

Our story —

**YOUR WATER.
YOUR AUCKLAND.**

WASH.



FRESH.



EVENING.



SPLASH!



YOUR
FAMILY
Local
Community
WATER



SHARE.



FUN.



SUPPORT.



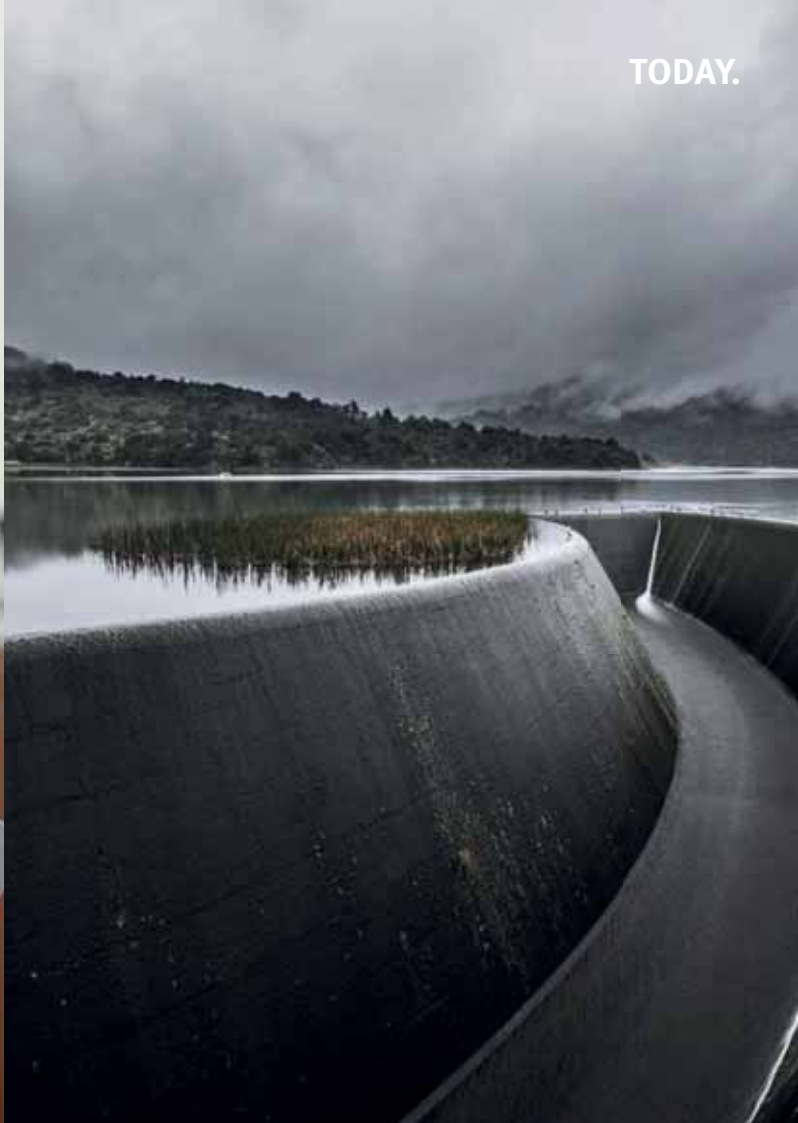
ENGAGE.

YOUR
FUTURE
secure
Auckland
WATER

PLAN.



TODAY.



GROW.



TOMORROW.



Our story —

YOUR
WATER
—
YOUR
Auckland



We all have a personal connection with water. It flows through our lives at the turn of a tap. It is so much a part of the way we live that most people barely give it a second thought.

Making that happen though, without hesitation and on demand, requires constant attention. At Watercare, everything we do is about what's right for you and for Auckland. For now and for the future.

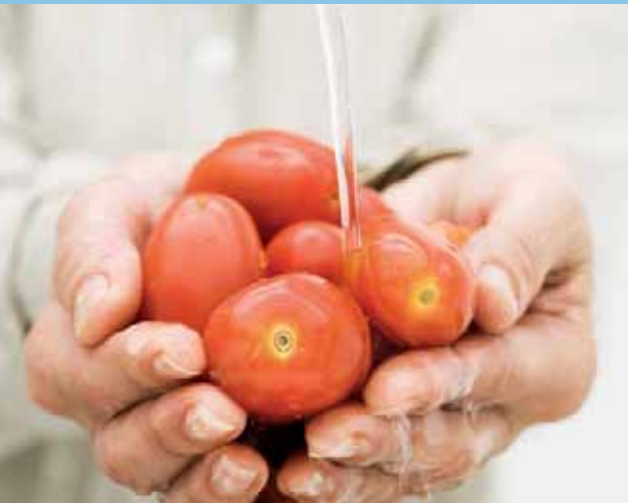
A water supply that is safe, reliable and sustainable. An approach to wastewater that is efficient and effective.

Success for us means that you hardly ever have to think about us. And that can only happen if we do nothing else but think about you.

We're *your* Watercare.

Kaitiaki, kaitiakitanga mauri – pupuri i te mauri kaitiaki.
Mēnā ka tau te mauri i te taiao ka tau te oranga o te ira tangata;
*... if the life force of the environment is in balance,
the well-being of mankind is assured.*

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YOUR
WATER

YOUR
Auckland



Welcome to our new-look annual report.
This year we are pleased to present the achievements of the
past financial year in this new, integrated report format.

In this report, you will find not only the record of our financial
and non-financial performance but also a more detailed story
about who we are, and how you, our customer, and your needs
are at the heart of what we do.

Your water

Watercare delivers 100 per cent Aa-grade water, day in, day out, to Auckland.

As one of our customers, you should rarely need to think about the delivery of our core services and how that delivery actually happens. And that is as it should be. Water appears.

Wastewater disappears.

