act 1986, landlords are responsible for fixed charges and tenants are responsible for usage (volumetric) charges. Until now, both fixed and usage charges have appeared on the same monthly bill, which means landlords and tenants have been splitting the payments.

Watercare chief executive Raveen Jaduram says it is exciting to offer a solution that will assist so many Aucklanders.

"In Auckland, around 40 per cent of people live in tenanted properties – so the impact of this improvement will be widespread," says Raveen.

"After becoming Auckland's integrated water utility in 2010, our early focus was on ensuring our customers received high-quality water and wastewater services at standardised prices. Having made significant inroads in those areas, we are driving change through the business to ensure we are responsive to our customers' needs and remain easy to engage with.

"Working with APIA and developing this new payment option for landlords and property managers is one of a number of customer-centric changes we are delivering."

APIA executive officer Andrew King says the change is a good outcome for all concerned and urges all eligible landlords to participate.

He says tenants have benefited from clarity in knowing exactly how much they are required to pay, while landlords and property managers have reduced the amount of bookkeeping required of them.

Outcome one

We understand our customer needs and deliver value

We are seeking to engage in meaningful dialogue with our customers and to understand their needs and issues.

We know the cost of our services is important to our customers. Therefore, we are clear and transparent about our spending and we continue to focus on our obligation to be a minimum-cost service provider.

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

SOI target 2015/16: ≥ 80%
Achieved: 83.7%
Previous year: 85.1%

2016 2015 2014

Watercare met this target. In line with best practice, an independent research organisation is used to survey a random selection of customers who contact the company 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 7.5 out of 9.0. This equates to a performance of 83.7%, which meets the target of 80% or more. The sample of customers satisfied with the service was 2847 respondents out of 3380 surveyed.

Grade of service: Calls answered within 20 seconds

2016 2015 2014

Grade of service is a call centre industry performance measure, aimed at ensuring calls are answered within 20 seconds. In 2015/16, 62.8% of calls were answered within 20 seconds.

This year, our focus was on answering customer enquiries and resolving issues in one phone call. Staff were encouraged to make decisions and take action in order to reduce the volume of repeat phone calls and escalated complaints. This successfully reduced the overall volume of complaints by 55.7% from 1675 in 2014/15 to 742 in 2015/16. However, it also reduced the volume of calls that were answered within 20 seconds.

Continuous improvement

In 2015, we introduced Voice of Customer, a programme that enables continuous, real-time feedback from customers relating to processes, people and projects. This has helped us to identify areas for improvement and allocate resources to implement them.

We also carried out a qualitative survey targeting 500 domestic, 300 commercial and 23 key account customers and the results show we have made significant improvements over the past three years.

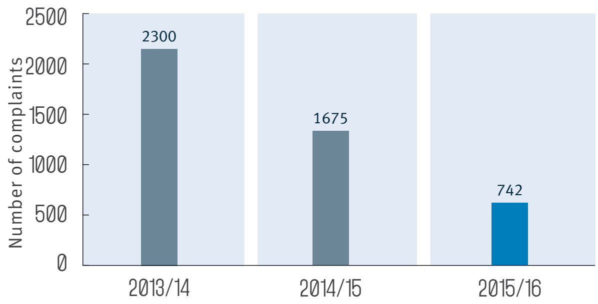
Percentage of complaints resolved and closed within 10 working days

SOI target 2015/16: ≥ 95%
Not Achieved: 93.5%
Previous year: 98.5%

2016 2015 2014

While Watercare did not meet this target, we successfully reduced the overall volume of complaints by 55.7% from 1675 in 2014/15 to 742 in 2015/16. This was due to specialised teams implementing a first-call resolution approach to customer enquiries, thereby preventing repeated calls and escalation of enquiries to complaints. Of the 742 complaints received, 93.5% (694) were resolved within the stipulated 10-day period, against a target of 95%.

Number of complaints



Customer complaints resolved and closed within 10 working days

Water complaints

SOI target 2015/16: ≤ 10
Achieved: 5.6
New measure

2016

Performance measure: The total number of complaints received by Watercare about any of the following:

a) drinking water clarity
b) drinking water taste
c) drinking water odour
d) drinking water pressure or flow
e) continuity of supply.

Watercare's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system.

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues. The number of complaints received per 1000 connections was 5.6, which is well within the target of 10 or fewer.

Wastewater complaints

SOI target 2015/16: ≤ 50
Achieved: 20.8
New measure

2016

Performance measure: The total number of complaints received by Watercare about any of the following:

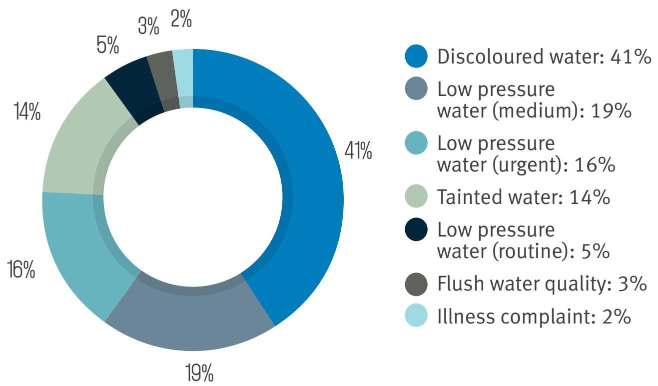
a) sewage odour
b) sewerage system faults
c) sewerage system blockages.

Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare sewerage system.

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues. The number of complaints received per 1000 connections was 20.8, which is well within the target of 50 or fewer.

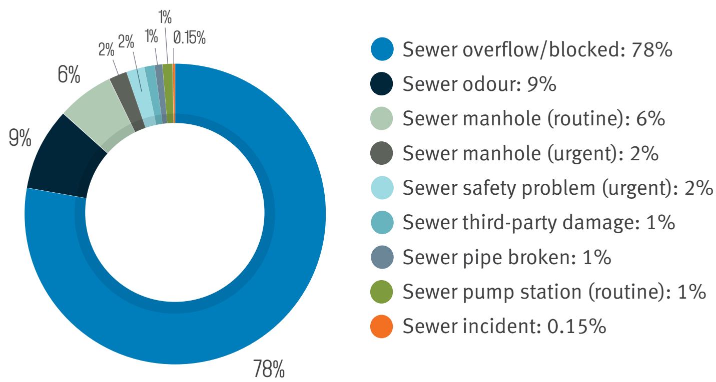
Type of water complaints received

Total number of water complaints: 2385



Type of wastewater complaints received

Total number of wastewater complaints: 8831

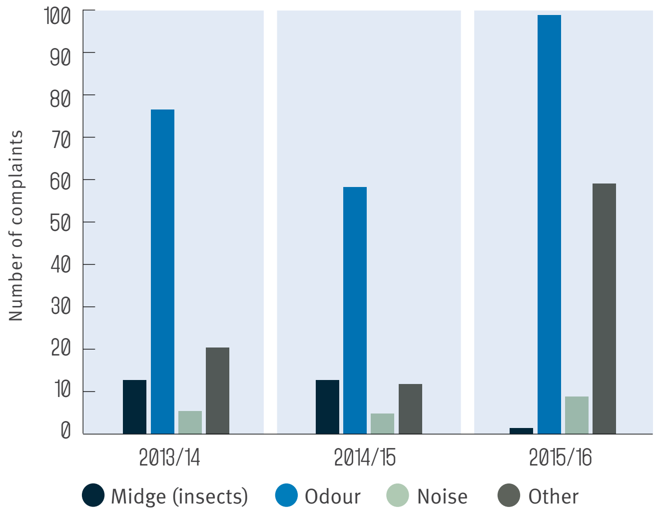


Midge, odour and noise management at operational sites

Watercare's mission is to deliver safe, reliable and efficient water and wastewater services to the people of Auckland. We endeavour to do this as much as practicable, in harmony with the community. We record and strive to address all complaints about the effect of our activities on the environment and on the communities living nearby, particularly those related to midges, odour and noise.

Midges are small flies that thrive in water bodies in still and mild conditions. Watercare continued our midge control programme this year and the number of complaints showed a significant decrease from 12 last year to one this year. 'Other' includes complaints relating to maintenance of our structures such as rubbish in a car park, graffiti, fencing, access etc. This year we have added complaints relating to the North Shore Transmission Network to the operational sites data.

Midge, odour and noise complaints



Household expenditure on water and wastewater services

SOI target 2015/16: ≤ 1.5%
Achieved: 0.86%
Previous year: 0.87%

2016 2015 2014

Watercare met this target. The average monthly household water and wastewater bill from us was $72.47 for the period 1 July 2015 to 30 June 2016 inclusive. Statistics New Zealand's current (2015/16) average monthly household income in Auckland is $8421. This means that the average household water bill represents 0.86% of the average household income. This is well within the stipulated target to keep the average monthly household water bill below or equal to 1.5% of the average monthly household income.

A customer pays less than $3.00 a year for drinking tap water.

Household expenditure on water supply services

Account area	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	Cost of water and wastewater services per household per month 2015/16	Percentage of average weekly income earnings for 2015/16
Franklin	$56.34	0.75%	$56.80	0.71%	$59.03	0.70%
Manukau	$72.42	0.96%	$74.19	0.93%	$80.50	0.96%
Auckland City	$73.89	0.98%	$76.59	0.96%	$77.75	0.93%
North Shore	$65.13	0.86%	$66.07	0.83%	$68.89	0.82%
Rodney	$51.93	0.69%	$53.19	0.67%	$55.54	0.66%
Waitākere	$58.79	0.78%	$59.89	0.75%	$62.71	0.75%
Average	$67.55	0.90%	$69.24	0.87%	$72.47	0.86%

Watercare volunteers at a waterstop on the morning of the Round the Bays fun-run.

Outcome two

We consistently provide exceptional products and service

Our customers expect safe and reliable water and wastewater services from us. When issues arise, we seek to respond in a proactive, timely and transparent manner. Our focus is on maintaining quality and minimising service disruptions.

The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards

Bacterial Compliance Criteria

SOI target 2015/16: 100%
Achieved: 100%
New measure

2016

Watercare met this target. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by the Drinking Water Standards for New Zealand (DWSNZ). Compliance with 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.

Our water treatment plants

Water treated at all of our water treatment plants, both metropolitan and non-metropolitan, fully complied with the DWSNZ.

All metropolitan and non-metropolitan water treatment plants were graded and each achieved an 'A' grade.

The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards

Protozoal Compliance Criteria

SOI target 2015/16: 100%
Achieved: 100%
New measure

2016

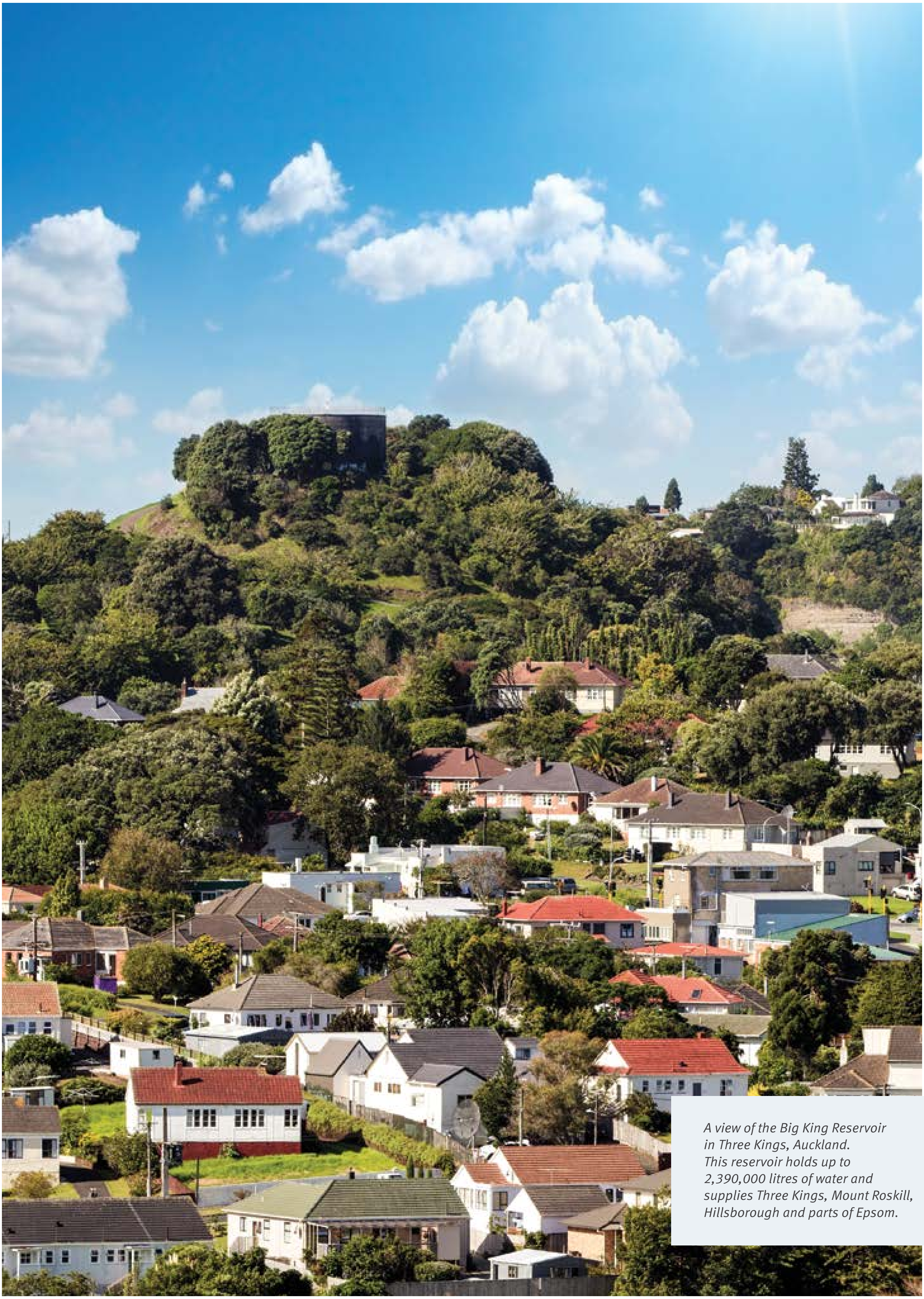
Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal Compliance Criteria set by the DWSNZ. Compliance with DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed drinking water assessor.

Our water supply reticulation

All metropolitan and non-metropolitan distribution networks were graded and each achieved an 'a' grade.

Common note for the measures on this page:
The reported result is based on the grading achieved in November 2015, for the year beginning 1 July 2014 and ending 30 June 2015. The 2015/16 result will be available after the grading in November 2016 for the year beginning 1 July 2015 and ending 30 June 2016.

Depending on the water source, our treatment plants use a combination of screening, clarification, filtration, chlorine dosing and ultraviolet light to treat and supply Auckland homes and businesses with safe and reliable water.



A view of the Big King Reservoir in Three Kings, Auckland. This reservoir holds up to 2,390,000 litres of water and supplies Three Kings, Mount Roskill, Hillsborough and parts of Epsom.

Responding to issues relating to the water network

Median response time for attendance for urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site

SOI target 2015/16: ≤ 60 mins
Achieved: 44 mins
New measure

2016

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 44 minutes, which is well within the target of 60 minutes or less.

Median response time for attendance of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site

SOI target 2015/16: ≤ 3 days
Achieved: 3 days
New measure

2016

Watercare met this target. The median response time for our maintenance crew to attend to non-urgent water issues was three days, which met the target of three days or fewer.

Median response time for resolution of urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption

SOI target 2015/16: ≤ 5 hours
Achieved: 3.1 hours
New measure

2016

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was three hours which is well within the target of five hours or less.

Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption

SOI target 2015/16: ≤ 6 days
Achieved: 4.3 days
New measure

2016

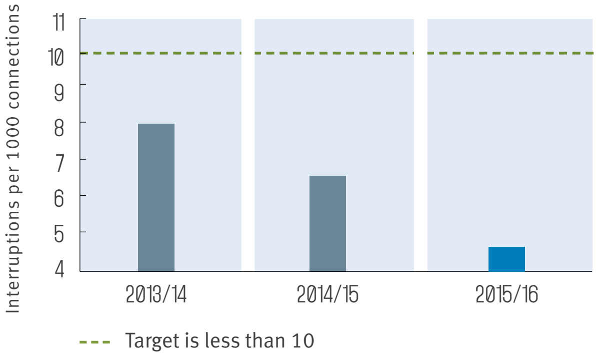
Watercare met this target. The median response time for our maintenance crew to resolve non-urgent issues was 4.3 days, which is well within the target of six days or fewer.

Number of unplanned water interruptions per 1000 connections

The Auckland region covers a total of 423,043 water supply connections. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 4.6 for the Auckland region.

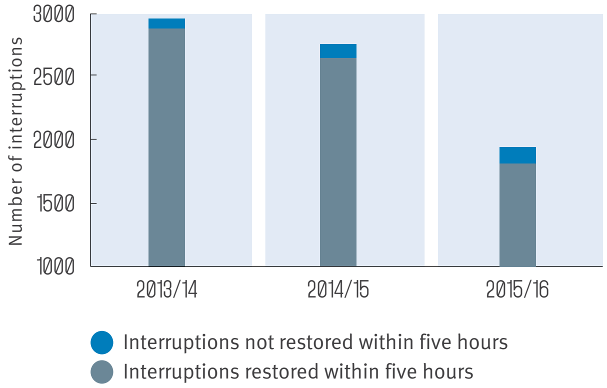
Unplanned water interruptions



Unplanned water interruptions restored within five hours

In order to minimise the impact on our customers, Watercare aims to ensure at least 95% of all unplanned water interruptions are restored within five hours. The result for the year was 94.3% for the Auckland region.

Unplanned water interruptions restored within five hours



Maintenance serviceperson Paul Greatbatch replaces an old water meter box.

Responding to issues relating to the wastewater network

Attendance at sewage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site

SOI target 2015/16: ≤ 60 mins
Achieved: 46 mins
New measure

2016

Watercare met this target. The median response time for our maintenance crew to attend to sewage overflows or blockages was 46 minutes, which is well within the target of 60 minutes or less.

Attendance at sewage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault

SOI target 2015/16: ≤ 5 hours
Achieved: 2.9 hours
New measure

2016

Watercare met this target. The median response time for our maintenance crew to resolve sewage overflows or blockages was 2.9 hours, which is well within the target of five hours or less.

Number of sewer bursts and chokes per 1000 properties

The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. We aim to keep them fewer than 10 for every 1000 properties. The result for the year was 5.8 for the Auckland region.

The number of dry-weather overflows from Watercare's sewage system, expressed per 1000 sewerage connections to that sewage system

SOI target 2015/16: ≤ 10
Achieved: 0.45
New measure

2016

Watercare met this target. The number of wastewater overflows from our retail network during dry weather is a measure of the network's capability to meet current demand. The result for the year was 0.45 overflows per 1000 connections, which is well under the target of 10 or fewer.

Average number of wet-weather overflows per discharge location

SOI target 2015/16: ≤ 2
Achieved: 0.69
New measure

2016

Watercare met this target. The average number of wet-weather overflows for the transmission network per discharge location was 0.69, which is well within the target of two or fewer overflows.

In heavy rain the amount of stormwater that drains from the average roof is equivalent to the wastewater flows from more than 40 households.

Outcome three

We are trusted by our customers who understand our purpose and value our service

We provide essential lifeline utility services for Auckland. Without safe and reliable water and wastewater services, the region's social, economic and environmental health and well-being would suffer.

Given the critical nature of our business, we believe it is important for our customers to understand our purpose and value our services. Therefore, we seek to engage with our communities on an ongoing basis by investing in community programmes, communicating with our customers, and educating people on using water wisely.

Investment in community programmes

Watercare is active within the Auckland community in many ways. We offer a free education programme to primary schools and provide free water at the annual Round the Bays fun-run. Our company sponsors the Watercare Harbour Clean-up Trust, which works to remove litter from Auckland's harbours and inner gulf islands, and promotes the concept of clean, clear, rubbish-free waterways. We also sponsor Trees for Survival, which provides schools with the resources to plant trees and educates pupils on the relationship between the forest and water catchment environment. Watercare funds the Water Utility Consumer Assistance Trust, which helps domestic customers facing financial difficulties to manage their water costs.

Watercare education programme

This year, Watercare's free education programme was delivered at 36 schools, one home-school group and one kindergarten, with a total participation of 7925 students for 317 lessons. Nine new schools participated in the programme this year with the other requests coming from schools that had already participated in the programme. We have been promoting our education programme to schools in areas where we are undertaking construction works, to build awareness about our capital projects.

Mark Ford Ngā Tapuwae Scholarship

Watercare has established two engineering scholarships that acknowledge the company's late chief executive Mark Ford for his outstanding contribution to the industry. Students who are studying engineering at the University of Auckland are able to apply for these scholarships which are valued at $5000 each. One of the scholarships, is dedicated to students of Māori descent.

Programme	2013/14	2014/15	2015/16
Watercare Education Programme	$11,693	$13,098	$8,982
Watercare Utility Consumer Assistance Trust	$100,000	$110,000	$100,000
Trees for Survival	$3125	$3250	$3450
Watercare Harbour Clean-up Trust	$250,000	$250,000	$250,000
Mark Ford Ngā Tapuwae Scholarship			$10,000
Total	**$371,460**	**$376,348**	**$372,432**

Billing services advisor Kay Pillay participates in the Trees for Survival planting day at Ardmore.

Strategic priority two

Business excellence

Business excellence refers to the internal elements and support necessary to deliver positive customer and business outcomes.

At Watercare, we believe the drivers for business excellence are threefold: recruiting and retaining talented staff; keeping them safe and well; and implementing smart processes and fit-for-purpose technology.

Outcomes for this strategic priority:

- We have a safe and engaged team
- We are a commercially-savvy business
- We are responsible stewards of our assets
- We continually strive for process excellence.

Faults co-ordinator Tessah Roache (left) with billing services advisor Agnes Sia during a culture day celebration at Watercare. Staff often come together to recognise and celebrate their diversity through shared lunches and cultural performances.

Watercare at work

Mechanical fitter Mike Walker prepares for a maintenance job.

Safety improvements follow Watercare employee’s call to stop work

Watercare’s maintenance and service delivery teams came together in June 2016 for a breakfast to celebrate the initiative of mechanical fitter Mike Walker.

A few weeks earlier, Mike had observed work practices by contractors working at the Rosedale Transmission Pump Station that he deemed unsafe.

Mike interrupted the work and expressed his concerns to the contractors, requesting that they stop work.

He says he felt no apprehension raising the issue with the contractors, which is a reflection of the changing culture at Watercare.

In March, chief executive Raveen Jaduram had issued health and safety commitment cards to all employees. These cards give each staff member authority to stop any activity that is unable to be carried out safely, and to report this to the appropriate supervisor.

“Raveen has made it clear that safety on the job is important so I knew I had his support to call a stop to the work.”

Mike reported the situation to his manager and the subsequent review identified a number of unsafe practices and procedural shortfalls. The contracting firm was instructed to cease all work for Watercare.

The firm then conducted a review of its practices and procedures, which resulted in work procedure improvements and in-house safety awareness training.

Mike says the contracting firm’s response to the situation should be commended.

“It took the feedback really positively,” he says.

The firm presented its improvements to Watercare in a ‘toolbox’ session at the pump station.

Our chief executive Raveen Jaduram says Mike’s actions not only protected the staff executing the work but also formed the catalyst for a safety review and improvement programme for a contractor that services many organisations, not only Watercare.

“Mike has influenced the culture of the contracting firm, Watercare and the industry in a positive way,” says Raveen.

This breakfast in June provided an opportunity for Mike to be recognised with a small award of appreciation and the lessons to be retold to the broader maintenance services operations and service delivery teams.

Outcome four

We have a safe and engaged team

We are committed to safeguarding the health, safety and well-being of our staff and contractors. Our focus is on developing an organisational culture where personal and process safety is everyone's responsibility.

To achieve business excellence, we need a high-performing team. This requires us to attract, retain and develop the right people. It also requires us to have a strong performance management framework and an effective approach to training and leadership development.

Staff engagement survey

The staff engagement survey response rate remained high for this year's survey, at 90%. The overall engagement score remained stable, with an increase from 68 last year to 69 this year. Since the survey began in 2012, there has been a consistent improvement in the engagement score. Leadership development, structured staff training and a review of the remuneration framework and employment value proposition have been highlighted as focus areas for 2016/17.

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).

	2013/14	2014/15	2015/16
Survey response rate (%)	86%	87%	90%
Staff engagement score	63	68	69

Investment in employees

Watercare's benefits policy provides for all permanent employees to receive the same benefits, regardless of whether they are employed on a full-time or part-time basis. All permanent employees of Watercare are provided with life insurance equivalent to double the amount of their annualised salary, and income protection insurance which would cover 80% of their salary if they were affected by an incident or illness that left them unable to work for a period of time. We also provide discounted membership for health insurance.

Training per staff member

Our staff received an average of 25.6 hours training in 2015/16. This excludes time spent on employee orientation which was included as part of the training in 2014/15. Significant training will be undertaken for staff in 2016/17 on health and safety-related areas.

	2013/14	2014/15	2015/16
Average staff numbers over the year	742	791	869
Average hours of training for permanent employees	22	39	26
Men	24	44	30
Women	17	26	16
Full-time	22	36	26
Part-time	31	16	5
Casual	–	–	3
Total training spend ($)	$711,000	$1,113,367	$1,061,886
Ratio ($ per average staff numbers)	$958	$1407	$1222

Performance review process

We schedule performance reviews annually for employees on individual employment agreements (IEAs). These were conducted in August 2015 for 76% of those who were eligible.

From 2016/17 onwards, staff under collective employment agreements (CEAs) will also be included in the review process.

We will introduce a new performance review process for 2016/17 that will enable regular and timely feedback and conversations around performance and development opportunities between managers and their teams.

Workforce employment breakdown

The number of staff increased slightly, by 3.88%, in the 2015/16 financial year. Most of our employees are employed in the Auckland region.

Watercare also operates laboratory testing services in Queenstown and Invercargill, where four staff are employed. 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 by age and gender

	Female	Male	Total
Under 30	65	95	160
30–39	100	131	231
40–49	67	141	208
50–59	58	140	198
60 or older	16	90	106
Total	306	597	903

		2013/14			2014/15			2015/16		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Permanent employees	Individual Employment Agreements (IEA)	371	245	616	396	265	661	443	265	708
	Collective Employment Agreements (CEA)	141	2	143	141	1	142	137	2	139
	Part-time Headcount	3	10	13	3	11	14	2	12	14
Fixed-term employees	Fixed-term Individual Agreements (IEA) ›1yr	9	3	12	7	7	14	2	11	13
	Fixed-term Individual Agreements (IEA) ‹1yr	5	9	14	8	11	19	3	6	9
Total fixed-term and permanent employees		**529**	**269**	**798**	**555**	**295**	**850**	**587**	**296**	**883**
Casual employees		*10*	*12*	*22*	*11*	*16*	*27*	*10*	*10*	*20*

New hires by gender

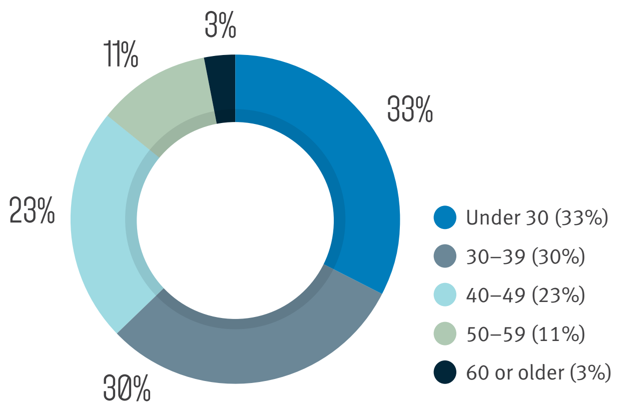
	2013/14	2014/15	2015/16
Male	97	110	140*
Female	56	68	65
Total	153	178	205

** The increase in the number of male employees recruited in 2015/16 can be attributed to the hiring of 62 staff to maintenance roles, which predominantly attract male applicants.*

Flexible workplace

Last year, we introduced a range of initiatives in support of establishing a flexible workplace. These included flexible starting and finishing times for staff, a dedicated mothers' room for those returning to work after a maternity leave, the option to purchase additional annual leave and paid parental leave for expecting mothers and partners.

New hires by age group



Parental leave and returners

Watercare offers an additional eight weeks of paid parental leave beyond that provided as part of the government-funded parental leave. In December 2015, we introduced a paid parental leave of two weeks for partners, which has been very well received.

In 2015/16, 90% of employees who took parental leave returned to work, with the rest still on parental leave. 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.

Parental leave

		2013/14	2014/15	2015/16
Number who have taken parental leave	Male	5	1	10
	Female	13	18	12
	Total	18	19	22
Number due to come back from parental leave each year	Male	5	1	8
	Female	9	7	12
	Total	14	8	20
Number having come back from parental leave	Male	5	0	8
	Female	7	5	10
	Total	12	5	18
Percentage returning after parental leave		86%	63%	90%

Percentage of remuneration paid to women as compared to that paid to men in the same job band for permanent roles

The staff ratio is calculated as the percentage of women in each salary band. Salary bands enable a comparison of remuneration based on the type of job and the experience of the person with a view to achieve equality. The 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 increased this year for executive, senior management, operational and support roles. The management band saw a decrease in the salary ratio due to the internal promotion of two female employees from this band to the one above.

The significant increase in the number of males in operational and support roles can be attributed to technical and maintenance-based roles which attract mostly male applicants.

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. However, it should be noted that there is no difference in remuneration levels between male and female staff in any of the CEAs, i.e. both male and female staff are remunerated at an equivalent level for the specific role being undertaken.

Salary ratio of female employees

	Ratio		Numbers		Ratio	
	Staff ratio 2014/15	Salary ratio 2014/15	Male 2015/16	Female 2015/16	Staff ratio 2015/16	Salary ratio 2015/16
Executive and senior management	5%	65%	5	1	17%	92%
Management	18%	90%	73	15	17%	83%
Technical	30%	92%	282	94	25%	91%
Operational and support	64%	93%	221	169	43%	95%

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

SOI target 2015/16: ≤ 5

Achieved: 1.92
Previous year: 6.42

Watercare met this target as we recorded an LTIFR of 1.92, which is well within the target of five or fewer. This is a result of the measures that we introduced during the year, including an improved reporting system and a new leadership model. We have developed an annual health and safety (H&S) plan with three main areas of focus: reducing risk, improving tools and training, and celebrating good H&S performance across the company.

Total recordable injury frequency rate (TRIFR) per million hours worked

SOI target 2015/16: ≤ 30

Achieved: 23.02
Previous year: 19.84

Watercare met this target, achieving a TRIFR of 23.02, against a target of 30 or fewer injuries for every million hours worked per year. This rate is higher than the TRIFR for 2014/15 and can be attributed to the increased reporting of incidents, made possible with the new incident management system. We believe that increased and improved reporting will lead to better understanding and management of risks and hazards and, ultimately, to a better safety culture among our workforce.

Percentage of voluntary leavers relative to the number of permanent staff

SOI target 2015/16: ≤ 12%
Not Achieved: 12.9%
Previous year: 10.9%

Watercare did not meet this target. Voluntary staff turnover for 2015/16 was 12.9% against a target of 12% or less. During the year, we undertook significant restructuring to better align the business to deliver on customer outcomes. A slight increase in the level of voluntary staff turnover is not unusual in this context. We are reviewing the company's remuneration framework as well as the collective employment agreements to ensure that employment benefits are competitive. We have recently streamlined our recruitment process and will introduce a new performance review process for 2016/17 that will enable regular and timely feedback and conversations around development opportunities between managers and their teams.

Involuntary staff turnover

Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2015/16, there were 32 instances of involuntary turnover, compared to 22 in 2014/15.

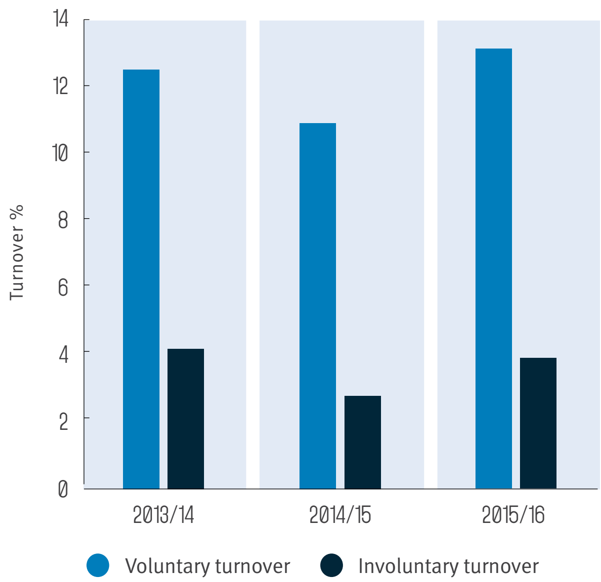
	2014/15		2015/16	
	Voluntary	Involuntary	Voluntary	Involuntary
Male	52	19	65	24
Female	34	3	43	8
Total	**10.87%**	**2.78%**	**12.9%**	**3.8%**

	2014/15		2015/16	
	Voluntary	Involuntary	Voluntary	Involuntary
Under 30	23	2	35	3
30–39	36	5	39	4
40–49	22	7	18	9
50–59	5	6	13	4
60 or older	0	2	3	12

Level of ACC workplace management practices accreditation

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

Breakdown of voluntary and involuntary turnover



Absenteeism due to illness

Watercare recorded an unplanned absenteeism rate of 2.18% which is a marginal increase over last year's result of 2.16%.

Overall sick-leave utilisation remains at approximately 5.48 days per employee per annum.

We provide an 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 company or self-referral.

Health and safety committees

Watercare has now established health and safety (H&S) committees or meetings across the company that meet the requirements of the Health and Safety at Work Act 2015. The proportion of staff participating in H&S committees is 13.88%. Union representatives and members participate in the H&S committees as well. Nominated H&S representatives have been trained by Employers and Manufacturers Association. A programme for refresher training, to cover the requirements of the new Act, has been introduced and is now under way.

Outcome five

We are responsible stewards of our assets

As stewards of public assets that provide life-line services, we are responsible for both the long-term stability of our infrastructure as well as for ensuring resilience in the operational performance of our networks.

Water sources

Auckland's water supply is obtained from three types of 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

	2013/14	2014/15	2015/16
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	12	12
'A'-grade water treatment plants	11	12	15
Other water treatment plants	8	4	Nil
Length of treated watermains (km)	8862	9066	9064
Service reservoirs	90	89	88
Pump stations	90	90	92
Annual volume produced (ex plant m^3)	144,287,502	143,548,551	148,674,615
Annual volume sold (m^3)	119,214,010	119,045,999	121,072,423

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

Annual water volume produced (ex plant) less potable water network losses of 12.94% equates to around 354 million litres of water per day supplied to the people of Auckland.