We are proud of this achievement and the effort, judgement and expertise it takes to deliver consistently to this standard.

But there is more to Watercare than that.

We are leading the water utility of a major city – Auckland – at a time when, globally, the use of the planet’s water resource is in question.

While water is not as scarce for us here as it is in other countries, across New Zealand there is now a growing discussion about the use of water for industry and the quality of water in our rural and urban waterways. Water treatment in towns and cities is also under scrutiny following a serious water supply incident in Havelock North. This event was linked to four deaths and thousands of sick people and prompted an in-depth government inquiry into the delivery of water services nationally.

So, questions are being asked about water use and the steps that need to be taken to make improvements for the sake of the environment, our economy and our community.

Public consciousness of the value of water seems to be growing – and with it the material importance to our stakeholders of all that is within Watercare’s remit.

As leaders of the city’s water utility, we know that a global shift towards sustainability (such as that expressed in the UN’s Sustainable Development Goals), the legislative and regulatory frameworks we operate within, and the voices of our stakeholders all point to Watercare’s additional, wider responsibility.

Not only must we run a sustainable operation but we must also give you – as a resident of Auckland – meaningful insight into the way we manage your water.

Our intention is that we will achieve just that by incorporating integrated thinking into the way we manage and report on our company.



Population growth

Here in Auckland, where the population is well served with high-quality water services, the discussion about water is focused on the city's rapidly-growing population.

Water demand is forecast to outstrip current supply within 10 years, prompting planned additions to our existing water supplies.

In parts of the city, at times of rainfall, the wastewater system is sometimes swamped by stormwater resulting in overflows. These risk impacting homes and businesses, and polluting waterways. Watercare is undertaking its own large-scale works to increase the system's capacity and effectiveness, as well as working with Auckland Council to support the council's plans and projects to address its stormwater infrastructure.

As the city grows, we are upgrading and extending our core water and wastewater infrastructure – all while maintaining the thousands of kilometres of pipes, pump stations and plants.

The planning process for these system upgrades is carried out in conjunction with Auckland Council as well as developers who are building new houses and suburbs.

But, as we work through the challenges of growth, we are mindful that Watercare's business, our services and our decision-making increasingly matter to Aucklanders. It also matters to the public that we run an operation that is environmentally and socially sustainable over the long term.



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Your Auckland

As a resident of Auckland, you want to be confident that the city's water systems and processes will not only support our community during your lifetime but will also provide for a long period of time. In addition, you want assurance that we are not compromising the ability of future generations to meet their own needs and are instead building a water system that will enable our city to flourish for many years to come.

And we could not agree more.

Our infrastructure and funding plans stretch into the future. Indeed, our planning horizon extends out 50 years and beyond. This is due to the long life and strategic nature of our infrastructure assets.

We are legally required to operate at minimum cost and we know that affordability is important for the users of our services. We are able to keep the cost of our services down by operating efficiently. We benchmark our performance against other utilities, both national and international. The most recent results placed Watercare in the top 4 for customer service in New Zealand (Water New Zealand) and fourth amongst 38 water companies surveyed across Australasia for value for money (Water Services Association of Australia). Our focus will continue to be on innovations that will enhance operational efficiency.

A sustainable approach underpins our role as a lifeline services provider, here for the long term. Our commitment to sustainability means listening and responding to our stakeholders. We need to be mindful of the resources we use and recover resources where possible, and protect and enhance the environment affected by our operations, while ensuring we maintain the 100 per cent Aa-grade standard of water delivery.

When it comes to day-to-day transactions, we know our customers want responsive service. This year we have made enormous strides in modernising our systems and building our people capability so that we can deliver on our responsive service promise.

Finally, the water and wastewater system operated by Watercare belongs to all Aucklanders. A sustainable water system – one that supports our community and ecological systems long into the future – is one to which we all contribute.

Like all modern sustainability efforts, we know that each individual's contribution, however small, makes a difference.

All of us can be mindful of our water use – switch to low-flow shower heads or take shorter showers, fix dripping taps and leaks, irrigate the garden in the early morning or at dusk, and choose drought-resistant garden plants.

We can ensure the stormwater from our roof is not plumbed into the wastewater system. We can stop flushing items that don't disperse (plastic toys, cloth wipes) or substances that clog the pipes (fats, oil and grease).

These significant actions protect the network and ensure it continues to work effectively for all our benefit. They are an important dimension of the partnership between Watercare and the community we serve.

We have the great privilege of leading the water utility that you and your community rely on.







As you will see in this year's report, sustainability and durability are practical matters for Watercare. Ultimately, our partnership with you means 'business sustainability' to us. We can only succeed if we are delivering to the needs of the Auckland community and contributing to a sustainable, regenerative environment.



Margaret Devlin
Chair



Raveen Jaduram
Chief Executive

KEY PERFORMANCE HIGHLIGHTS	HIGHS	
 <p>Customer and stakeholder relationships</p>	<p>Supplied safe and reliable Aa-grade drinking water</p> <p>Aa-grade</p> <p>Exceeded required Drinking Water Standards for New Zealand's criteria for water quality and supply infrastructure</p>	<p>Affordability</p> <p>0.9%</p> <p>of monthly income was spent on water bills by an average Auckland household</p>
 <p>People and culture</p>	<p>Staff Engagement Score</p> <p>67</p> <p>▲ up 2 points from 2016/17</p>	<p>Gender diversity in management roles</p> <p>27.6%</p> <p>▲ up 10% from 2016/17</p>
 <p>Financial capital and resources</p>	<p>Operating surplus</p> <p>\$121.9m</p> <p>▲ up 12.2% from 2016/17 (\$108.6m)</p>	<p>Net new debt</p> <p>\$9.2m</p> <p>▼ 66.7% lower than 2016/17 (\$27.6m)</p>
 <p>Assets and infrastructure</p>	<p>Total assets</p> <p>\$10.1b</p> <p>▲ up \$1.2b from 2016/17</p>	<p>Capital expenditure</p> <p>\$342.4m</p> <p>▲ up 13% from 2016/17 (\$301.6m)</p>
 <p>Natural environment</p>	<p>Energy savings through process optimisation</p> <p>3.5GWh</p>	<p>Waste reused from treatment processes</p> <p>82%</p> <p>▲ up 2% from 2016/17</p>
 <p>Intellectual capital</p>	<p>Fault reporting online</p> <p>23% uptake</p> <p>Since launch in March 2018</p>	<p>Application to connect online</p> <p>29% uptake</p> <p>Since launch in March 2018</p>