Volume of water by source

	2013/14		2014/15		2015/16	
	Volume (m^3)	%	Volume (m^3)	%	Volume (m^3)	%
Waitakere Dam	4,440,410	3%	4,236,379	3%	3,753,913	3%
Upper Huia Dam	4,762,725	3%	4,675,277	3%	4,013,773	3%
Upper Nihotupu Dam	3,967,693	3%	7,746,042	5%	6,208,120	4%
Lower Huia Dam	7,256,968	5%	1,860,675	1%	6,528,504	4%
Lower Nihotupu Dam	7,557,456	5%	6,960,088	5%	7,497,197	5%
Cosseys Dam	12,991,256	9%	14,199,939	10%	12,225,078	8%
Upper Mangatāwhiri Dam	25,267,005	18%	22,847,617	16%	22,523,768	15%
Wairoa Dam	8,540,326	6%	9,163,897	6%	6,286,530	4%
Mangatangi Dam	38,062,981	26%	30,763,525	21%	28,853,035	19%
Waikato River	24,643,479	17%	33,226,948	23%	41,839,028	28%
Onehunga Aquifer	4,512,595	3%	5,835,965	4%	6,470,573	4%
Rural North	1,257,409	1%	1,323,224	1%	1,404,251	1%
Rural South	1,439,267	1%	1,084,600	1%	984,069	1%
Total	**144,699,569**		**143,924,175**		**148,587,839**	

Capital investment

Capital expenditure is investment in developing and upgrading essential infrastructure like watermains, treatment plants, pump stations, sewers, etc. Watercare funds our capital expenditure through a combination of revenue and debt, and receives no contribution from central government or Auckland Council.

The following are some of the significant projects for 2015/16:

Albany Reservoir

To increase security of supply in the North Shore and Rodney, a second water reservoir at Albany was built and commissioned in July 2015. Construction on the $5.9 million project began in April 2014. It duplicates the existing Albany reservoir on the same site in Corinthian Drive, providing another 10,000 cubic metres of storage in the 40-metre-diameter concrete tank.

Hunua 4 Watermain

The construction of the Hunua 4 Watermain is essential to cater to Auckland's population growth and ensure security of water supply. The 32-kilometre-pipeline route started at Redoubt North Reservoir in Manukau Heights and will continue to Khyber Reservoir complex in Grafton. Construction has been under way for over four years. Parts of East Tamaki, Manukau and Māngere are already being supplied by the watermain. The next stage to Market Road is due to be completed by the end of 2016. The entire project is expected to be complete by end of 2020.

Kohimarama wastewater storage tank and pipeline upgrades

The Kohimarama wastewater upgrades will reduce the frequency and volume of overflows into the local stream and improve the condition of local waterways; they will also provide extra capacity for future population growth. The improvements at Kohimarama include upgraded wastewater pipelines and the construction of a new underground storage tank at Madills Farm Reserve. Construction began in April 2014 and was completed in early 2016. The project has been recognised with a 'Highly Commended' award for Best Public Works Project over $5 Million by the Institute of Public Works Engineering Australasia.

Northern Interceptor

The Northern Interceptor wastewater project is essential to service planned growth in North-West Auckland. The interceptor will divert wastewater flows from North-West Auckland, which are currently sent to the Māngere Wastewater Treatment Plant, to the Rosedale Wastewater Treatment Plant. This will allow for growth in Hobsonville, the North West Transformation area, Kumeu, Huapai and Riverhead and free up capacity for growth in the central and southern areas of Auckland as well. The project will be phased progressively, in conjunction with growth. The first phase of the project (the section from Hobsonville to Rosedale) will be delivered via a design-build contract which will be tendered in late 2016.

Asset maintenance strategies

Watercare has a risk-based approach to maintenance, based on the criticality of an asset. To support this approach, a programme is under way to rate the criticality/importance of equipment and incorporate this rating into our Enterprise Resource Planning (ERP) System using priority indicators. Equipment or lack of spares that stops production, leads to non-compliance or causes health and safety incidents are rated as the most critical.

These indicators will be used to implement improvements to assets, starting with the highest-value-return opportunities. This therefore supports our Asset Management Plan (AMP) by identifying poor-performing equipment and prioritising it for rehabilitation or replacement.

Roll-out of the priority indicators commenced early this year at our major plants, with Ardmore, Huia and Onehunga Water Treatment Plants and Māngere Wastewater Treatment Plant having been completed to date. The work will continue until all equipment within our plants has been assessed.

Almost half of our $4.9 billion 10-year capital expenditure forecast will be invested in providing capacity for growth.

The roof of the storage tank being installed in Madills Farm Reserve at Kohimarama.

Outcome six

We are a commercially-savvy business

We have an in-depth knowledge of our industry and apply sound judgement when making decisions that impact our infrastructure, staff or operations. We manage our capital projects and supplier negotiations in order to deliver positive customer outcomes and to mitigate risk.

Supply chain and savings

In 2015/16, Watercare's procurement function commenced a programme of initiatives aligned with our organisational priorities and focused on our people, procedures and tools with the objective of delivering effective and efficient procurement. We have introduced United Nations Standard Products and Services Codes to allow better analysis of procurement spend and development of enhanced category strategies. In 2016/17, we plan to review and revise our procedures and tools and will implement a Supplier Relationship Management framework for our key suppliers.

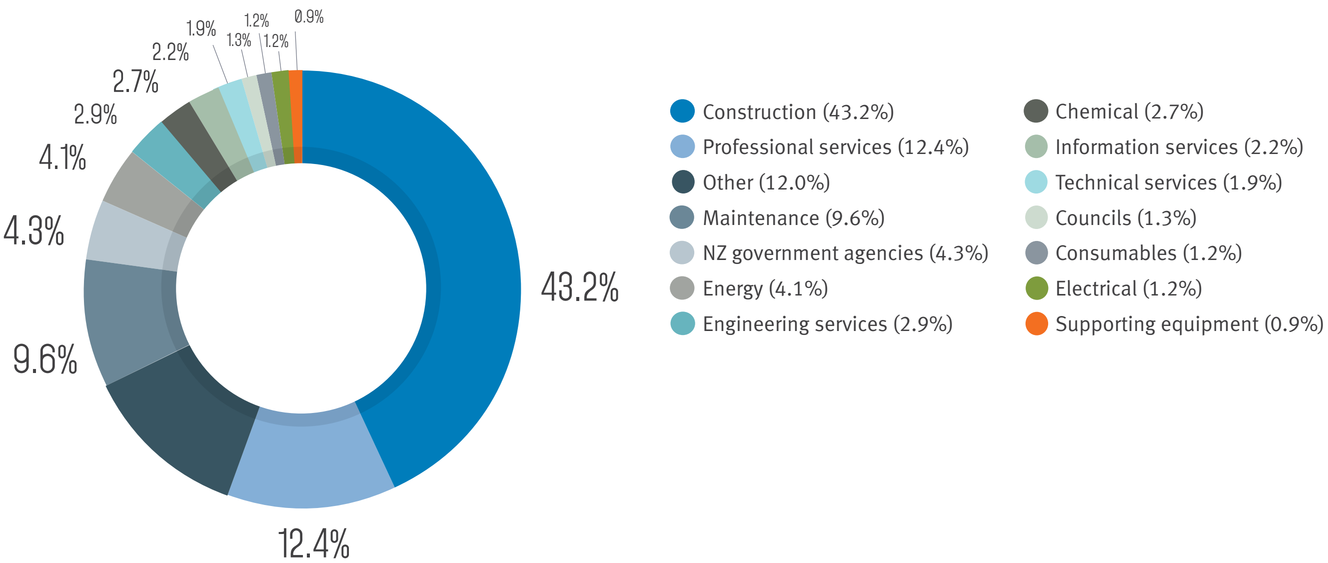
In 2015/16, savings of $4.4 million were achieved, exceeding the targeted amount of $4.0 million. Major savings were realised through the procurement process for mobile, voice and data services and solid waste disposal from wastewater plants. Other savings were achieved through the collaborative procurement of printing services, vehicle fuel and other co-sourcing activities undertaken with Auckland Council and Auckland Transport.

Top 15 suppliers

Watercare's major suppliers during 2015/16 are displayed below. All have branches in New Zealand and are governed by New Zealand law.

Supplier	Value excluding GST
McConnell Dowell – HEB Joint Venture	$50,131,232
John Holland	$49,585,522
Downer New Zealand Limited	$18,237,306
Fulton Hogan Limited	$12,011,423
City Care	$11,168,052
HEB Construction Limited	$10,535,952
Ixom Operations Pty Limited	$9,667,654
Pipeline & Civil Limited	$9,653,640
Trustpower Limited	$9,194,552
Beca Infrastructure Limited	$9,158,924
Lend Lease Infrastructure Services	$7,581,885
Jacobs New Zealand Limited	$6,179,143
McConnell Dowell Constructors Limited	$5,415,437
Coast Digger Services	$4,459,560
Steelpipe Limited	$4,382,656
Total	**$217,362,938**

Percentage of expenditure by industry



Outcome seven

We continually strive for process excellence

In order to deliver positive customer outcomes, the supporting processes and systems need to be aligned and integrated. This means we understand all key cross-functional business processes and deliver excellence through design and the effective use of supporting technology.

The percentage of real water loss from Watercare's networked reticulation system

SOI target 2015/16: ≤ 13%

Achieved: 12.94%
Previous year (restated): 12.78%
Previous year (original): 12.95%

2016 2015 2014

Watercare met 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 by using percentages recommended by Water New Zealand. In 2015/16, the real loss percentage was 12.94% against a target of 13% or less. The real losses are expressed as a rolling average over the most recent 12 months, which consists of the months May 2015 to April 2016. The revenue assurance team will continue to investigate other causes of unbilled water usage and ways to mitigate them.

This is a change in reporting from previous years where the calculation was based on the rolling average for July to June each year. The reason for the change is the use of actual water volumes instead of budgeted water volumes for calculating real water loss. As water meters are read in alternative months, actual consumption volumes are only available for the period between May 2015 and April 2016. Watercare believes that using actual water volumes provides a more accurate reflection of its performance against this measure. Consequently, we have also recalculated the result for the 2014/15 year and presented both the originally reported result and the recalculated result.

Revenue assurance

The revenue assurance team is tasked with ensuring that the volume of water produced at the treatment plants is consistent with the volume of water that is used or sold. A large component of the team's work involves the detection of unbilled water usage. Examples of unbilled usage include unmetered illegal connections, unknown metered connections, faulty meters and illegal hydrant use.

Early this year, we began a project to install smart meters in Waiuku. These smart meters are connected to existing water meters and can send real-time daily usage including how much water is being used at what times, and easily identify leaks. Waiuku was chosen for the smart meter trial due to the high volume of water losses in the area.

Special projects and restrictions co-ordinator Rajesh Kumar and a contractor from CityCare out in the field fitting a smart meter.

Strategic priority three

Financial responsibility

Our customers expect us to be financially responsible as every dollar we spend has an impact on the price they pay for water and wastewater services. Staff throughout the company are encouraged to be efficient and cost-conscious. Our financial management is underpinned by robust plans and policies, supported by a comprehensive risk and audit programme.

Outcomes for this strategic priority:

- We are a minimum-cost service provider
- We are financially stable over the long term.

The Māngere Wastewater Treatment Plant treats about 75% of Auckland's wastewater.

Watercare at work

Water strategy manager Tuan Hawke at the Albany Reservoir complex. Tuan and his team develop the Asset Management Plan which outlines how Watercare will accommodate growth, renew assets and improve levels of service.

Making the most of existing assets to be a minimum-cost provider

Watercare's updated Asset Management Plan (AMP) outlines how the company plans to stay ahead of Auckland's growing demand for water and wastewater services over the next 20 years.

The AMP outlines what infrastructure we will deliver, where, when and how much it will cost as well as ways in which Watercare will better utilise its existing assets to improve network resilience.

For example, the area serviced by the Pinehill Reservoir on the North Shore has a very high local demand. Rather than building a second reservoir at Pinehill, we will maximise the use of the existing one by building a pump station and connecting the watermain from the Albany Reservoir complex to push a higher volume of water to the Pinehill Reservoir.

Our networks already have the capacity to allow 45,000 new homes to connect to our services today. We plan to spend $4.9 billion on infrastructure projects over the next 10 years to provide capacity for 195,000 new Auckland homes.

Chief executive Raveen Jaduram says major strategic projects are planned and staged to ensure water and wastewater networks continue to have sufficient capacity to meet demand as Auckland's population increases, while keeping the costs for our customers to a minimum.

"The Waikato Water Treatment Plant has been built in such a way as to support staged expansions. The plant has already undertaken two projects since 2013 to increase its capacity. We are now preparing for further expansions that will enable the plant to meet demand over the next 20 years," he says.

The resilience of the wastewater network will also be improved through increased connectivity across the region. For example, Watercare is about to construct the $538 million Northern Interceptor that will divert flows from north-west Auckland – which currently travel to the Māngere Wastewater Treatment Plant – to the Rosedale Wastewater Treatment Plant on the North Shore.

This has two major benefits: it utilises spare capacity at the Rosedale plant and gives the Māngere plant greater capacity to support growth in the central and southern areas.

We receive no money from Auckland Council or central government and do not pay any dividends.

"We are self-funded, so almost 70 per cent of our investment requirements will come from our customers and those who create growth," says Raveen. The remaining 30 per cent is sourced through capital borrowings.

Outcome eight

We are a minimum-cost service provider

We are required by law to manage our operations efficiently with a view to keeping the overall costs of water supply and wastewater services at minimum levels, consistent with the effective conduct of our undertakings and the maintenance of the long-term integrity of our assets.

Information regarding household expenditure on water and wastewater services can be found on page 29. Details of the savings achieved through efficiencies in procurement can be found on page 46.

Customer debt

Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was $4,979,307. The average amount of outstanding debt decreased to $269 this year compared to $294.15 in 2014/15.

		% of total
Debit balance 31+ days (end of June 2016)	$4,979,307	12.9%
Number of accounts with 31+ days debt	18,487	6.5%
Average debt (31+ days)	$269	

Outcome nine

We are financially stable over the long term

To be financially stable over the long term, we take the following into consideration when managing our capital investment programme: risk, future demand, maintaining debt levels and interest costs, and inter-generational equity.

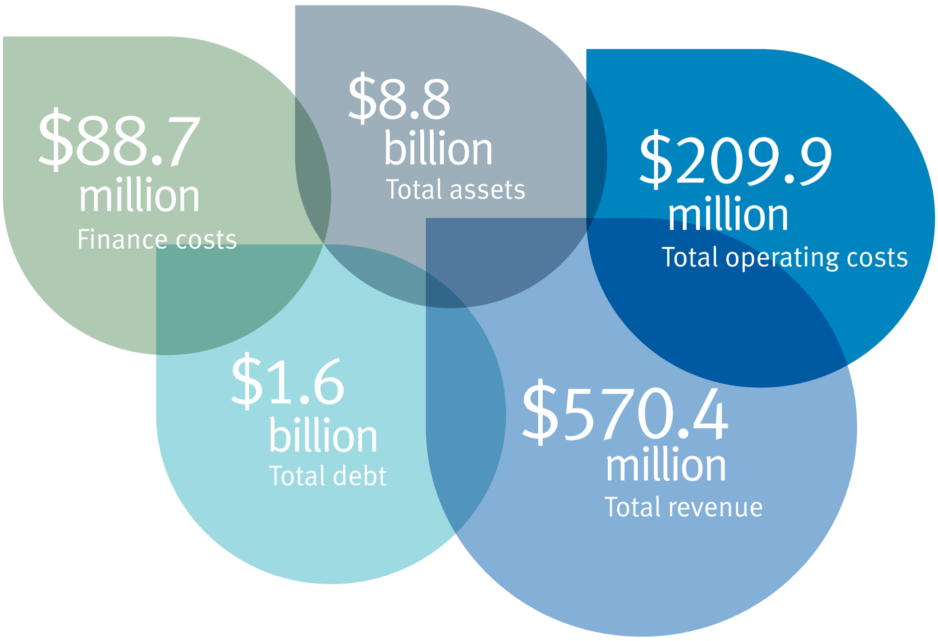
Total operating costs

Operating costs of $209.9 million were $2.9 million lower than budget for the year. This was primarily due to lower spend on professional services consultants and general lower overhead costs.

Total revenue

Total revenue was $570.4 million in 2015/16 compared with $520.4 million in 2014/15. Water and wastewater revenues of $452.7 million were $26.1 million ahead of 2014/15 with $10.7 million of the increase due to the 2.5% price increase on 1 July 2015 and $15.4 million largely as a result of an overall volume increase. Infrastructure growth charge revenue totalled $62.1 million compared with $50.2 million in 2014/15 due to increased development activity across Auckland.

Other key elements of revenue included $31.3 million for the cost of physical assets funding by external parties and vested to Watercare ownership, and $5.3 million in respect of revenue recognised as a result of the sale of Watercare tax losses within the Auckland Council Group.



Total finance costs

Total finance costs of $88.7 million were incurred during the year, of which $11.0 million was treated as a capital cost funding larger-scale, long-term capital projects. The remainder of $77.7 million was expensed to the statement of revenue and expense.

The overall average interest rate was 5.72% compared with 5.88% in 2014/15.

Operating surplus from trading operations

An operating surplus from trading operations of $66.6 million was achieved in 2015/16 with revenue being $33.3 million ahead of budget expectation, and total expenses $4.2 million under 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.

To enable a smoother and more predictable future price path, we utilise interest rate swap agreements to fix medium to long-term interest rates on a proportion of our debt.

This reduces 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 $137.1 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 of $67.2 million for the year ending 30 June 2016.

Net new debt

In 2015/16 $109.4 million of new debt was entered into by Watercare. Consistent with our SOI undertaking, all of the new long-term debt ($90 million) was sourced through Auckland Council as this is the lowest cost source of debt for us. Other debt, primarily the revolving credit facility and commercial paper increased by $19.4 million.

During the year, $48.9 million of debt from previous years was repaid, resulting in an overall $60.5 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.

Total assets

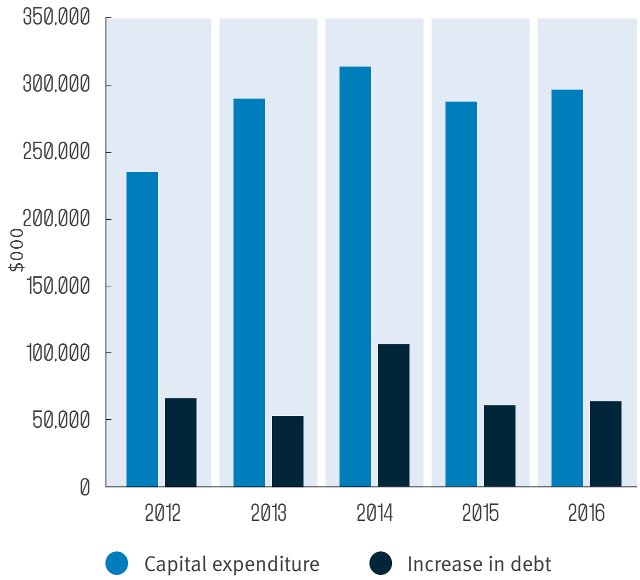
Total Watercare assets grew from $8.69 billion to $8.82 billion in 2015/16. The majority of the increase related to the cost of new infrastructure asset spending during the year together with an uplift in asset values resulting from the two-yearly valuation review of our land and building assets.

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

SOI target 2015/16: ≥ 2.5
Achieved: 3.71
Previous year: 3.32

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2016 was 3.71. 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.

Capital expenditure compared to the increase in net debt



We utilise interest rate swap agreements to enable a smoother and more predictable future price path.

Watercare's billing team at work.
We process about 20,000 bills a day.


New Zealand Freshwater Invertebrates

Strategic priority four

Fully sustainable

Watercare's business is intrinsically linked to the natural environment and our operations can impact upon local communities.

Integrating sustainability into everything we do is key to our role as a trusted community and iwi partner.

Outcomes for this strategic priority:

- We are a socially-responsible business
- We protect and enhance our natural environment
- We meet all our legal and regulatory obligations.

Watercare education co-ordinator Sally Smith and pupils from Bucklands Beach Primary School identify the types of freshwater bugs that can be found in the stream at Macleans Reserve.

Watercare at work

From left: Manukau Harbour Forum chair Jill Naysmith, Auckland councillor Denise Krum, Watercare chief executive Raveen Jaduram and NIWA Auckland regional manager Ken Becker at the announcement of the research.

Watercare commissions game-changing study of Manukau Harbour

Manukau Harbour's ecological health will be put under a scientifically-backed microscope for the first time in a complex hydrodynamic study commissioned by Watercare.

We announced in July 2016 that we will fund a three-year research programme by the National Institute of Water and Atmospheric Research (NIWA), which will establish a coupled hydrodynamic and water-quality model of New Zealand's second-largest harbour.

The work is part of a strategic partnership between Watercare and NIWA, and will provide much-needed information on how nutrients enter the harbour and how they subsequently move around the harbour and the lower levels of the food chain.

Watercare chief executive Raveen Jaduram says the model will establish a very clear understanding of the various factors that affect the health of the Manukau Harbour.

"Finally we will have a sound, scientific basis for collaborative decision-making in the harbour. This will ensure planning decisions and debate are based on facts, not opinions," Raveen says.

In Auckland Council's 2014 State of Auckland Marine Report Card, the harbour received a 'D' grade for water quality, contaminants and ecology, the result of years and, in some areas, decades of deterioration.

NIWA Auckland regional manager Ken Becker says the initial phase of the project will focus on nutrients and nuisance algal blooms.

"Our scientists will then be able to use the model to conduct 'what-if?' studies. For example, what if nutrient inputs increase due to Auckland's growth and increased flows at the wastewater plant? What about climate change? How will sea-level rise influence the flushing time of the harbour?"

Surface water run-off and stormwater discharges from a large and complex land catchment – which includes Onehunga, Māngere and Takanini and stretches as far south as Waiuku – converge in the Manukau Harbour.

Our Māngere Wastewater Treatment Plant, which collects and treats wastewater from across the city, discharges the treated wastewater to the harbour.

Raveen says: "We are part of the Manukau Harbour community and feel strongly about sustaining the health of the harbour environment."

Although Watercare is funding the initial stages, he says the model is a collective resource and harbour stakeholders, including Auckland Council, are encouraged to provide expertise and funding to enhance the research and understanding of the harbour, particularly in relation to sedimentation.

Manukau Harbour Forum chair Jill Naysmith says the forum is delighted that Watercare has stepped up to fund the first major step of the model.

"We are looking forward to collaborating with Watercare and other harbour stakeholders to develop the sediment and contaminant components of the model."

Auckland councillor Denise Krum says for too long the Manukau Harbour has been the poor cousin to the Waitematā, and Watercare's commitment to undertake modelling is a massive step forward.

"Knowledge is king and the reason why I pushed through an amendment to council's 10-year budget to raise the hydro-modelling topic.

"Increased focus on the harbour will be incredibly important for our city given the population growth expected all along our shores. As a keen and competitive ocean swimmer, I'm excited about the prospect of one day being able to swim in a clean and safe Manukau," says Denise.

Outcome ten

We are a socially-responsible business

We seek to act with integrity by considering the well-being of our staff, communities and local environment when carrying out our daily operations. Our policies and governance arrangements support ethical behaviour, and we endeavour to be a positive member of our community.

Conservation activities

Watercare's activities involve interaction with diverse flora and fauna. We work hard to minimise the impact of our activities and, where possible, to enhance the environment.

Improvements to the wastewater treatment process at several of our plants, including the ongoing rehabilitation of the Māngere foreshore, have enhanced the surrounding marine and estuarine environments. We also allocate significant resources to minimising the effects our 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.

Māngere Bridge School participated in this year's foreshore poster project. Students made artworks depicting aspects of the Manukau Harbour's ecology. The artworks voted as favourites were printed and placed on the foreshore walkway. Māngere Bridge School incorporated this project into their curriculum so that the students spent time researching the unique ecology of the Manukau Harbour. This project not only created informative posters, but helped the students understand and connect with their local environment.

Percentage attendance at the quarterly meetings of the Mana Whenua Kaitiaki Forum

SOI target 2015/16: 100%

Achieved: 100%
New measure

2016 ✓

Watercare met this target. The company attended all the quarterly meetings of the Mana Whenua Kaitiaki Forum.

Name of site	Ecological attributes supported by Watercare
Bycroft Wetland, Onehunga	Home of rare and endangered moss species, indigenous vegetation and wildlife
Hunua Ranges	Native bush and wildlife habitat
Waitākere Ranges	Native bush and wildlife habitat
Mangakura Catchment	Native bush and wildlife habitat
Sandhills Wetland	Native bush and wildlife habitat
Māngere Coastal Walkway	Public walkways, bird roosts and native and marine habitat
Oruarangi Awa	Marine estuarine ecosystems being restored
Waikato RiverCare	Riparian planting along the lower Waikato River to enhance river water quality
Auckland Volcanic Cones	The cones are parks and heritage areas and a defining feature 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	Formerly used for pastoral agriculture and as basalt quarry; now in the course of being rehabilitated and used as a high-tide roost by a variety of wading birds

A bird roost on the Watercare Coastal Walkway in the Manukau Harbour.

Outcome eleven

We protect and enhance our natural environment

The sustainability of our business is dependent upon the health of our natural environment. We actively measure and mitigate our impacts on the environment and embed environmental protection into our daily operations.

We encourage water conservation and, where appropriate, provide leadership and advocacy for improving the health of the environment. Long-term environmental and social challenges such as climate change are taken into consideration.

The average consumption of drinking water per day per resident

SOI target 2015/16: 272 +/- 2.5%

Achieved: 272.05
Previous year: 270.69

Watercare met this target. The gross per-capita consumption was 272.05 litres per day this year, against a target of 272 litres per day (+/- 2.5%). The Auckland Plan includes a water-efficiency measure to reduce per-capita consumption to 15% below the 2004 level by 2025. The Auckland Regional Water Demand Management Plan is our strategy to deliver this target. This year, we continued our water efficiency programme. The plan for 2016/17 will include more investment in our demand management programme and a review of our demand management strategy.

Adapting to climate change impacts

Watercare continues to develop our understanding of the implications of climate change and consider potential options for adaptation. We contributed to the development of a report titled 'Climate Change Adaptation Guidelines' produced by the Water Services Association of Australia. Along with keeping up to date with the latest climate change associated research, we are also contributing to the development of the Ministry for the Environment's review of Coastal Hazards and Climate Change guidance for local government.

Using water wisely

Watercare undertakes and promotes a range of water efficiency initiatives as part of our Demand Management Plan. This year, we:

- Commenced implementation of the Be Waterwise programme for non-domestic customers. Several businesses participated in the pilot to understand how water is managed in their organisation and the five critical actions to achieve water efficiency. We will continue to deliver this programme for businesses next year.
- Home visits which are offered as part of the Be Waterwise programme for domestic customers were very well received this year. Of the 93 households who enrolled in the programme this year, 46 received a visit from an EcoMatters advisor to help them understand their water usage. In 2016/17, we will focus on managing domestic water demand by targeting areas of Auckland with high water use.
- Prepared for the update of the 2013–2016 Auckland Regional Demand Management Plan, to be released at the end of 2016.

Greenhouse gas emissions

Aligned with Auckland Council's Low Carbon Action Plan, Watercare reports against a 1990 baseline year. In the early 2000s, we significantly upgraded the Māngere 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.

In 2014, we reviewed our carbon accounting and increased the scope of our reporting. In 2015/16, a total of 38,885 tonnes of carbon dioxide equivalent (CO_2e) was generated, which is a 6% increase compared with the previous year. This is due to the increased gas and electricity use as a result of increased production at the Waikato Water Treatment Plant.

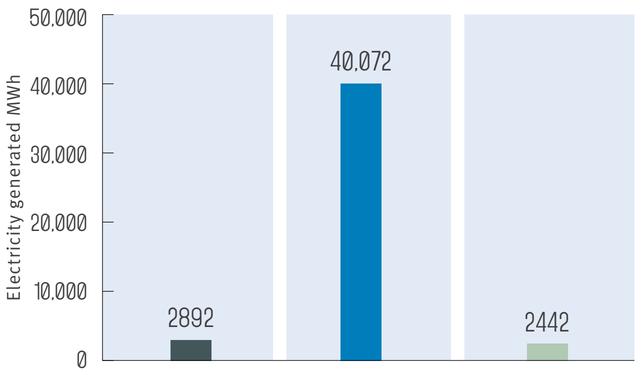
More information on Watercare's greenhouse gas emissions is available in the climate change online supplement.

Energy use and internal generation

Watercare has implemented the co-generation technology at the Māngere 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. Our water supply arm is an electricity supplier too, with turbines located in the four Hunua dams generating hydro-electric power.

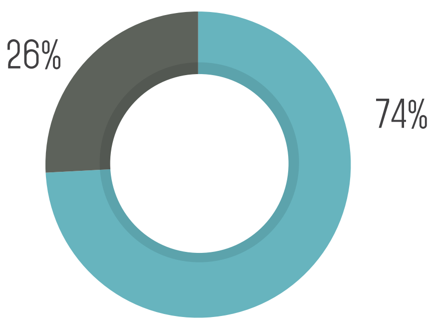
This year, we used 174,925 MWh of electricity and sourced 26% of our energy needs internally, as compared to 31% last year. We have signed a three-year collaboration agreement with Energy Efficiency and Conservation Authority (EECA) which aims to save 8GWh of energy by 2018 and to achieve energy neutrality at Rosedale and Māngere wastewater treatment plants by 2025.

Electricity generation



- Electricity generated through water supply (hydro)
- Electricity generated through wastewater treatment (biogas) – Māngere
- Electricity generated through wastewater treatment (biogas) – Rosedale

Source of electricity



- Purchased electricity (74%)
- Internally sourced electricity (26%)

Reusing waste from treatment processes

We aim to reuse as much material as possible from our water and wastewater treatment plants. Watercare uses biosolids from the Māngere Wastewater Treatment Plant to rehabilitate Puketutu Island, which was formerly a quarry. We also maintain dedicated placement sites for solids removed during the water treatment process.

In 2015/16, Watercare was able to reuse 55% of the solids from our water treatment process and 82% of the solids from our wastewater treatment process.

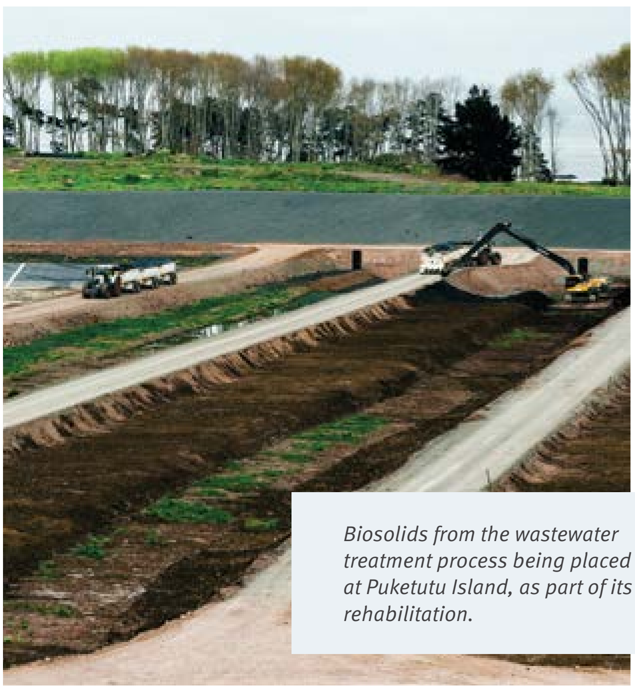
Operational waste from:	2013/14	2014/15	2015/16
Water treatment* (m^3)	8,966	11,366	11,414
Wastewater treatment** (t)	136,846	138,953	137,317

** Sludge. ** Biosolids, grits and screenings.*

Diverting waste from landfill

We aim to minimise the volume of office waste being sent to landfill. Over the past 10 years, Watercare has carried out audits to measure how effective we are in diverting material that can be recycled or composted from the general waste stream.

This year, there has been a 7.6% reduction of the overall amount of waste sent to landfill, from 43.3kg/day in 2014/15 to 40kg/day in 2015/16. There is potential for further improvement, as 74% of the waste currently being sent to landfill could be recycled or composted. We will continue to regularly monitor and ensure that cleaning staff are trained to our waste management guidelines. The next annual waste audit will take place in the first half of 2017.



Biosolids from the wastewater treatment process being placed at Puketutu Island, as part of its rehabilitation.

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 through waste from industrial users. The table below displays the metal content of biosolids from the Māngere and Rosedale treatment plants, which produce most of Watercare's biosolids. The metal content has further decreased this year to 2.79 tonnes from last year's 3.27 tonnes, as a result of effective controls and continued monitoring by the trade waste team.

Substance	2013/14		2014/15		2015/16	
	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	4.82	0.17	5.34	0.19	4.99	0.18
Cadmium	1.08	0.04	1.13	0.04	1.01	0.04
Chromium	88.43	3.19	50.71	1.85	47.78	1.71
Lead	26.27	0.95	31.96	1.17	23.80	0.85
Mercury	0.62	0.02	0.55	0.02	0.56	0.02
Total		**4.37**		**3.27**		**2.79**

Investigations specialist Matt Simcox and trade waste compliance advisor Aidan Potter test wastewater samples at an industrial site.

Outcome twelve

We meet all our legal and regulatory obligations

Meeting our legal and regulatory obligations are baseline requirements for our organisation. Our wastewater treatment plants are subject to a large number of resource consent conditions in relation to factors such as effluent quality and volume, and we hold resource consents for our products and facilities.

We are subject to a large number of laws and statutory expectations associated with the governance and financial management of our organisation.

Resource consent compliance

At 30 June 2016, Watercare held an average of 490 active resource consents per month for our products and facilities. We achieved a monthly average of 97.31% compliance with the active conditions associated with these consents.

Non-compliances relating to water treatment facilities included:

- Over-extraction of groundwater sources in Waiuku. New water sources for Waiuku are being investigated.

Non-compliances relating to wastewater treatment facilities included:

- Exceedances in the discharge standards, either in volume or quality; there were exceedances in the discharge standards at some of the non-metropolitan treatment plants. We inherited these plants from the former councils and are 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.

We have investigated each of these non-compliances and are 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 compliance relating to wastewater operations

SOI target 2015/16: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0

Achieved: a) = 0, b) = 0, c) = 0, d) = 0
New measure

2016

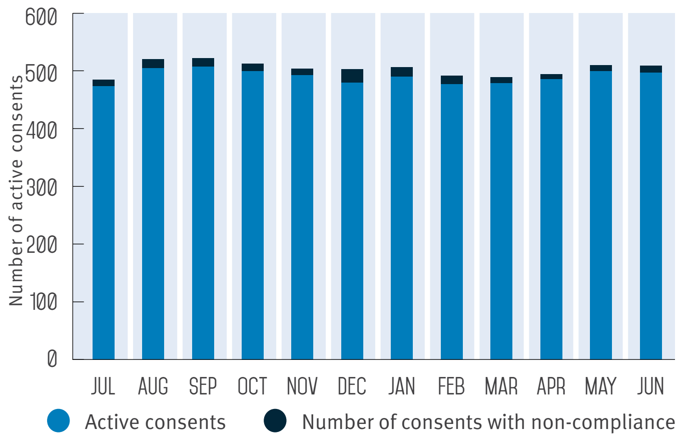
Performance measure: Compliance with Watercare's resource consents for discharge from its sewerage system measured by the number of:

a) abatement notices
b) infringement notices
c) enforcement orders
d) convictions

received by Watercare in relation to those resource consents.