LOWS

Received more customer complaints

848

▲ up 18.9% from 2016/17 (709)

98% of complaints resolved within 10 days.
Increase of 19% over 2016/17 due to introduction of more digital channels for customers to engage with us

Staff turnover

13.8%

▲ up 1.7% from 2016/17 (12.1%)

Trending below the national average of 18.8% per Institute of Human Resources' 2016 survey

Lost-Time Injury Frequency Rate (LTIFR) per million hours worked

3.52

▲ up 47% from 2016/17 (2.40),
1 additional injury of low severity

Operating costs as a percentage of revenue

33.9%

▲ Increase over 2016/17 (33.8%)

Maintenance costs

\$44.0m

▲ up 11% from 2016/17 (\$39.6m)
Additional maintenance due to extreme weather events

Gross per-capita consumption of water by residential and commercial users per day

278.4 litres

▲ Increase of 1.9% over previous year (273)
Longer spell of dry weather resulting in prolonged period of high demand



Watercare today
Our value creation model

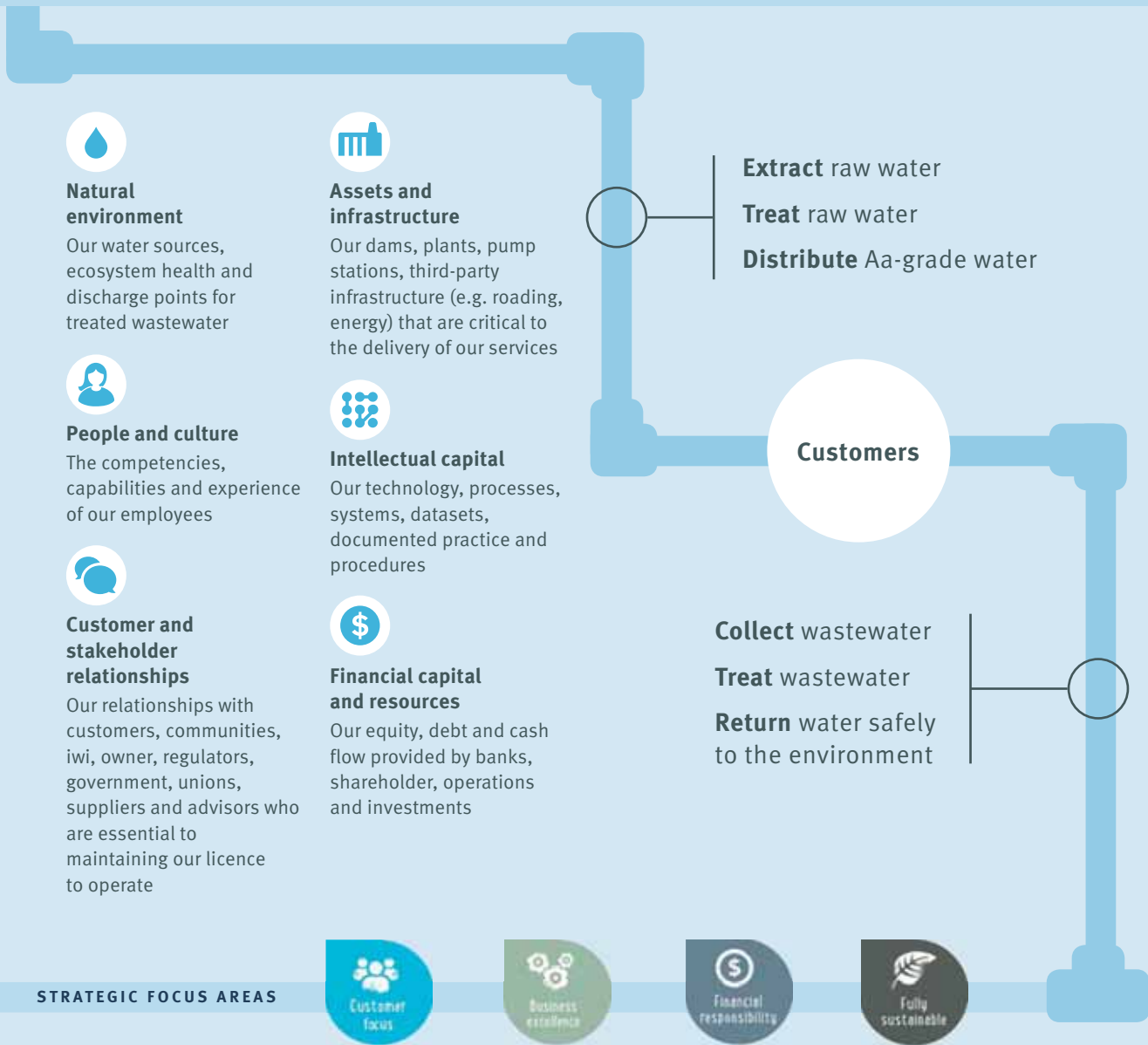
This report presents an integrated review of Watercare’s social, environmental and financial performance for the financial year ended 30 June 2018.

Following the principles of integrated reporting, the report describes our value creation story, focusing on what matters most to our many stakeholders and our business.

It covers our performance and our plans to continue creating the right sort of value for Aucklanders at a time of rapid population growth.

OUR INPUTS

OUR ACTIVITIES



EXTERNAL FACTORS, ACTIVE GOVERNANCE AND RISK MANAGEMENT

▶ THE VALUE WE CREATE ▶



Protected and enhanced natural environment

Leading-edge resource efficiency



Safe, engaged and empowered team

Customer trust and value



Engaged communities and stakeholders

Health and well-being



Future-proofed growth and supply assurance

High-performing infrastructure



Industry-leading thinking and processes



Minimum-cost, financially stable provider

OUR
vision

Trusted by our communities for exceptional performance every day

Better tomorrow than we are today

OUR
mission

Reliable, safe and efficient water and wastewater services

Reporting on what's important to our stakeholders and our business is the basis for this integrated annual report. It is structured around 13 material customer, business, environmental, social and governance topics that stakeholders and Watercare identified as most relevant. These are the prime issues that have a material impact on the long-term success of our business and our wider operating environment.

The rigour of our stakeholder engagement and materiality assessment process, explained on pages 40 and 41, aligns with the International Integrated Reporting Council (IIRC) <IR> Framework and the Global Reporting Initiative (GRI) standards.

Of the 23 topics raised by stakeholders, 13 met the threshold of being high priority and thus material to the operation of the business. Three were ranked highest by both internal and external stakeholders:



The next most highly ranked issues across the stakeholder groups were:



The following pages of this report explain what Watercare is focusing on to ensure these issues are driving our business strategies, investments and risk management.



NATURAL *environment*

Our community is supported by the supply of clean, safe drinking water, but we must keep looking forward, says chief operations officer Shane Morgan





With Watercare's progressive upgrade of the metropolitan and non-metropolitan networks since 2010, all our customers across the region receive Aa-grade water today.

Aa-grade signifies a high quality of water and exceeds what is required by the Ministry of Health drinking water guidelines. We continue to be very proud of this feat, but we cannot sit back and assume the job is complete. Instead, we continue to look ahead, assessing forecasts and planning to ensure our services will meet future demand and cope with environmental changes.

Over the past year, we have recovered from the storms of 2017, bolstering water supplies with additional treatment. At the Waikato Water Treatment Plant, we have installed a sand extraction system to safeguard equipment and at the Ardmore Water Treatment Plant, we have designed an additional disinfection barrier.

We have also sought to determine the best strategy to replace the ageing Huia Water Treatment Plant. The Huia project continues to be a learning experience for our staff. While we always seek the best technical outcomes, we have also been challenged to find a solution that meets a number of competing demands. We believe we have the right approach for Huia, but we continue to listen and be responsive to community concerns and priorities.

Across the city we are working increasingly hard to respond to environmental sensitivities and stakeholder concerns when our planned works affect local communities. The mutually beneficial outcomes achieved this year, as we worked through the resource consent process on projects such as the Pukekohe Wastewater Treatment Plant upgrade, have reinforced our commitment to this approach.

The vision for the future of our operations is transformational. While maintaining our disciplined compliance focus, we have a growing understanding of the value we create for our environment and our communities, and how we can expand on this.

The core of this new way of seeing the value we deliver, particularly through our wastewater operations, starts with the concept of a 'circular economy' – our treatment plants becoming resource recovery facilities. This is about harnessing energy, along with water and nutrients from the treatment process for beneficial reuse purposes, and designing waste out.

We have been heading down this path for some years with the energy reuse at the Māngere and Rosedale plants, and this

year, Māngere produced 56 per cent and Rosedale produced 74 per cent of their power needs.

We have committed to energy neutrality at those two sites by 2025. This means these plants will be fully able to sustain their own energy needs thanks to innovative processes to reduce our power requirements and increase our ability to harness energy.

In addition, the Rosedale facility will soon be the first plant in New Zealand to incorporate thermal hydrolysis treatment. Biosolids will be stabilised and pathogens removed, so that we can progress towards better uses for this nutrient-rich material.

Our interest and investment has for many years extended beyond the plants to their surrounding environments. Auckland's harbours and waterways are very important to us.

For 60 years we have managed the health and well-being of birds that use the Manukau Harbour as the only stop in their intercontinental migration. Local birds use our bird roosts and foreshore too, with five dotterel chicks hatching last year, a significant number for this endangered species.

Planting of native trees, pest control and weed control in the area and beyond continue, as does maintenance of the 11-kilometre-long Watercare Coastal Walkway and adjoining public spaces. We are fostering a culture of empowering staff and now have the pleasure of seeing them create innovative and sustainable ways to enhance our interaction with the environment, such as chemical-free midge control.

This year we have made our first step towards the revegetation of 1900 hectares of our Hūnua Ranges catchments, aiming at improving slope stability and therefore water quality. This involves millions of native trees planted on former commercial forestry land over the next 30 years. We purchased the forestry rights to this area so we could restore the pine forests back to native flora.

Meanwhile, we are also working to better understand our environment. We have been working with NIWA to develop a comprehensive hydrodynamic and water quality model for the Manukau Harbour. The model, which will provide unprecedented insight into the harbour's dynamics and overall health, will be used to inform all future decision-making.

PEOPLE AND *culture*

Large-scale organisational changes are important for transformation, says chief people officer Jason Glennon





In order to transform our company from one that is focused largely on technical excellence to one that is also customer centric, we are focusing on building a collaborative workforce that embraces change.

First, through our strategic transformation programme we have begun the process of replacing our slow, rigid legacy systems with a new, integrated digital platform. This new, multi-tiered system will soon be ready to deliver the data and information that will enable us to be significantly more responsive to the needs of our customers and stakeholders.