Watercare met this target. There were no abatement, infringement, enforcement notices or convictions for the 2015/16 year. This holds true for 2014/15 as well. Our continued performance against this measure is a reflection of the improvements that have been implemented in the wastewater treatment processes. Major upgrades are under way at Māngere and Rosedale treatment plants. Further work is planned at Clarks Beach, Owhanake, Warkworth and Pukekohe.

Resource consent conditions



KPMG

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 year ended 30 June 2016 ("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

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 18 to 21 and 24 to 61.

Specifically excluded is any information that incorporates Statement of Intent (SOI) targets and information that is included in the 2016 Financial Statements and online supplements.

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;
- Checking whether the appropriate indicators have been reported in accordance with the GRI G4 Core in accordance level; 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.

Opinion

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.

Our assurance engagement was completed as at 19 September 2016 and our opinion is expressed as at that date.

KPMG

KPMG
Auckland

Financial report contents

Financial statements

Notes to the financial statements

Statutory information

2016 Statement of service performance

GRI index

Historical financial summary

For the year ended 30 June

	2012	2013	2014	2015	2016
	$000	$000	$000	$000	$000
Financial performance					
Total revenue	441,950	482,620	500,470	520,407	**570,429**
Operating expenses	184,590	191,907	196,611	204,572	**209,894**
Depreciation and amortisation	179,822	184,980	205,947	208,739	**216,250**
Finance expense	72,586	71,632	69,149	73,992	**77,684**
Total expenses	436,998	448,519	471,707	487,303	**503,828**
Operating surplus before:	4,952	34,101	28,763	33,104	**66,601**
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,517)	(10,210)	(11,975)	(11,052)	**(10,968)**
Net (loss)/gain on revaluation of derivative financial instruments	(60,618)	39,628	13,050	(88,644)	**(137,600)**
Operating (deficit)/surplus before tax	(64,183)	63,519	29,838	(66,592)	**(81,967)**
Income tax benefit/(expense)	18,878	(23,173)	(38,230)	11,236	**14,780**
Net (deficit)/surplus after tax	(45,305)	40,346	(8,392)	(55,356)	**(67,187)**
Financial position					
Current assets	78,744	72,090	78,118	79,692	**80,857**
Non-current assets	7,820,142	8,167,043	8,308,101	8,605,062	**8,739,757**
Total assets	7,898,886	8,239,133	8,386,219	8,684,754	**8,820,614**
Current liabilities	325,077	541,753	533,685	320,837	**504,561**
Non-current liabilities	2,037,500	1,930,629	2,069,089	2,488,916	**2,482,163**
Total liabilities	2,362,577	2,472,382	2,602,774	2,809,753	**2,986,724**
Total equity	5,536,309	5,766,751	5,783,445	5,875,001	**5,833,890**
Cash flow					
Net cash flows - operating	163,394	208,980	222,570	224,712	**247,754**
Net cash flows - investing	(229,173)	(261,639)	(328,411)	(285,494)	**(311,593)**
Net cash flows - financing	67,167	51,876	106,025	63,487	**60,456**
Net change in cash flows	1,388	(783)	184	2,705	**(3,383)**
Key statistics					
Property, plant and equipment	7,730,309	8,084,978	8,235,338	8,528,217	**8,654,122**
Capital expenditure	234,670	289,289	313,391	286,913	**296,101**
Net debt	1,295,204	1,347,863	1,453,464	1,513,996	**1,577,571**
Increase in net debt	65,779	52,659	105,601	60,532	**63,575**
Increase in net debt to capex	29%	18%	34%	22%	**21%**
EBITDA to interest expense ratio	3.5	3.8	4.1	4.0	**4.2**
Funds flow from operations to interest ratio	3.2	3.4	3.3	3.4	**3.7**
Funds flow from operations to average net debt	20%	20%	20%	20%	**21%**
Number (headcount) of permanent employees	645	731	772	817	**861**

Financial commentary

For the year ended 30 June 2016

	2016 Actual $000	2015 Actual $000	2016 Budget $000
Revenue	**570,429**	520,407	537,171
Operating expenses	**(209,894)**	(204,572)	(212,765)
Depreciation and amortisation	**(216,250)**	(208,739)	(217,121)
Finance costs	**(77,684)**	(73,992)	(78,207)
Total expenses	**(503,828)**	(487,303)	(508,093)
Operating surplus from trading operations	**66,601**	33,104	29,078
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	**(10,968)**	(11,052)	(3,000)
Net loss on revaluation of derivative financial instruments	**(137,600)**	(88,644)	-
Operating (deficit)/surplus before tax	**(81,967)**	(66,592)	26,078
Income tax benefit/(expense)	**14,780**	11,236	(21,490)
Net (deficit)/surplus for the year	**(67,187)**	(55,356)	4,588
Gain on revaluation of property, plant and equipment	**26,076**	146,912	-
Total comprehensive revenue and expense for the year, net of tax	**(41,111)**	91,556	4,588

Key Points

- The company is reporting revenue of $570.4 million which was $33.3 million ahead of budget expectations. Non-cash vested asset income was $21.3 million ahead of budget during the year. Water and wastewater revenue was $9.5 million ahead of budget due to higher volumes over the course of the year. Additionally infrastructure growth charge income was $4.5 million ahead of budget reflecting the growing level of development activity in Auckland. The infrastructure growth charge revenue contributes to the funding of growth based water and wastewater infrastructure.
- Operating expenses were $2.9 million lower than budget due primarily to lower spend on professional services consultants and lower general overhead costs. Finance costs were $0.5 million lower than budget due to the lower than budgeted debt and interest rates. Additionally depreciation and amortisation was $0.9 million lower than budget due to lower depreciation on assets identified for replacement as part of new capital projects.
- The company reports an operating surplus of $66.6 million compared with a budgeted operating surplus of $29.1 million being a favourable variance of $37.5 million. Both business units are reporting an operating surplus from trading operations being $19.7 million for water and $46.9 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 $137.1 million (non-cash) write down due to the downward move in interest rates over the year. Additionally there was a $0.5 million loss on forward foreign exchange contracts. These accounting losses were not budgeted for.
- The company has recorded a loss on disposal of property, plant and equipment and restructuring costs of $11.0 million being primarily the write-down of assets that were replaced in the normal course of business during the year.
- The resulting net deficit after tax of $67.2 million was compared with a budgeted net surplus of $4.6 million. (2015: net deficit after tax of $55.4 million).
- The land and buildings asset classes were revalued in accordance with accounting standard requirements at 30 June 2016. The impact of the asset revaluation was an uplift of $26.1 million (net of tax) in the value of land and buildings.
- Total assets of the company have increased from $8.7 billion to $8.8 billion during the last year, reflecting the company's continued investment in new infrastructure assets and the upward revaluation of land and buildings to fair value at 30 June 2016.
- Net debt increased by $63.6 million during the year, funding the shortfall between operating cashflows and capital expenditure. The increase in net debt was $92.2 million lower than budget, reflecting 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 2016 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 2016.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2016 were approved and authorised for release on 31 August 2016.

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

Deloitte.

Independent Auditor's Report

To the readers of Watercare Services Limited Group's financial statements and performance information for the year ended 30 June 2016

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 70 to 108, that comprise the statement of financial position as at 30 June 2016, 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 110 to 113.

In our opinion:

- the financial statements of the Group:
- present fairly, in all material respects:
- its financial position as at 30 June 2016; and
- its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.
- the performance information of the Group presents fairly, in all material respects, the Group's actual performance, compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2016.

Our audit was completed on 31 August 2016. 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 performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- 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.

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 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.

Other than this engagement, our audit of the Company's annual financial statements, the audit of its subsidiaries and a review of an ERP system, we have no relationship with or interests in the Company. In addition to this, partners and employees of our firm deal with Watercare Services Limited on normal terms within the ordinary course of trading activities of the business of Watercare Services Limited.

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

Statement of comprehensive revenue and expense

For the year ended 30 June 2016

	Notes	2016 Actual $000	2015 Actual $000	2016 Budget $000
Revenue	Note 12, page 96	**570,429**	520,407	537,171
Total revenue		**570,429**	520,407	537,171
Operating expenses				
Asset operating costs		**(60,872)**	(61,423)	(59,696)
Maintenance costs		**(38,776)**	(37,927)	(35,538)
Employee benefit expenses		**(63,420)**	(57,695)	(64,353)
Other expenses		**(46,826)**	(47,527)	(53,178)
Total operating expenses	Note 13, page 97	**(209,894)**	(204,572)	(212,765)
Depreciation	Note 4, page 81	**(207,903)**	(195,430)	(209,712)
Amortisation	Note 7, page 85	**(8,347)**	(13,309)	(7,409)
Finance costs	Note 9, page 88	**(77,684)**	(73,992)	(78,207)
Total expenses		**(503,828)**	(487,303)	(508,093)
Operating surplus from trading operations		**66,601**	33,104	29,078
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs		**(10,968)**	(11,052)	(3,000)
Net loss on revaluation of derivative financial instruments	Note 11, page 95	**(137,600)**	(88,644)	-
Operating (deficit)/surplus before tax		**(81,967)**	(66,592)	26,078
Income tax benefit/(expense)	Note 15, page 99	**14,780**	11,236	(21,490)
Net (deficit)/surplus for the year		**(67,187)**	(55,356)	4,588
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	Note 6, page 84	**26,076**	146,912	-
Other comprehensive revenue and expense for the year, net of tax		**26,076**	146,912	-
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax		**(41,111)**	91,556	4,588

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of financial position

As at 30 June 2016

	Notes	2016 Actual $000	2015 Actual $000	2016 Budget $000
Assets				
Current				
Cash and cash equivalents		**172**	2,968	-
Trade and other receivables from exchange transactions	Note 17, page 101	**68,247**	67,350	71,947
Inventories	Note 18, page 101	**5,896**	4,061	4,539
Prepaid expenses	Note 20, page 102	**3,336**	3,003	2,307
Derivative financial instruments	Note 10, page 94	**3,206**	2,310	2,526
Total current assets		**80,857**	79,692	81,319
Non-current				
Property, plant and equipment	Note 4, page 81	**8,654,122**	8,528,217	8,829,817
Intangible assets	Note 7, page 85	**42,880**	40,183	42,838
Inventories	Note 18, page 101	**4,373**	3,884	3,504
Prepaid expenses	Note 20, page 102	**23,244**	23,692	23,274
Derivative financial instruments	Note 10, page 94	**15,138**	9,086	7,794
Total non-current assets		**8,739,757**	8,605,062	8,907,227
Total assets		**8,820,614**	8,684,754	8,988,546
Liabilities				
Current				
Bank overdraft		**587**	-	-
Borrowings	Note 8, page 86	**380,951**	197,875	208,231
Derivative financial instruments	Note 10, page 94	**33,276**	22,179	19,441
Trade and other payables for exchange transactions	Note 19, page 102	**17,559**	19,789	39,140
Accrued expenses	Note 21, page 102	**62,968**	68,898	65,715
Provisions	Note 22, page 103	**9,220**	12,096	14,102
Total current liabilities		**504,561**	320,837	346,629
Non-current				
Borrowings	Note 8, page 86	**1,196,205**	1,319,089	1,461,579
Derivative financial instruments	Note 10, page 94	**268,697**	135,247	137,203
Deferred tax liability	Note 16, page 100	**998,201**	1,011,128	1,072,657
Trade and other payables for exchange transactions	Note 19, page 102	**865**	4,049	-
Accrued expenses	Note 21, page 102	**13,434**	14,652	16,869
Provisions	Note 22, page 103	**4,761**	4,751	1,751
Total non-current liabilities		**2,482,163**	2,488,916	2,690,059
Total liabilities		**2,986,724**	2,809,753	3,036,688
Equity attributable to owners of the parent				
Retained earnings		**3,733,270**	3,802,099	3,797,639
Revaluation reserves	Note 6, page 84	**1,839,927**	1,812,209	1,893,526
Issued capital	Note 23, page 104	**260,693**	260,693	260,693
Total equity		**5,833,890**	5,875,001	5,951,858
Total equity and liabilities		**8,820,614**	8,684,754	8,988,546

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of cash flows

For the year ended 30 June 2016

	Notes	2016 Actual $000	2015 Actual $000	2016 Budget $000
Operating activities				
Cash was provided from:				
Receipts from customers		**531,685**	483,068	533,035
Dividends received		**113**	108	100
Interest received		**35**	350	-
Income tax refund		**-**	7	-
Subvention receipt	Note 15, page 98	**5,379**	8,466	8,796
		537,212	491,999	541,931
Cash was applied to:				
Employees and suppliers		**(212,891)**	(187,526)	(215,979)
Finance costs paid		**(76,567)**	(79,761)	(78,207)
		(289,458)	(267,287)	(294,186)
Net cash flows – operating activities	Note 14, page 98	**247,754**	224,712	247,745
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		**94**	2,561	-
		94	2,561	-
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		**(300,638)**	(274,261)	(380,773)
Interest capitalised on construction of property, plant and equipment, and intangibles	Note 9, page 88	**(11,049)**	(13,794)	(18,501)
		(311,687)	(288,055)	(399,274)
Net cash flows – investing activities		**(311,593)**	(285,494)	(399,274)
Financing activities				
Cash was provided from:				
Commercial paper issued (net)		**374**	14,882	-
Revolving credit facility (net)		**19,000**	-	-
Proceeds from Auckland Council loans – related party	Note 23, page 105	**90,000**	340,000	201,529
		109,374	354,882	201,529
Cash was applied to:				
Repay revolving credit facility (net)		**-**	(5,000)	-
Repay medium-term notes issue		**(30,000)**	(150,000)	(30,000)
Repay loans from Auckland Council – related party	Note 23, page 105	**(18,918)**	(136,395)	(20,000)
		(48,918)	(291,395)	(50,000)
Net cash flows – financing activities		**60,456**	63,487	151,529
Net change in cash flows		**(3,383)**	2,705	-
Cash and cash equivalents at the beginning of the year		**2,968**	263	-
Cash and cash equivalents at the end of the year		**(415)**	2,968	-
Cash and cash equivalents comprises:				
Bank (overdraft)/balances		**(415)**	2,968	-
		(415)	2,968	-

The financial statements should be read in conjunction with the notes on pages 74 to 108 inclusive.

Statement of changes in equity

For the year ended 30 June 2016

		2016			
		Retained earnings	Revaluation reserves	Issued capital	Total
	Notes	$000	$000	$000	$000
Balance at 1 July 2015		3,802,099	1,812,209	260,693	5,875,001
Comprehensive revenue and expense					
Net deficit for the year		(67,187)	-	-	(67,187)
Other comprehensive revenue and expense					
Gain on revaluation of property, plant and equipment	Note 6, page 84	-	26,076	-	26,076
Transfer between reserves on disposal of property, plant and equipment	Note 6, page 84	(1,642)	1,642	-	-
Total comprehensive revenue and expense for the year, net of tax		**(68,829)**	**27,718**	**-**	**(41,111)**
Balance at 30 June 2016		**3,733,270**	**1,839,927**	**260,693**	**5,833,890**

		2015			
		Retained earnings	Revaluation reserves	Issued capital	Total
	Notes	$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 84	-	146,912	-	146,912
Transfer between reserves on disposal of property, plant and equipment	Note 6, page 84	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 74 to 108 inclusive.

Notes to the financial statements

For the year ended 30 June 2016

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 by legislation is restricted 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. These 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 Authoritative Notices that apply to entities applying PBE standards.

Budget figures

The budget figures presented are as approved by the Board on 12 June 2015. 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 80
- Unbilled revenue estimate, note 12, page 95
- Provisions, note 22, page 103

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.

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. The group applied these standards in preparing the 30 June 2016 financial statements.

2. Explanation of major variances to budget

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

Statement of comprehensive revenue and expense – extract

	2016 Actual	2016 Budget	Variance	Variance
	$000	$000	$000	%
Revenue	570,429	537,171	33,258	6.2%
Other expenses	46,826	53,178	6,352	11.9%
Amortisation	8,347	7,409	(938)	(12.7%)
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	10,968	3,000	(7,968)	(265.6%)
Net loss on revaluation of derivative financial instruments	137,600	-	(137,600)	-
Gain on revaluation of property, plant and equipment	26,076	-	26,076	-

- Revenue was $33.3 million or 6.2% higher than budget primarily due to higher (non-cash) vested assets revenue. Additionally water and wastewater revenue and infrastructure growth charge revenue were higher than budgeted.
- Other expenses were $6.4 million or 11.9% lower than budget primarily due to lower professional services consultant spend and general overheads.
- Amortisation was $0.9 million or 12.7% higher than budget due to the shortening of the useful lives and resulting increased amortisation on computer software assets which have been identified for replacement during the year.
- The net loss on disposal of property, plant and equipment was $8.0 million or 265.6% higher than budget due primarily to the greater volume of retail assets being replaced during the year than was anticipated.
- 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 $137.6 million. The revaluation is a (non-cash) unbudgeted accounting adjustment primarily reflecting the lowering of the forward interest rate curve during the year to June 2016.
- The gain on asset revaluation of land and buildings of $26.1 million was not budgeted. The budget assumed the revaluation would be completed at 30 June 2017.