Hand in hand with the setting up of this new technology has been the introduction of new, agile ways of working. We are applying a collaborative approach within this massive project, and learning new skills and new ways of achieving better and more effective outcomes sooner. All of the learnings from the technology project will have application right across our company.

Another milestone this year has been a major rearrangement of the way our business units and teams are organised – our operating model – and the simultaneous expansion of our leadership development programme.

We want the right people with the right skills, organised in the right way, with access to the right tools and business processes. This will result in the best possible experience for our customers and stakeholders.

Our customers expect Aa-grade water to come out of the tap and their wastewater to be disposed of cleanly. But we know that they also want us to respond in a timely and effective manner when anything goes wrong.

To achieve that level of responsiveness, we need to truly put the customer at the forefront of our decision-making. That relies, among other things, on an open, people-based culture.

Our leadership programme has been central to this push to support our people and their development. This year, 120 people have completed our leadership and mentoring programmes. Along with their technical responsibility, team leaders are now to become more involved with the evolution of their teams and to fully embrace all that is expected of them – leading, managing, coaching, mentoring.

The main challenge this year has been aligning people development with the structural change. Becoming expert in all these roles will take time and repetition. Right now, the intent is there – confidence will follow with practice.

Another area of challenge is health and safety. While we consistently meet our targets – low serious-harm rates, low accident rates – we know there is more to do. Here at Watercare we still view health and safety from a compliance perspective. We should also be looking at it from a ‘hearts and minds’ perspective.

Health and safety is about all of us making sure our colleagues get home safely every day: watching out for each other, making sure the correct safety gear is being worn, the protocols are understood, that we have been trained in the right way to do the job. And if something is wrong, we should have the courage to say so.

Our ambition is to establish a culture that values collaboration and inclusion, as well as curiosity, debate and challenge. That way, our people will consistently drive continuous improvement.

We already pride ourselves on our technical excellence, but we know we can be even better in all that we do. So, this new combination of greater access to information, disciplined, data-driven decision-making, a more streamlined organisational structure, and people development will enable us to improve the way we provide our service.



We want the right people with the right skills, organised in the right way, with access to the right tools and business processes.



Customer AND STAKEHOLDER relationships

Customer and stakeholder relationships are our priority,
say chief corporate affairs officer David Hawkins
and chief customer officer Amanda Singleton





Watercare is abuzz with a new mantra – our customers are at the heart of everything we do.

We understand that there is only one way in which we can be true to this aspiration, and that is by looking at our customers' experiences through their own eyes, by working with them in co-designing what those experiences should be. We are ready for the operational and cultural shift required across the entire company to achieve this. As leaders, we are committed to leading by example, making sure that our day-to-day behaviour inspires our teams to deliver customer excellence. We are working with our teams to put in place the right metrics and incentives to ensure we stay on course.

While our customers have very little to no choice in selecting their water services provider, we want them to think of us as their preferred partner regardless. We want our customers to feel they can trust us for reliable, safe and efficient water and wastewater services to a point where they willingly talk positively about us whenever the situation allows. Today, we have a TouchPoint Net Promoter Score of 30 points, which means we have significantly more customers who already talk positively about us than the number who don't. However, this is not where we want to be. We are working hard to significantly improve this number, by delivering the experiences that make it easier for our customers to also be advocates for us.

Of the 444,325 customer invoices we generate on average every month, more than 41 per cent are emailed to customers. By further simplifying the process for digital engagements, we are hoping that over the coming months the number of e-bill customers will significantly increase. That means it will require far less effort for our customers to deal with us, and we will have more capacity to invest in higher-value conversations with them.

It is our ambition to be more proactive in the way we engage with customers. Rather than waiting for a customer to call us with a query and be taken through a list of options, we are thinking about how we can predict the customer's information needs and be there for them without them having to ask. We are working on ways to provide the right level of detail catering to the individual customer's information needs, not a one-size-fits-all data dump. We are setting up new ways of interacting with our customers, becoming much more relevant in their day-to-day life.

We recognise that trust comes from sustained investment in building strong relationships with all our stakeholders. As a key contributor to the overall public well-being of the city, our relationship with our shareholder, Auckland Council, is healthy. We actively collaborate with all members of the council whānau, iwi leaders, central government and other interest groups to ensure we deliver great collective outcomes for the people of Auckland.



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ASSETS AND infrastructure

Striving for greater value is the way to build for the future,
says chief infrastructure officer Steve Webster





Our assets and infrastructure team is fully focused on Auckland's future. We are planning and building the water and wastewater infrastructure that enables Auckland to be the city its stakeholders want it to be.

In the past 12 months, we've completed and commissioned multiple projects, such as the \$141 million biological nutrient-removal addition at the Māngere Wastewater Treatment Plant, the \$30 million wastewater pump station and storage tank in Fred Thomas Drive, Takapuna, and the \$16.6 million wastewater storage tank in Glen Eden. We are about to start other large projects, such as the \$1.2 billion Central Interceptor wastewater tunnel and the \$264 million North Harbour watermain.

As we strive to deliver these projects as efficiently as possible, we are also finding ways to add value in a number of areas.

This year, we have successfully bedded in an engineering professional services panel. The panel is made up of four suppliers with whom we partner to deliver infrastructure services.

This new arrangement minimises the cost of going out to the market for every project. We've been able to build a strong, collaborative relationship with the panel members – these consultants now have a clearer understanding of their forward workload, which helps their planning. In turn, they are able to invest in new people, and have more confidence in employing their international resources to support us.

We are always looking to improve the way we manage our infrastructure operation. We've won a number of awards this year, which is a reflection of our professionalism and ability to deliver large infrastructure projects.

Take the Central Interceptor project – a year ago we set specific milestone dates for the procurement process. We hit every one of those dates: the market briefing, the release of the expression of interest, and the request for proposal all went out on time. Sticking to the project schedule is very important for the industry, but it is not common in New Zealand – so we are proud of this achievement.

We continue to issue our forward works programme, and each year this process improves, giving the market a strong view of what's coming up so they can plan, and be ready to deliver.

Following an internal reorganisation we now have a clearer vision to ensure Auckland's water and wastewater infrastructure actually delivers what our customers and stakeholders need.

Delivery decisions are made by first looking at the available data and information for the relevant geographic location: population projections, developer activity, unitary plan requirements, the condition of our assets and what's happening with the rest of our network.

Next comes a high-level view – how should we move wastewater from point A to point B, or how to move water to a location with a fast-growing population? What is the condition of our assets; what is sound, and what should we replace?

Then we piece together the optimum solution.

Once that solution is agreed, we just get on with it, and the 'job' drops into our conveyor-like process: planning to procurement to design to construction to commissioning to handover.

The planning to handover conveyor is constantly under review. How do we get the best value out of design? How do we get the best value out of construction? How do we increase productivity?

Ultimately, by taking this approach, we are supporting the construction industry to become more efficient. And this is a responsibility we believe is ours: we want to create an environment that allows our partners to deliver enhanced value for Auckland.

Taking this notion further, we have embarked on an enterprise-wide climate change adaptation and mitigation strategy and action plan. In planning for change, our aim is to ensure that Watercare's networks and future infrastructure will continue to be fit for purpose in a changing climate.

If we don't create that environment, it will never happen. We will always get the same as we've always had – which is quite good, but we must continue to strive for greater and greater value.

INTELLECTUAL capital

Robust decision-making, a focus on process excellence and enhancing our commitment to continuous improvement all underpin the transformed Watercare, says chief digital officer Rebecca Chenery





With the strategic transformation programme now in full swing, the inner workings of our business have undergone an extraordinary overhaul this year.

Considerable effort is being directed at improving the robustness of our decision-making. We want to ensure our decisions are informed by data and insights. To enable access to this material, we are in the process of establishing a 'data hub' that will bring together internal and external data. Using new approaches and tools, information can be made available in digestible chunks for every employee.

In addition, the data hub will facilitate the exchange of information with external organisations and agencies such as Auckland Council, other council-controlled organisations (CCOs) and New Zealand Transport Agency (NZTA).

This shift in focus is also signalled by the creation of a new senior management role – the head of analytics and insights will reinforce the importance of data availability, quality, stewardship and governance.

To build positive customer interactions, we have begun reviewing each customer journey. By using design thinking techniques that are generally used for creative problem solving, we are exploring and articulating the experience we would like for our customers.

At the same time, the use of robotic process automation technology has helped us to automate a number of business systems that were previously managed manually. This technology has seen a significant reduction in processing times and repetitive tasks, an increase in processing volumes and improvements in accuracy.

Continuous improvement is in the DNA of our business – we strive to be 'better tomorrow than we are today'. And, as we modernise, we are also embracing new ways of working; in particular, an agile mindset is creating opportunities for cross-business teams to work together to identify areas for improvement. This year, more than 200 people received training in Agile Fundamentals, and learned to work iteratively, to establish a minimum viable product hypothesis, test it and refine it. This new capability is a vehicle for continuous improvement.

Looking to the future, we are working to build capability that utilises artificial intelligence and machine-learning to enrich data and support advanced and predictive analytics. This form of analytics will also enable business decisions to be made in the context of not only what has happened in the past but what is likely to happen in the future as well.

In addition, we can set our sights on the establishment of a smart network and 'digital twin' for our assets. This will provide near-real-time data about the performance of the network and our assets.

Our transformational journey is ongoing and we look forward to delivering further improvements in our business processes, as well as increasingly responsive experiences for our customers.



Looking to the future, we are working to build capability that utilises artificial intelligence and machine-learning to enrich data and support advanced and predictive analytics.



FINANCIAL CAPITAL *and resources*

Doing more with what we have delivers best value for our customers,
says chief financial officer Marlon Bridge





Our role is to provide safe and reliable water and wastewater services at best value for our customers.

A key advantage, and one of the reasons our customer pricing is well below the international average, is that we do not operate to make a profit. We do not receive any funding from Auckland Council or the Government, nor do we pay a dividend to Auckland Council. Our focus is, and will always be, to run our operations cost-effectively and deliver value for money through our services.

All of the money we receive from our customers goes into operating, maintaining and expanding our infrastructure. Any difference is financed through borrowing.

At present, we serve 1.5 million Aucklanders, and over the next 30 years, this figure is forecast to grow by another one million people. We align our work with Auckland Council's development priorities – this means our projects are being implemented where and when they will be needed most.

Over the next 10 years, we're investing \$5.8 billion in upgrading and expanding our infrastructure – \$1.9 billion for water and \$3.6 billion for wastewater.

However, Auckland is growing fast, so the financial challenge is to fund operational expenditure and expensive, long-life infrastructure while also maintaining service affordability.

To maintain affordability and to enable a smoother and more predictable future price path, we plan funding 30 to 50 years ahead for major pieces of infrastructure, strive to achieve ongoing cost efficiencies, and borrow conservatively.

As outlined in Auckland Council's 2018–2028 10-year budget, our long-term price increases are: for water, an average of 2.5 per cent per annum, and for wastewater, an average of 3.3 per cent per annum (note there is a greater capital works programme for wastewater over the next decade).

Everything in our sights is budgeted for.

The cost of the Central Interceptor for example, included in Watercare's asset management plan since at least 2010, is already built into the price path.

In anticipation of increased total water demand from a growing population, we are already searching for additional supply, while also encouraging water efficiency. This would enable us to delay investment in new water infrastructure.