Statement of financial position – extract

	2016 Actual	2016 Budget	Variance	Variance
	$000	$000	$000	%
Total current assets	80,857	81,319	(462)	(0.6%)
Total non-current assets	8,739,757	8,907,227	(167,470)	(1.9%)
Total current liabilities	504,561	346,629	(157,932)	(45.6%)
Total non-current liabilities	2, 482,163	2,690,059	207,896	7.7%
Total equity	5,833,890	5,951,858	(117,968)	(2.0%)

- Current assets were $0.46 million lower than budget primarily due to lower closing trade receivables than was assumed in the budget.
- Non-current assets were $167.5 million lower than budget primarily due to the lower capital expenditure than was budgeted during the year. Additionally the opening value of property plant and equipment was lower as a result of the asset revaluation at 30 June 2015 being a smaller increase in asset value than was assumed for budget purposes.
- Current liabilities were $157.9 million higher than budget at year-end primarily due to higher levels of short term borrowings being primarily the reclassification of the term loan from non-current to current liabilities. Additionally there was an increase in financial liabilities resulting from the revaluation of derivative financial instruments.
- Non-current liabilities were $207.9 million lower than budget due primarily to lower term borrowings as a result of lower capital expenditure during the year and the reclassification of the term loan from non-current to current liabilities. This was partially offset by an increase in financial liabilities resulting from the revaluation of derivative financial instruments.
- Equity was lower than budget at year-end primarily due to the lower current year earnings as a result of the loss on revaluation of derivative financial instruments.

2. Explanation of major variances to budget (continued)

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

	2016 Actual	2016 Budget	Variance	Variance
	$000	$000	$000	%
Net cash flows – operating activities	247,754	247,745	9	0.0%
Net cash flows – investing activities	(311,593)	(399,274)	87,681	(22.0%)
Net cash flows – financing activities	60,456	151,529	91,073	60.1%

- Net operating cash flows at $247.8 million were on budget. The company had a favourable operating surplus from trading operations compared to budget which when adjusted for non-cash items and movements in working capital reduces the operating cashflow back to the budget position. (See note 14 on page 98 for the reconciliation of net deficit after tax to operating cashflows).
- The net cash flow from investing activities was 22.0% lower than budget due to lower spend on capital expenditure projects during the year.
- The net cash flow from financing activities shows a net increase in borrowings in 2016 from the prior year of $60.5 million being lower than budget due to lower capital expenditure outflows.

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

	2016			2015		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Revenue						
Water and wastewater	143,252	309,497	452,749	136,896	289,722	426,618
Other revenue	60,479	57,201	117,680	50,900	42,889	93,789
Total revenue	203,731	366,698	570,429	187,796	332,611	520,407
Operating expenses						
Asset operating costs	(21,031)	(39,841)	(60,872)	(21,821)	(39,602)	(61,423)
Maintenance costs	(17,741)	(21,035)	(38,776)	(17,188)	(20,739)	(37,927)
Employee benefit expenses	(23,497)	(39,923)	(63,420)	(21,164)	(36,531)	(57,695)
Other expenses	(16,255)	(30,571)	(46,826)	(16,284)	(31,243)	(47,527)
Total operating expenses	(78,524)	(131,370)	(209,894)	(76,457)	(128,115)	(204,572)
Depreciation	(93,695)	(114,208)	(207,903)	(87,926)	(107,504)	(195,430)
Amortisation	(2,338)	(6,009)	(8,347)	(3,937)	(9,372)	(13,309)
Finance costs	(9,476)	(68,208)	(77,684)	(4,813)	(69,179)	(73,992)
Total expenses	(184,033)	(319,795)	(503,828)	(173,133)	(314,170)	(487,303)
Operating surplus from trading operations	19,698	46,903	66,601	14,663	18,441	33,104
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(5,825)	(5,143)	(10,968)	(4,101)	(6,951)	(11,052)
Net loss on revaluation of derivative financial instruments	(22,089)	(115,511)	(137,600)	(12,321)	(76,323)	(88,644)
Operating deficit before tax	(8,216)	(73,751)	(81,967)	(1,759)	(64,833)	(66,592)
Income tax benefit/(expense)	(235)	15,015	14,780	(3,391)	14,627	11,236
Net deficit for the year	(8,451)	(58,736)	(67,187)	(5,150)	(50,206)	(55,356)
Other comprehensive revenue and expense net of tax						
Net gain/(loss) on revaluation of property, plant and equipment	12,354	13,722	26,076	181,165	(34,253)	146,912
Other comprehensive revenue and expense for the year, net of tax	12,354	13,722	26,076	181,165	(34,253)	146,912
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	3,903	(45,014)	(41,111)	176,015	(84,459)	91,556

3. Business unit reporting (continued)

Business unit financial position

	2016			2015		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Assets						
Current						
Current assets	29,005	51,852	80,857	27,043	52,649	79,692
Total current assets	29,005	51,852	80,857	27,043	52,649	79,692
Non-current						
Property, plant and equipment	3,784,278	4,869,844	8,654,122	3,734,070	4,794,147	8,528,217
Intangible assets	11,454	31,426	42,880	13,054	27,129	40,183
Inventories	112	4,261	4,373	106	3,778	3,884
Prepaid expenses	-	23,244	23,244	2	23,690	23,692
Derivative financial instruments	2,505	12,633	15,138	1,293	7,793	9,086
Total non-current assets	3,798,349	4,941,408	8,739,757	3,748,525	4,856,537	8,605,062
Total assets	3,827,354	4,993,260	8,820,614	3,775,568	4,909,186	8,684,754
Liabilities						
Current						
Current liabilities	99,122	405,439	504,561	63,488	257,349	320,837
Total current liabilities	99,122	405,439	504,561	63,488	257,349	320,837
Non-current						
Borrowings	200,909	995,296	1,196,205	187,774	1,131,315	1,319,089
Derivative financial instruments	44,469	224,228	268,697	19,252	115,995	135,247
Deferred tax liability	315,832	682,369	998,201	324,457	686,671	1,011,128
Trade and other payables for exchange transactions	136	729	865	2,201	1,848	4,049
Accrued expenses	4,946	8,488	13,434	5,235	9,417	14,652
Provisions	408	4,353	4,761	407	4,344	4,751
Total non-current liabilities	566,700	1,915,463	2,482,163	539,326	1,949,590	2,488,916
Total liabilities	665,822	2,320,902	2,986,724	602,814	2,206,939	2,809,753
Equity attributable to owners of the parent	3,161,532	2,672,358	5,833,890	3,172,754	2,702,247	5,875,001
Total equity and liabilities	3,827,354	4,993,260	8,820,614	3,775,568	4,909,186	8,684,754

Business unit cash flows

	2016			2015		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Net cash flows – operating activities	105,275	142,479	247,754	104,498	120,214	224,712
Net cash flows – investing activities	(137,090)	(174,503)	(311,593)	(162,035)	(123,459)	(285,494)
Net cash flows – financing activities	31,255	29,201	60,456	57,930	5,557	63,487
Net change in cash flows	(560)	(2,823)	(3,383)	393	2,312	2,705

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	
			2016	2015
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	**10 - 117**	12 - 117
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**3 - 200**	3 - 200
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**8 - 145**	8 - 117
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**12 - 200**	15 - 200
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	**3 - 35**	3 - 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	**3 - 200**	3 - 200
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	**4 - 25**	4 - 25
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	**1 - 20**	2 - 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 note 6 Revaluation reserves.

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.

4. Property, plant and equipment (continued)

Revaluation assumptions

The most recent valuation for land and buildings was completed at 30 June 2016 by Beca Valuations Limited (Beca). The land valuation was based on relevant market prices using a comparable sales approach and buildings were valued using the depreciated replacement cost.

The most recent valuation for all infrastructure assets was completed at 30 June 2015 by 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.

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 movement in fair value of infrastructure assets since 30 June 2015 was assessed at balance date using indices deemed suitable by management. The assessment indicated a decrease in infrastructure asset value which was not considered material by management and accordingly the infrastructure assets 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.

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 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)
Net book value	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
Year ended 30 June 2016											
Additions to work in progress	-	-	-	-	-	-	-	-	-	296,101	296,101
Additions to PPE	-	-	31,002	-	-	-	140	-	-	-	31,142
Transfers from work in progress	2,861	904	155,349	15,706	342	70	38,072	2,817	1,825	(229,311)	(11,365)
Disposals	-	(55)	(7,288)	(1)	-	-	(863)	(13)	(138)	(1,641)	(9,999)
Revaluation	21,312	6,617	-	-	-	-	-	-	-	-	27,929
Impairments	-	-	-	-	-	-	-	-	-	-	-
Transfer from/(to) other classes	-	1,461	-	-	-	2,601	(2,844)	-	(1,218)	-	-
Depreciation	-	(1,775)	(136,270)	(11,196)	(1,962)	(1,830)	(49,859)	(1,743)	(3,268)	-	(207,903)
Closing carrying amount	**179,527**	**81,608**	**6,022,938**	**688,745**	**230,658**	**45,952**	**931,743**	**9,745**	**12,782**	**450,424**	**8,654,122**
Balance at 30 June 2016											
Cost or valuation	179,527	81,609	6,160,366	699,943	232,625	50,581	982,386	16,533	32,422	450,424	8,886,416
Accumulated depreciation	-	(1)	(137,428)	(11,198)	(1,967)	(4,629)	(50,643)	(6,788)	(19,640)	-	(232,294)
Carrying amount	**179,527**	**81,608**	**6,022,938**	**688,745**	**230,658**	**45,952**	**931,743**	**9,745**	**12,782**	**450,424**	**8,654,122**

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 102. 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, where material 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 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
Year ended 30 June 2016			
Additions to PPE	4,191	-	4,191
Disposals	(263)	(15)	(278)
Revaluation	-	-	-
Depreciation	(3,471)	(164)	(3,635)
Closing carrying amount	**153,105**	**4,010**	**157,115**
Balance at 30 June 2016			
Cost or valuation	156,624	4,175	160,799
Accumulated depreciation	(3,519)	(165)	(3,684)
Carrying amount	**153,105**	**4,010**	**157,115**

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

Work in progress relates to the following projects:	2016 $000	2015 $000
Water treatment plant	**18,354**	5,949
Wastewater treatment plant	**132,101**	69,174
Wastewater pump station and sewer	**104,485**	141,449
Watermains, pump stations and reservoirs	**162,234**	138,373
Dams and raw water transmission pipelines	**5,401**	6,294
Other	**27,849**	24,036
Total work in progress	**450,424**	385,275

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. 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.

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.

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

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 or 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 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

	Land	Buildings	Pipelines	Tunnels, roads and reservoirs	Dams	Machinery	Total
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2015	72,317	19,449	1,169,165	325,285	100,856	125,137	1,812,209
Revaluation during the year – net of deferred tax	21,312	4,764	-	-	-	-	26,076
Transfer from/(to) other classes	-	-	-	-	-	-	-
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	1,208	462	820	(10)	-	(838)	1,642
Balance at 30 June 2016	**94,837**	**24,675**	**1,169,985**	**325,275**	**100,856**	**124,299**	**1,839,927**

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

Asset Class	Subsequent measurement basis	Estimated useful lives in years	
		2016	2015
Network models	Cost less accumulated amortisation and impairment losses	**1 - 8**	1 - 8
Computer software	Cost less accumulated amortisation and impairment losses	**1 - 10**	1 - 10
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.

7. Intangible assets (continued)

Carrying amount	Network models $000	Computer software $000	Resource consents $000	Easements $000	Total $000
Balance at 1 July 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	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
Year ended 30 June 2016					
Transferred from work in progress	2,340	2,314	6,245	466	11,365
Disposals	-	(33)	-	-	(33)
Impairment	(8)	(6)	(274)	-	(288)
Transfer from other classes	-	-	-	-	-
Amortisation	(645)	(6,678)	(1,024)	-	(8,347)
Closing carrying amount	**3,507**	**10,894**	**27,384**	**1,095**	**42,880**
Balance at 30 June 2016					
Cost or valuation	4,948	55,855	35,460	1,095	97,358
Accumulated amortisation	(1,441)	(44,961)	(8,076)	-	(54,478)
Carrying amount	**3,507**	**10,894**	**27,384**	**1,095**	**42,880**

8. Borrowings

Borrowings are recorded at fair value, excluding 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 12 months after the reporting date.

Covenants

All borrowings are unsecured. Providers 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 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 ratios have been met for the years 30 June 2016 and 30 June 2015. 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.

	2016			2015		
	Face value	Unamortised cost	Carrying value	Face value	Unamortised cost	Carrying value
	$000	$000	$000	$000	$000	$000
Current						
Related party term loan (unsecured)	**81,606**	**-**	**81,606**	18,918	-	18,918
Medium-term notes (unsecured)	**-**	**278**	**278**	30,000	264	30,264
Commercial paper (unsecured)	**150,000**	**(933)**	**149,067**	150,000	(1,307)	148,693
Term loan (unsecured)	**150,000**	**-**	**150,000**	-	-	-
Total current borrowings	**381,606**	**(655)**	**380,951**	198,918	(1,043)	197,875
Non-current						
Related party term loan (unsecured)	**1,051,816**	**-**	**1,051,816**	1,043,422	-	1,043,422
Medium-term notes (unsecured)	**125,000**	**389**	**125,389**	125,000	667	125,667
Term loan (unsecured)	**-**	**-**	**-**	150,000	-	150,000
Bank loan (unsecured)	**19,000**	**-**	**19,000**	-	-	-
Total non-current borrowings	**1,195,816**	**389**	**1,196,205**	1,318,422	667	1,319,089
Total borrowings	**1,577,422**	**(266)**	**1,577,156**	1,517,340	(376)	1,516,964

8. Borrowings (continued)

	2016	2015
Interest rates at balance date:	%	%
Related-party term loan		
Weighted average	**3.68**	4.74
Average including interest rate swaps	**6.02**	5.98
Medium-term notes		
Weighted average	**5.49**	5.81
Weighted average including interest rate swaps	**3.70**	5.11
Term loan		
Weighted average	**3.76**	4.93
Weighted average including interest rate swaps	**6.22**	7.09
Bank loan		
Weighted average	**3.01**	4.01
Weighted average including interest rate swaps	**3.01**	4.01
Commercial paper		
Weighted average	**2.45**	3.50
Weighted average including interest rate swaps	**5.05**	4.80
Total debt		
Weighted average	**3.70**	4.74
Weighted average including interest rate swaps	**5.72**	5.88

The group had the following undrawn committed facilities available:

	2016	2015
	$000	$000
Bank overdraft facility; expires on cancellation	**1,413**	2,000
Revolving advances; expires November 2018 (2015: expires November 2018)	**41,000**	60,000
Commercial paper stand-by facility; expires July 2017 (2015: expires July 2017)	**175,000**	175,000
Total undrawn committed facilities	**217,413**	237,000

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 2016 and 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 4.32% (2015: 5.39%) was applied to capitalise interest. All other finance costs are expensed in the period in which they occur.

	2016	2015
	$000	$000
Interest on bank overdraft and borrowings, paid and payable	**88,733**	87,786
Capitalised interest on construction of property, plant and equipment, and intangibles	**(11,049)**	(13,794)
Net finance costs	**77,684**	73,992

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 mis-matches 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) in accordance with 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.

10. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to 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 86. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

	2016		2015	
	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
Two to three years	5.69	125,000	-	-
Three to four years	-	-	5.69	125,000
Beyond five years	6.10	110,000	6.24	60,000
Payable maturities (floating to fixed):				
Within one year	4.65	115,000	4.33	130,000
One to two years	3.55	25,000	4.56	105,000
Two to three years	5.62	105,000	3.55	25,000
Three to four years	4.06	20,000	5.85	200,000
Four to five years	4.14	125,000	5.23	60,000
Beyond five years	5.22	1,350,000	5.26	1,250,000

	2016			2015		
	Cap rate	Floor rate	Notional amount	Cap rate	Floor rate	Notional amount
Interest rate option	%	%	$000	%	%	$000
Beyond five years	5.25	4.35	50,000	5.25	4.35	50,000

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:

	2016		2015	
	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	**(1,577)**	**(1,577)**	(2,232)	(2,232)
1% (100 basis points) lower for the year	**1,577**	**1,577**	2,232	2,232
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	**82,543**	**82,543**	68,608	68,608
1% (100 basis points) lower at year-end	**(91,565)**	**(91,565)**	(76,165)	(76,165)

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 (2015: 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:

	2016			
	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	0.7142	500	700	8
Three months and beyond	0.7727	93	121	13
Euro (EUR)				
Three months and beyond	0.5910	146	247	(13)
Total forward foreign exchange contracts			**1,068**	**8**

	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

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:

	2016		2015	
	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	**(55)**	**(55)**	(181)	(181)
10% decrease	**67**	**67**	222	222
Change in Euro exchange rate				
10% increase	**(15)**	**(15)**	-	-
10% decrease	**19**	**19**	-	-
Change in Australian dollar exchange rate				
10% increase	**-**	**-**	(34)	(34)
10% decrease	**-**	**-**	41	41

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:

	2016			2015		
	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	**33,838**	**-**	**33,838**	33,163	-	33,163
Past due 1 to 30 days	**2,116**	**(13)**	**2,103**	3,207	(158)	3,049
Past due 30 to 60 days	**848**	**(98)**	**750**	887	(73)	814
Past due more than 60 days	**3,052**	**(1,082)**	**1,970**	2,114	(1,003)	1,111
Total	**39,854**	**(1,193)**	**38,661**	39,371	(1,234)	38,137

	2016	2015
Movement in the provision for doubtful debts	$000	$000
Balance at 1 July 2015	**1,234**	2,109
Additions during the year	**386**	-
Bad debts written off	**(427)**	(734)
Unused provisions reversed during the year	**-**	(141)
Balance at 30 June 2016	**1,193**	1,234

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 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

	2016						
	Current		Non-Current				
	0–6 months	7–12 months	1–2 years	2–3 years	Over 3 years	Gross nominal cash outflow	Carrying Amount
	$000	$000	$000	$000	$000	$000	$000
Financial liabilities							
Bank overdraft	587	-	-	-	-	587	587
Trade and other payables for exchange transactions	18,424	-	-	-	-	18,424	18,424
Accrued expenses*	56,470	-	-	-	-	56,470	56,470
Forward exchange contracts	-	13	-	-	-	13	13
Interest rate swaps	18,290	19,362	42,015	41,564	267,284	388,515	296,743
Interest rate option	95	519	1,048	1,048	2,535	5,245	5,217
Borrowings	375,552	52,916	122,305	262,269	1,049,727	1,862,769	1,577,156
Total	**469,418**	**72,810**	**165,368**	**304,881**	**1,319,546**	**2,332,023**	**1,954,610**

	2015						
	Current		Non-Current				
	0–6 months	7–12 months	1–2 years	2–3 years	Over 3 years	Gross nominal cash outflow	Carrying Amount
	$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

* Excludes current and non-current revenue received in advance of $19.9 million (2015: $21.3 million) as it was not categorised as a financial liability; refer note 21, page 102.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had $217.4 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2015: $237 million).

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

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

Amortised cost

As a result of 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 2016 or 30 June 2015.

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 International Swaps and Derivative Association (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, does not have a legally enforceable right of set-off at present, 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 2016. Fair values at balance date were assessed using a range of market interest rates of between 2.25 per cent and 2.90 per cent (2015: 3.09 per cent and 4.14 per cent), derived from the interest rate swap curve.

10. Financial instruments and risk management (continued)

	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
Financial assets – current				
Loans and receivables				
Cash and cash equivalents	172	172	2,968	2,968
Trade and other receivables from exchange transactions	68,247	68,247	67,350	67,350
Fair value through profit or loss				
Derivative financial instruments	3,206	3,206	2,310	2,310
Financial assets – non-current				
Fair value through profit or loss				
Derivative financial instruments	15,138	15,138	9,086	9,086
	86,763	86,763	81,714	81,714
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	17,559	17,559	19,789	19,789
Accrued expenses*	56,470	56,470	62,237	62,237
Bank overdraft (unsecured)	587	587	-	-
Related party term loan (unsecured)	81,606	81,976	18,918	19,085
Medium-term notes (unsecured)	278	278	30,264	31,521
Commercial paper (unsecured)	149,067	149,477	148,693	149,244
Term loan (unsecured)	150,000	150,718	-	-
Fair value through profit or loss				
Derivative financial instruments	33,276	33,276	22,179	22,179
Financial liabilities – non-current				
Amortised cost				
Related party term loan (unsecured)	1,051,816	1,049,012	1,043,422	1,048,883
Medium-term notes (unsecured)	125,389	134,913	125,667	135,391
Term loan (unsecured)	-	-	150,000	150,950
Bank loan (unsecured)	19,000	19,002	-	-
Fair value through profit or loss				
Derivative financial instruments	268,697	268,697	135,247	135,247
	1,953,745	1,961,965	1,756,416	1,774,526

* Excludes current and non-current revenue received in advance of $19.9 million (2015: $21.3 million) as it was not categorised as a financial liability; refer note 21, page 102.

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 73, and debt including borrowings and covenants compliance as disclosed in note 8 on pages 86 and 87.

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 2016 and 30 June 2015.

11. Revaluation of derivative financial instruments

	2016	2015
	$000	$000
Interest rate swaps contracts loss	137,127	89,280
Forward foreign exchange contracts loss/(gain)	473	(636)
Net revaluation loss	**137,600**	**88,644**

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.

12. Revenue (continued)

	Notes	2016 $000	2015 $000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		**144,834**	138,298
Water leak remission		**(1,585)**	(1,406)
Water revenue – net of leak remissions		**143,249**	136,892
Revenue from sale of services			
Wastewater revenue – gross		**312,955**	292,639
Wastewater leak remission		**(3,455)**	(2,916)
Wastewater revenue – net of leak remissions		**309,500**	289,723
Total water and wastewater revenue – net of leak remissions		**452,749**	426,615
New meters and service connections		**8,529**	6,616
Laboratory revenue		**6,070**	5,597
Total revenue from sale of goods and services		**467,348**	438,828
Infrastructure growth charge revenue		**62,059**	50,187
Dividend income		**113**	108
Subvention income	Note 15, page 98	**5,253**	6,450
Interest income		**35**	350
Other revenue		**4,280**	4,789
Total other revenue from exchange transactions		**71,740**	61,884
Total revenue from exchange transactions		**539,088**	500,712
Revenue from non-exchange transactions			
Transfers revenue			
Vested assets revenue		**31,341**	19,695
Total revenue from non-exchange transactions		**31,341**	19,695
Total revenue		**570,429**	520,407

13. Operating expenses

	Notes	2016 $000	2015 $000
Operating expenses include:			
Auditor's remuneration			
- annual audit and review of the financial statements – Deloitte		**582**	599
- audit of financial statements – Office of the Auditor-General (OAG) contribution		**37**	36
- other services – Deloitte		**18**	15
Directors' and trustees' fees	Note 27, page 107	**532**	534
Environmentally significant costs			
- chemicals		**10,943**	11,032
- energy		**17,937**	16,793
Cost of consumables and spare parts consumed		**15,055**	10,138
Operating leases and rent		**5,419**	5,419
Increase/(decrease) in provision for doubtful debts	Note 10, page 91	**386**	(141)
Bad debts written off	Note 10, page 91	**427**	734
Salaries and wages			
- paid to employees		**71,955**	70,053
- capitalised on construction of property, plant and equipment		**(11,672)**	(15,417)
- included in employee benefit expenses		**60,283**	54,636

Auditor's remuneration for other services relates to a review of ERP systems, a cyber-security policy review and negative pledge reporting. Prior year fees for other services provided by the auditors relate to negative pledge reporting and a review of ERP systems.

14. Reconciliation of operating cash flows

	2016	2015
	$000	$000
Reconciliation of net deficit after tax to net cash flows from operating activities		
Net deficit for the year	**(67,187)**	(55,356)
Non-cash and non-operating items:		
Depreciation and amortisation	**216,250**	208,739
Net loss on disposal of and provision for redundant property, plant and equipment	**10,569**	11,052
Vested assets revenue	**(31,341)**	(19,695)
Net loss/(gain) on revaluation of derivative financial instruments	**137,600**	88,644
Medium-term notes premium amortisation and time value of money charges	**(76)**	(252)
Deferred tax	**(14,780)**	(11,236)
Movements in working capital:		
(Increase)/decrease in assets:		
Inventories	**(2,324)**	14
Trade and other receivables from exchange transactions	**(897)**	(2,257)
Prepaid expenses	**115**	1,662
Increase/(decrease) in liabilities:		
Trade and other payables for exchange transactions	**(1,158)**	2,122
Accrued expenses	**(316)**	516
Provisions	**1,299**	759
Net cash flows from operating activities	**247,754**	224,712

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).

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 2016, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of $63 million (2015: $64 million). Of which, $7.9 million (2015: $8.1 million) was accrued as subvention and the balance of $55.1 million (2015: $55.9 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2016, Watercare received a cash payment of $5.4 million (2015: $8.5 million) from Auckland Council tax group with a tax impact of $42.7 million (2015: $67.2 million).

This has resulted in subvention income of $5.3 million (net) being recognised in the financial statements reflecting the $7.9 million accrual at 30 June 2016 partially offset by an over accrual of $2.6 million at 30 June 2015.

15. Income tax expense (continued)

	2016 $000	2015 $000
Operating deficit before tax	**(81,967)**	(66,592)
Income tax calculated at current tax rate of 28%	**(22,951)**	(18,646)
Increase/(decrease) in income tax due to:		
- Dividend and other income exempt from taxation	**(1,470)**	(1)
- Non-deductible expenses	**(276)**	1,880
- Imputation credits on dividends received	**(43)**	(41)
- Prior year and other adjustments	**(6,341)**	(6,954)
- Subvention income and tax loss offset with Auckland Council tax group	**16,301**	12,526
Tax effect of non-deductible items and prior period adjustments	**8,171**	7,410
Income tax benefit	**(14,780)**	(11,236)
Represented by:		
Deferred tax	**(14,780)**	(11,236)
Total income tax benefit	**(14,780)**	(11,236)

Imputation credits

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

	2016 $000	2015 $000
Total imputation credits	**30,437**	30,252

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 at the reporting date.

16. Deferred tax liability (continued)

(i) Recognised deferred tax assets and liabilities

	2016	2015	2016	2015	2016	2015
	Assets	Assets	Liabilities	Liabilities	Net	Net
	$000	$000	$000	$000	$000	$000
Property, plant and equipment	**-**	-	**(1,305,383)**	(1,258,761)	**(1,305,383)**	(1,258,761)
Financial instruments	**79,416**	40,888	**-**	-	**79,416**	40,888
Employee benefits and other provisions	**2,698**	3,666	**-**	-	**2,698**	3,666
Tax losses	**241,417**	216,376	**-**	-	**241,417**	216,376
Other	**-**	-	**(16,349)**	(13,297)	**(16,349)**	(13,297)
Total	**323,531**	260,930	**(1,321,732)**	(1,272,058)	**(998,201)**	(1,011,128)

(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 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
Balance as at 1 July 2015	1,258,761	(40,888)	(3,666)	(216,376)	13,297	1,011,128
Charged/(credited) to comprehensive revenue and expense	44,769	(38,528)	968	(25,041)	3,052	(14,780)
Charged to other comprehensive revenue and expense, resulting from revaluation	1,853	-	-	-	-	1,853
Balance as at 30 June 2016	**1,305,383**	**(79,416)**	**(2,698)**	**(241,417)**	**16,349**	**998,201**

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 (2015: 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 or deficit within other expenses. Subsequent recoveries of amounts previously written off are recorded within other revenue. Refer to note 10, page 91.

	2016 $000	2015 $000
Current		
Trade receivables	**38,796**	38,614
Trade receivables - related parties	**1,058**	757
Provision for doubtful debts	**(1,193)**	(1,234)
	38,661	38,137
Other receivables - related parties	**8,384**	9,466
Other receivables	**331**	223
Unbilled revenue accrual	**20,871**	19,524
Trade and other receivables from exchange transactions	**68,247**	67,350

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 $15.1 million (2015: $10.1 million).

	2016 $000	2015 $000
Spare parts at cost	**5,140**	4,233
Consumables at cost	**3,483**	3,408
Treated water at cost	**835**	865
Project stock	**1,669**	236
Provision for obsolescence	**(858)**	(797)
Total	**10,269**	7,945
Represented as:		
Current inventory	**5,896**	4,061
Non-current inventory	**4,373**	3,884
Total	**10,269**	7,945

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2015: 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.

	2016	2015
	$000	$000
Current		
Trade creditors	9,375	11,542
Trade creditors - related parties	779	44
Contract retentions	6,976	6,957
Other payables	429	1,246
Total current trade and other payables for exchange transactions	17,559	19,789
Non-current		
Contract retentions	865	4,049
Total non-current trade and other payables for exchange transactions	865	4,049
Total trade and other payables for exchange transactions	18,424	23,838

20. Prepaid expenses

Prepayments include an amount of $24.4 million (2015: $24.4 million) paid to Kelliher Charitable Trust towards the 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 $22.2 million (2015: $22.6 million) of which $0.4 million was included within current prepaid expenses (2015: $0.4 million) and $21.8 million within non-current prepaid expenses (2015: $22.2 million).The remaining prepayments balance of $2.9 million (2015:$2.6 million) in current and $1.5 million (2015: $1.5 million) in non-current relate mainly to prepaid insurance, biosolids levy and software licensing fees.

21. Accrued expenses

	2016	2015
	$000	$000
Current		
Capital work in progress accruals	19,706	26,310
Interest payable	10,613	10,380
Revenue received in advance	6,498	6,661
Operating costs accruals	26,151	25,547
Total current accrued expenses	62,968	68,898
Non-current		
Revenue received in advance	13,434	14,652
Total non-current accrued expenses	13,434	14,652
Total accrued expenses	76,402	83,550

Revenue received in advance includes $8 million (2015: $8.3 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 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 105 for a breakdown of inter-entity accruals.

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.

	2016	2015
	$000	$000
Current		
Employee entitlements	**8,314**	6,926
Decommissioning costs	**241**	1,520
Other provisions	**665**	3,650
Total current provisions	**9,220**	12,096
Non-current		
Employee entitlements	**1,291**	1,267
Decommissioning costs	**3,470**	3,484
Total non-current provisions	**4,761**	4,751
Total provisions	**13,981**	16,847

	Employee entitlements	Decommissioning costs	Other provisions	Total
	$000	$000	$000	$000
Balance at 1 July 2015	8,193	5,004	3,650	16,847
Additions during the year	9,341	187	1,415	10,943
Reductions resulting from payments	(7,775)	(1,480)	(1,503)	(10,758)
Unused provisions reversed during the year	(154)		(2,897)	(3,051)
Balance at 30 June 2016	**9,605**	**3,711**	**665**	**13,981**

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 $3.4 million (2015: $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 (the date biosolid activity commenced)
- Aftercare activities will be required for a period spanning 10 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 the information available at balance date.

Included within the decommissioning provisions is an additional provision of $0.3 million for the restoration of Pond 2 located adjacent to the Mangere wastewater treatment plant. Other provisions of $0.7 million relate to claims made by contractors in respect of capital projects.

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 (2015: 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 95.

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 2016, 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 (2015: 100 per cent) by Watercare and it is a non-trading company.

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 86. Watercare also entered into interest rate swap arrangements with Auckland Council (with a notional value of $30 million; 2015: $35 million) with a fair value of $0.8 million (2015: $0.05 million) as at balance date, as included in note 10, page 89. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2016 $000	2015 $000
Loans from Auckland Council, balance at 30 June	**1,133,422**	1,062,340
Interest payable on loans from Auckland Council	**5,156**	5,969
Interest expense on loans from Auckland Council	**42,441**	45,034
Loans borrowed from Auckland Council during the year	**90,000**	340,000
Loans repaid to Auckland Council during the year	**18,918**	136,395
Interest receivable (net) on interest rate swaps with Auckland Council	**244**	226
Interest expense on swaps (net) with Auckland Council	**474**	265
Debt guarantee fee payable to Auckland Council	**179**	187
Debt guarantee expense with Auckland Council	**717**	815

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, $229,172 (2015: $342,778) 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 98.

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.

	2016 $000	2015 $000
Sales to related parties	**17,802**	16,525
Trade receivables from exchange transactions - related parties	**1,058**	757
Purchases from related parties	**4,461**	4,540
Trade payables for exchange transactions - related parties	**779**	44
Receivables accruals - related parties	**8,384**	9,466
Payables accruals - related parties	**1,795**	2,542

24. Commitments

	2016 $000	2015 $000
Capital expenditure		
The capital expenditure committed to, but not recognised in, these financial statements at balance date was:		
Buildings	**3,214**	128
Pipelines	**119,603**	111,522
Tanks, tunnels, roads and reservoirs	**28,156**	9,156
Intangibles	**1,726**	1,074
Other	**75,196**	32,311
Total capital expenditure commitments	**227,895**	154,191
Anticipated payment schedule:		
Less than one year	**186,847**	131,677
One to two years	**38,228**	14,428
Two to five years	**680**	8,086
Beyond five years	**2,140**	-
Total capital expenditure commitments	**227,895**	154,191

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 (2015: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2016 $000	2015 $000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	**5,735**	5,586
One to two years	**5,711**	5,518
Two to five years	**16,410**	16,334
Beyond five years	**70,258**	74,690
Total lease commitments	**98,114**	102,128

25. Contingencies

During the year a Watercare contractor caused damage to a private home following the installation of an underground pipe. A structural assessment is yet to take place to confirm the full extent of the damages, the maximum exposure Watercare had from a home owner's claim was $850,000. However, this claim has been accepted by Watercare's insurers and the excess is $100,000. In the normal course of its business, the group was exposed to other 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 the provisions outlined in note 22, page 103, 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. This 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 or deficit for 2016 was $1.8 million (2015: $1.7 million).

27. Key management personnel

The key management personnel of the group are the directors, the chief executive, 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 12 FTE. The aggregate remuneration received by the key management personnel is shown below:

	2016 $000	2015 $000
Employees' salaries and wages, directors' fees and trustees fees	**4,321**	4,937
Post-employment benefits	**127**	102
Aggregate remuneration	**4,448**	5,039

Directors' fees	Appointed	2016 $000	2015 $000
David Clarke (Chairman - appointed November 2013)	July 2008	**107**	106
Mike Allen	December 2011	**68**	67
Julia Hoare	November 2013	**61**	61
Peter Drummond	January 2010	**53**	53
Tony Lanigan	April 2011	**53**	53
Catherine Harland	April 2011	**53**	53
Nicola Crauford	April 2014	**53**	53
David Thomas	November 2014	**53**	36
Susan Huria (retired October 2014)	July 2008	**-**	26
Total		**501**	508

Trustees' fees	Appointed	2016 $000	2015 $000
Watercare Utility Consumer Assistance Trust			
John Lusk (Chairman) - retired November 2015	October 2011	**4**	8
Jeff Morrison (Chairman)	December 2015	**5**	-
Bruce Hucker	October 2011	**5**	5
Maureen Little	October 2011	**4**	4
Lauren Godsiff	October 2011	**6**	5
Emily Charlton-Rapana	July 2015	**7**	-
Anne Candy (retired 30 June 2015)	October 2011	**-**	4
Total		**31**	26
Watercare Harbour Clean-Up Trust			
Peter Drummond (Chairman)	April 2015	**-**	-
Penny Whiting	April 2015	**-**	-
Brian Monk	April 2015	**-**	-
Mark Bourne	April 2015	**-**	-
Rob Fisher	April 2015	**-**	-
David Worsnop (retired December 2014)	June 2012	**-**	-
Total		**-**	-

28. Events occurring after balance date

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

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.