With the likely impact of changing weather patterns, we are also proactively planning and budgeting for adjustments to our network.

Financially we have tracked more or less as expected this year.

As usual, the weather played its part. A hot summer was largely responsible for the 1.7 per cent increase in revenue (up \$10.6 million to \$641.6 million), but then some extreme weather events impacted unplanned maintenance which came in at \$4 million above budget.

Total Watercare assets grew from \$8.95 billion to \$10.09 billion.

Net debt increased by \$9.2 million during the year, funding the difference between operating cash flows and capital expenditure. The increase in net debt was lower than budget, reflecting better operating cash flows, proceeds from the sale of surplus land and lower capital expenditure throughout the year.

Looking ahead, we will be continuing our strategy of, essentially, doing more with what we have – seeking out inherent inefficiencies to maintain affordability and delivering more for less.



To maintain affordability and to enable a smoother price path, we plan funding 30 to 50 years ahead...





VALUE BEING CREATED

Future-proofed
growth and supply
assurance

High-performing
infrastructure

A plan for climate change

It is widely acknowledged that climate change is one of the biggest threats not just for our generation, but for those of the future too. At Watercare, we have embarked on an enterprise-wide climate change strategy and action plan.

In 2017 Watercare, along with Auckland Council, co-commissioned a report on the projected changes to the Auckland climate over the next decades from NIWA.

The report identified that in general the climate will become hotter and drier with more intense but irregular rainfall, and more specific projections for the different regions of Auckland.

We are using these projections to assess the vulnerabilities of water and wastewater services to a changing climate, including the impact on critical infrastructure. Climate change will mean more demand for water from our customers. Summers will be drier and winters wetter, and it will be even more critical to develop resilient water sources. The ground will be drier at times, reinforcing the need to use flexible materials in pipes so they are able to cope with changing ground conditions. Changes in the natural environment may include increased temperatures in waterways, increasing the need for us to better understand their ecosystem dynamics. Sea-level rise needs to trigger adaptation of low-lying assets. These vulnerabilities and many more have been expressed.

We have initiated a climate change adaptation and mitigation strategy to propose a plan for the future. The adaptation strategy will determine how we align our planning framework and models to changing climate projections, while the mitigation strategy will identify what Watercare can do to limit the magnitude of climate change to a 2-degree increase in the earth's temperature. This includes new ways of planning to be able to cope with the inherent uncertainty of climate change.

For us, mitigation means becoming a low-carbon organisation and reducing the greenhouse gas emissions from our operations through: energy efficiency targets, energy neutrality at our two main wastewater treatment plants by 2025, our large-scale revegetation project in the Hūnua Ranges and achieving net-zero carbon emissions by 2050.

We owe it to Aucklanders to ensure that the infrastructure we are planning for the future will be fit for purpose in a changing climate.



Climate change will mean more demand for water from our customers. Summers will be drier and winters wetter, and it will be even more critical to develop resilient water sources. The ground will be drier at times, reinforcing the need to use flexible materials in pipes so they are able to cope with changing ground conditions.



VALUE BEING CREATED

Customer trust
and valueEngaged
communities
and stakeholders

Responding to stakeholder needs crucial for Pukekohe consent

The Waikato Regional Council granted a 35-year consent for upgrades to the Pukekohe Wastewater Treatment Plant in October 2017.

The consent allows Watercare to service the rapidly-growing local population by more than doubling the volume of treated wastewater that can be discharged into Parker Lane Stream.

Infrastructure and environmental planning manager Mark Bourne says the consent is the result of focused consultation with mana whenua and the local community.

“We’ve been granted a long-term consent – the longest consent awarded at present – to discharge top-quality treated wastewater to a tributary of the Waikato River, with the support of Te Taniwha o Waikato,” Mark says.

Te Taniwha o Waikato is a group representing the Waikato-Tainui marae along the lower Waikato River.

“The reason we have their support is because the high-quality effluent will contribute to a better and healthier ecosystem.”

The plant will undergo a \$60 million upgrade over the next four years. Stage one includes enabling works and the construction of a new activated sludge reactor with membrane bioreactors and a new ultraviolet (UV) disinfection facility. Stage two will convert the old sequential batch reactors to activated sludge reactors. The project is expected to be completed in 2021.

Conditions of the consent include native riparian planting of a one-hectare area along the stream, the establishment of a community liaison group and five-yearly technology reviews.

Mark says the project is a “prime example of everyone working together as one team”.

“The team never works in isolation. We’ve had infrastructure planning, environmental planning, service delivery, infrastructure delivery and stakeholder communications all heavily involved in seeing this project through to consent.

“What we have here is a sustainable solution that allows us to discharge treated wastewater into the environment economically and safely, while catering for the growing population for the next 35 years.”



VALUE BEING CREATED

Industry-leading thinking and processes

High-performing infrastructure

Large wastewater project closer to start date

Construction of the Central Interceptor moved significantly closer to its start date this year with the announcement of the contractor short-list in May.

Four short-listed construction contractors were given until 14 September 2018 to prepare their proposals – the winning bid is to be announced in February 2019.

Short-listed contractors are: CPB Contractors, Ghella-Abergeldie Harker Joint Venture, Pacific Networks, comprising McConnell Dowell, Fletcher Construction and Obayashi; and VINCI Joint Venture, comprising VINCI Construction Grands Projets, HEB Construction and Solentache Bachy.

The Central Interceptor – a 4.5-metre diameter wastewater tunnel – is a critical legacy project that will deliver far-reaching benefits for the people of Auckland. As a long-term fix for recurring wastewater overflows into the Waitematā Harbour, this extensive wastewater project will reduce wet-weather overflow volumes by up to 80 per cent. At the same time, the tunnel will provide storage and transmission capacity to accommodate the city’s fast-growing population.