	2016 Number of employees
100,000 – 110,000	52
110,001 – 120,000	43*
120,001 – 130,000	24*
130,001 – 140,000	18
140,001 – 150,000	13
150,001 – 160,000	14*
160,001 – 170,000	3
170,001 – 180,000	3
180,001 – 190,000	2
190,001 – 200,000	4*
200,001 – 210,000	3
210,001 – 220,000	1
220,001 – 230,000	3
240,001 – 250,000	1
250,001 – 260,000	4
270,001 – 280,000	1
300,001 – 310,000	2
320,001 – 330,000	1
400,001 – 410,000	1
410,001 – 420,000	1*
601,000 – 610,000	1

* The asterisk denotes that during the year final payments were made to a total of six staff who left the company. These payments included outstanding annual and long service leave entitlements and redundancy payments.

Non-financial performance measures

Customer focus

(i) **Median response time for attendance for urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site. (Target 2015/16: ≤60mins – Achieved: 44 mins; new measure)**

Watercare met this target. This is a new area of performance relating to water that we are reporting on for 2015/16. The median response time for our maintenance crew to attend to urgent issues was 44 minutes, which is well within the target of 60 minutes or less.

(ii) **Median response time for resolution of urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption. (Target 2015/16: ≤ 5 hours – Achieved: 3.1 hours; new measure)**

Watercare met this target. This is a new area of performance relating to water that we are reporting on for 2015/16. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was three hours which is well within the target of five hours or less.

(iii) **Median response time for attendance of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel reach the site. (Target 2015/16: ≤ 3 days – Achieved: 3 days; new measure)**

Watercare met this target. This is a new area of performance relating to water that we are reporting on for 2015/16. The median response time for our maintenance crew to attend to non-urgent water issues was three days, which met the target of three days or fewer.

(iv) **Median response time for resolution of non-urgent call-outs: from the time that Watercare receives notification to the time that service personnel confirm resolution of the fault or interruption. (Target 2015/16: ≤ 6 days – Achieved: 4.3 days; new measure)**

Watercare met this target. This is a new area of performance relating to water that we are reporting on for 2015/16. The median response time for our maintenance crew to resolve non-urgent issues was 4.3 days, which is well within the target of six days or fewer.

(v) **The total number of complaints received by Watercare about any of the following:**

a) drinking water clarity

b) drinking water taste

c) drinking water odour

d) drinking water pressure or flow

e) continuity of supply.

Watercare's response to any of these issues expressed per 1000 connections to the local authority's networked reticulation system. (Target 2015/16: ≤ 10 – Achieved: 5.6; new measure)

Watercare met this target. This is a new area of performance that we are reporting on for 2015/16. It relates to the volume of calls we received regarding water quality and supply issues. The number of complaints received per 1000 connections was 5.6, which is well within the target of 10 or fewer.

(vi) **The total number of complaints received by Watercare about any of the following:**

a) sewage odour

b) sewerage system faults

c) sewerage system blockages

Watercare's response to issues with its sewerage system expressed per 1000 connections to the Watercare sewerage system. (Target 2015/16: ≤ 50 – Achieved: 20.8; new measure)

Watercare met this target. This is a new area of performance that we are reporting on for 2015/16. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues. The number of complaints received per 1000 connections was 20.8, which is well within the target of 50 or fewer.

(vii) **Attendance at sewage overflows resulting from blockages or other faults: median response time for attendance – from the time that Watercare receives notification to the time that service personnel reach the site. (Target 2015/16: ≤ 60 mins – Achieved: 46 mins; new measure)**

Watercare met this target. This is a new area of performance relating to wastewater that Watercare is reporting on for 2015/16. The median response time for our maintenance crew to attend to sewerage overflows or blockages was 46 minutes, which is well within the target of 60 minutes or less.

(viii) Attendance at sewage overflows resulting from blockages or other faults: median response time for resolution – from the time that Watercare receives notification to the time that service personnel confirm resolution of the blockage or other fault.
(Target 2015/16: ≤ 5 hours – Achieved: 2.9 hours; new measure)

Watercare met this target. This is a new area of performance relating to wastewater that we are reporting on for 2015/16. The median response time for our maintenance crew to resolve sewerage overflows or blockages was 2.9 hours, which is well within the target of five hours or less.

(ix) Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services.
(Target 2015/16: ≥ 80% – Achieved: 83.7%; previous year: 85.1%)

Watercare met this target. 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 7.5 out of 9.0. This equates to a performance of 83.7%, which meets the target of 80% or more.
The sample of customers satisfied with the service was 2847 respondents out of 3380 surveyed.

(x) Percentage of complaints 'resolved and closed' within 10 working days. (Target 2015/16: ≥ 95% – Not Achieved: 93.5%; previous year: 98.5%)

While Watercare did not meet this target, the company successfully reduced the overall volume of complaints by 55.7% from 1675 in 2014/15 to 742 in 2015/16. This was due to specialised teams implementing a first-call resolution approach to customer enquiries, thereby preventing repeated calls and escalation to complaints. Of the 742 complaints received, 93.5% (694) were resolved within the stipulated 10-day period, against a target of 95%.

(xi) Percentage of household expenditure on water supply services relative to the average household income.
(Target 2015/16: ≤ 1.5% – Achieved: 0.86%; previous year: 0.87%)

Watercare met this target. The average monthly household water and wastewater bill from Watercare was $72.47 for the period 1 July 2015 to 30 June 2016 inclusive. Statistics New Zealand's current (2015/16) average monthly household income in Auckland is $8,421. This means that the average household water bill represents 0.86% of the average household income. This is well within the stipulated target to keep the average monthly household water costs below or equal to 1.5% of the average monthly household income.

(xii) The number of dry-weather overflows from Watercare's sewerage system, expressed per 1000 sewerage connections to that sewerage system.
(Target 2015/16: ≤ 10 – Achieved: 0.45; new measure)

Watercare continued to meet this target. We report on the number of wastewater overflows from our retail network during dry weather as a measure of the network's capability to meet current demand. The result for the year was 0.45 overflows per 1000 connections, which is well under the target of 10 or fewer.

(xiii) Average number of wet-weather overflows per discharge location. (Target 2015/16: ≤ 2 – Achieved: 0.69; previous year: Resource consent granted)

Watercare met this target. This is a new area of performance that we are reporting on for 2015/16. The average number of wet-weather overflows for the transmission network per discharge location was 0.69, which is well within the target of two or fewer overflows.

(xiv) The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards (Bacterial Compliance Criteria).
(Target 2015/16: 100% – Achieved: 100%; new measure. Previously reported as part of grading of treatment plants)

Watercare met this target. This is a new area of performance that has been included this year. Water treated at all of our graded treatment plants met the Bacterial Compliance Criteria set by Drinking Water Standards New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2015, for the year beginning 1 July 2014 and ending 30 June 2015. Compliance with 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 2015/16 result will be available after the grading in November 2016, for the year beginning 1 July 2015 and ending 30 June 2016.

(xv) The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).
(Target 2015/16: 100% – Achieved: 100%; new measure. Previously reported as part of grading of treatment plants)

Watercare met this target. This is a new area of performance that has been included this year. Water treated at all of Watercare's graded treatment plants met the Protozoal Compliance Criteria set by Drinking Water Standards New Zealand (DWSNZ). The reported result is based on the grading achieved in November 2015, for the year beginning 1 July 2014 and ending 30 June 2015. Compliance with 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 2015/16 result will be available after the grading in November 2016, for the year beginning 1 July 2015 and ending 30 June 2016.

Non-financial performance measures

Business excellence

(i) **Lost-time injury frequency rate (LTIFR) per million hours worked.**
(Target 2015/16: ≤ 5 – Achieved: 1.92; previous year: 6.42)

Watercare met this target as we recorded an LTIFR of 1.92, which is well within the target of five or fewer. This is a result of the measures that we introduced during the year, including an improved reporting system and a new leadership model. Watercare has developed an annual health and safety (H&S) plan with three main areas of focus: reducing risk, improving tools and training, and celebrating good H&S performance across the company.

(ii) **Total recordable injury frequency rate (TRIFR) per million hours worked.**
(Target 2015/16: ≤ 30 – Achieved: 23.02; new measure)

Watercare met this target, achieving a TRIFR of 23.02, against a target of 30 or fewer injuries for every million hours worked per year. This rate is higher than the TRIFR for 2014/15 and can be attributed to the increased reporting of incidents, made possible with the new incident management system. We believe that increased and improved reporting will lead to better understanding and management of risks and hazards and, ultimately, to a better safety culture among our workforce.

(iii) **Percentage of voluntary leavers relative to the number of permanent staff.**
(Target 2015/16: ≤ 12% – Not Achieved: 12.9%; previous year: 10.9%)

Watercare did not meet this target. Voluntary staff turnover for 2015/16 was 12.9% against a target of 12% or less. During the year Watercare undertook a significant restructure to better align the business to deliver on customer outcomes. A slight increase in the level of voluntary staff turnover is not unusual in this context. We are reviewing the company's remuneration framework as well as the collective employment agreements to ensure that employment benefits are competitive. We have recently streamlined our recruitment process and will introduce a new performance review process for 2016/17 that will enable regular and timely feedback and conversations around development opportunities between managers and their teams.

2016 Statement of service performance

Non-financial performance measures

Fully sustainable

(i) **Compliance with Watercare's resource consents for discharge from its sewerage system measured by the number of:**

a) abatement notices

b) infringement notices

c) enforcement orders

d) convictions

received by Watercare in relation to those resource consents.
(Target 2015/16: a) ≤ 2, b) ≤ 2, c) ≤ 2, d) = 0. Achieved: a) = 0, b) = 0, c) = 0, d) = 0; new measure)

Watercare met this target. This is a new area that we are reporting on for 2015/16. There were no abatement, infringement, enforcement notices or convictions for the 2015/16 year. This holds true for 2014/15 as well. Our continued performance against this measure is a reflection of the improvements that have been implemented in the wastewater treatment processes. Major upgrades are under way at Mangere and Rosedale treatment plants. Further work is planned at Clarks Beach, Owhanake, Warkworth and Pukekohe.

(ii) **The percentage of real water loss from Watercare's networked reticulation system.**
(Target 2015/16: ≤ 13% – Achieved: 12.94%; previous year (restated): 12.78% - previous year (original): 12.95%)

Watercare met 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 by using percentages recommended by Water New Zealand. In 2015/16, the real loss percentage was 12.94% against a target of 13% or less. The real losses are expressed as a rolling average over the most recent 12 months, which consists of the months May 2015 to April 2016. The revenue assurance team will continue to investigate other causes of unbilled water usage and ways to mitigate them.

This is a change in reporting from previous years where the calculation was based on the rolling average for July to June each year. The reason for the change is the use of actual water volumes instead of budgeted water volumes for calculating real water loss. Since water meters are read in alternative months, actual consumption volumes are only available for the period between May 2015 and April 2016. Watercare believes that using actual water volumes provides a more accurate reflection of its performance against this measure. As a result, we have also recalculated the result for the 2014/15 year and presented both the originally reported result and the recalculated result.

(iii) **The average consumption of drinking water per day per resident.**
(Target 2015/16: 272 +/- 2.5% – Achieved: 272.05; previous year: 270.69)

Watercare met this target. The gross per-capita consumption was 272.05 litres per day (+/-2.5%) this year, against a target of 272 litres per day. The Auckland Plan includes a water efficiency measure to reduce per-capita consumption to 15% below the 2004 level by 2025. The Auckland Regional Water Demand Management Plan is Watercare's strategy to deliver this target. This year, we continued our water efficiency programme. The plan for 2016/17 will include more investment in the company's demand management programme and a review of our demand management strategy.

(iv) **Percentage attendance at the quarterly meetings of the Mana Whenua Kaitiaki Forum.**
(Target 2015/16: 100% – Achieved: 100%; new measure)

Watercare met this target. The company attended all the quarterly meetings of the Mana Whenua Kaitiaki Forum.

Financial responsibility

(i) **Minimum funds flow from operations (FFO) to interest cover before any price adjustment.**
(Target 2015/16: ≥ 2.5 – Achieved: 3.71; previous year: 3.32)

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2016 was 3.71. 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.

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.14-17, Fully Sustainable p.55 ; CE’s report p.10-11
Organisational 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; Business Excellence p.40; Financials p.51-52
G4-10	Business Excellence p.40
G4-11	Business Excellence p.40
G4-12	Business Excellence p.46
G4-13	No change in size, structure or ownership over the reporting period
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 17
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.51-52
G4-18	Reporting and Materiality p.18-19
G4-19	Reporting and Materiality p.18-19, GRI Content index
G4-20	Throughout annual report
G4-21	Throughout annual report
G4-22	No restatement this year
G4-23	No significant change

General standard disclosures (continued)

DMA and Indicators	Page Number (or Link)
Stakeholder engagement	
G4-24	Stakeholder engagement p. 19-21
G4-25	Reporting and Materiality p. 18-19
G4-26	Stakeholder engagement p. 18-21
G4-27	Stakeholder engagement p.19
Report profile	
G4-28	1 July 2015 to 30 June 2016
G4-29	Sep-15
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.62-63; 68-69
Governance	
G4-34	Governance p.14-17
Ethics and integrity	
G4-56	CE Report p.10-11, Governance p.17

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, CE Report p.10-11, Strategic Priorities p.14-17
G4-EC1	Customer Focus p.29 ; Financials p.51-53, Financial statements
G4-EC2	Fully Sustainable p.58
G4-EC4	Overview p.2, Financial p.50
Material aspect: Indirect economic impacts	
G4-DMA	Overview p.2, CE Report p.10-11, Strategic Priorities p.14-17
G4-EC7	CE Report p.8-9, Business Excellence p. 44
Material aspect: Procurement practices	
G4-DMA	Performance Hightlights p.7
G4-EC9	Performance Hightlights p.7, Business Excellence p.46
Category: Environmental	
Material aspect: Energy	
G4-DMA	Fully Sustainable p.59
G4-EN3	Fully Sustainable p.59
Material aspect: Water	
G4-DMA	Overview p.2 ; Fully Sustainable p.58
G4-EN8	Business Excellence p.43
G4-EN9	Business Excellence p.43 ; Fully Sustainable p.57
G4-EN10	Reuse waste p. 59
Material aspect: Biodiversity	
G4-DMA	Fully Sustainable p.57
G4-EN11	Fully Sustainable p.57
G4-EN12	Biodiversity online supplement (www.watercare.co.nz)
G4-EN13	Biodiversity online supplement (www.watercare.co.nz)
Material aspect: Emissions	
G4-DMA	Fully Sustainable p.58
G4-EN15	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)
G4-EN16	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)
G4-EN17	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)
G4-EN19	Energy and greenhouse gas emissions online supplement (www.watercare.co.nz)

Specific standard disclosures (continued)

DMA and Indicators	Page Number (or Link)
Category: Environmental (continued)	
Material aspect: Effluents and waste	
G4-DMA	Fully Sustainable p.59-60
G4-EN22	Fully Sustainable p.59-60 ; Wastewater online supplement (www.watercare.co.nz)
G4-EN23	Fully Sustainable p.59-60
G4-EN24	Customer Focus p.32 ; Fully Sustainable p.59
G4-EN25	Fully Sustainable p.59-60
G4-EN26	Fully Sustainable p.57 ; Biodiversity online supplement (www.watercare.co.nz)
Material aspect: Compliance	
G4-DMA	Fully Sustainable p.61
G4-EN29	Fully Sustainable p.61
Category: Social	
Sub-category: Labor practices and decent work	
Material aspect: Employment	
G4-DMA	Business Excellence p.39
G4-LA1	Business Excellence p.40, p.42
G4-LA3	Business Excellence p.41
Material aspect: Occupational health and safety	
G4-DMA	Business Excellence p.41-42
G4-LA5	Business Excellence p.41
G4-LA6	Business Excellence p.41
G4-LA8	Business Excellence p.42
Material aspect: Training and education	
G4-DMA	Business Excellence p.39
G4-LA9	Business Excellence p.39
G4-LA11	Business Excellence p.39
Material aspect: Diversity and equal opportunity	
G4-DMA	CE Report p.10-11, Business Excellence p.40-41
G4-LA12	CE Report p.10-11, Business Excellence p.40
Material aspect: Equal remuneration for women and men	
G4-DMA	CE Report p.10-11, Business Excellence p.40-41
G4-LA12	CE Report p.10-11, Business Excellence p.40

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.20-21
G4-SO1	Community engagement is required for all major infrastructure projects and is part of the consenting process
Material aspect: Compliance	
G4-DMA	Fully Sustainable p.61
G4-SO8	Fully Sustainable p.61
Sub-category: Product responsibility	
Material aspect: Customer health and safety	
G4-DMA	Customer Focus p.30
G4-PR1	Customer Focus p.30-32
G4-PR2	Fully Sustainable p.61
Material aspect: Product and service labeling	
G4-DMA	Customer Focus p.30
G4-PR5	Customer Focus p.27
Material aspect: Compliance	
G4-DMA	Customer Focus p.30
G4-PR9	No non-compliance reported

Index

Glossary

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.

Watercare Services Limited

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