Lying at depths of between 22 and 110 metres below the ground’s surface, the tunnel and link sewers will be supported by 17 shafts along the route. The shafts collect and transfer wastewater into the tunnel, and at the end of the tunnel, a major pump station will direct all flows into the Māngere Wastewater Treatment Plant.

With construction set to start in 2019, the \$1.2 billion Central Interceptor is one of New Zealand’s most ambitious tunnelling projects.

Shayne Cunis, executive programme director for the Central Interceptor, is pleased with the disciplined procurement approach.

“We’ve had a positive start to this project. Keeping to schedule on this critical project is crucial for the industry. There is much at stake – these contractors and all interested parties need certainty and confidence in the process and timeframe,” says Shayne.

“Our intention has always been to stick to our plan. We do what we say and the people of Auckland can take comfort that Watercare is delivering on its promises of improving Auckland’s infrastructure.”

Project completion is scheduled for 2025.



VALUE BEING CREATED

Safe, happy
and empowered
team

Health and
well-being

New programme leads the way

Watercare's staff leadership programme represents a number of firsts for the company.

As one of the signature projects of the company's reorganisation, this programme aims to provide practical support to all people leaders within the business.

Organisation change manager Mirjam Oord says, "This is the first time we have put into words what we expect of our people leaders in a formal and transparent way. Our people now know their responsibilities when it comes to team leadership, which means their team members will have a clearer understanding of what they can expect from their managers.

"It also means that when these principles are not being adhered to, it will be easier to have that conversation and work towards a positive outcome."

The programme, comprising five one-day workshops held about a month apart, runs at every level of the company.

For participants, it starts with a 360-degree survey – feedback from each participant, their managers and some direct reports – to give them an understanding of their strengths and what they may need to work on. In designing the course, extensive research was carried out to identify what core competencies would make the biggest difference at Watercare. These competencies are Coach, Connect, Adapt and Take Action.

Says Mirjam: "Previously, leadership training was carried out on an ad hoc basis, with managers being sent on various workshops that lacked context for our workplace and were not necessarily in line with our vision.

"We decided that leaders and our development across the organisation are not something we can outsource. Building our leadership capability is something we need to take responsibility for and that's what this programme is all about."

As at June 2018, 120 people leaders had completed the leadership programme.

“

We decided that leaders and our development across the organisation are not something we can outsource. Building our leadership capability is something we need to take responsibility for and that's what this programme is all about.

”



CASE STUDY



VALUE BEING CREATED

Industry-leading thinking and processes

Safe, happy and empowered team

Responding when things go wrong

A family whose house suffered extensive damage during a wastewater overflow last December was relocated and safe home in time for Christmas, thanks to a tremendous amount of effort from Watercare staff and contractors.

A blockage in our network, and a non-compliant gully trap, caused wastewater to backfeed into a Māngere property and seep out through the shower and behind the toilet. It damaged the carpets, walls and curtains, leaving the house uninhabitable.

Wastewater networks manager Suzanne Naylor says the first priority was finding safe accommodation for the residents.

“The property was owned by a couple with a four-month-old baby. They didn’t have insurance, so our first priority was making sure they had a safe place to live.

“Our contractors, CityCare, immediately moved the family to a motel and the clean-up began.”

The carpet throughout the house was destroyed and had to be removed. All internal walls showed high moisture content and were re-built, plastered and painted. Curtains were dry-cleaned and new carpet was installed.

A non-return valve has been installed on the property to reduce the risk of a repeat occurrence. The non-compliant gully trap has also been noted on the property’s LIM and we have urged the couple to address it.

Customer liaison officer Mike Hawthorn kept the family up-to-date throughout the rehabilitation project.

“They were living at a local motel since the overflow. They were really happy with the effort we’ve taken to make their home liveable again. We weren’t liable for the incident but we’ve done this for them as a gesture of goodwill.”

Suzanne is thrilled the couple got to spend their first Christmas with their baby at their own home.

CASE STUDY



VALUE BEING CREATED

Protected and enhanced natural environment

High-performing infrastructure

Good news for the environment in Glen Eden

Our recently-completed upgrades to Glen Eden’s wastewater infrastructure signify good things for the community and the environment. These upgrades, completed at the end of 2017, involved the construction of a massive 20-metre-wide, 13-metre-deep storage tank and associated wastewater pipelines.

This new infrastructure – in operation since early 2018 – will cater for the significant growth expected in Glen Eden over the next 30 years. This also provides additional capacity to hold wastewater flows during wet weather and will significantly reduce overflows into the surrounding waterways.

Construction of the storage tank was carried out using an innovation known as the caisson method, which involved placing 18-metre-diameter, prefabricated concrete rings into the ground until the required depth of the tank was reached. This meant a reduction in noise, vibration and general disruption during the works as well as a safer worksite for our people.



VALUE BEING CREATED

**Future-proofed
growth and supply
assurance**

**Engaged
communities
and stakeholders**

New ways of working for delivering change

We're six months into our strategic transformation programme and the new ways of working are having a real impact on the way we lead and deliver change across Watercare.

Our vision is that our customers will be able to do everything for themselves, wherever they are, in a single interaction. Every employee will have the right tools and best processes and be empowered to make informed decisions with confidence.

And it's our new ways of working which are helping us achieve this. To deliver the new digital platform that will support the company, we are working in small, business-led, cross-functional teams and delivering change at pace, centred around the customer. This approach allows ideas, creativity and the individual contributions of our people to shine.

Head of Digital Delivery Paul de Quaasteniet says the days of traditional approaches to programme delivery are numbered.

"With large-scale digital programmes, traditionally companies would attempt to outsource the delivery risk to a group of consultants who would drive planning of all the requirements upfront and then manage to that plan. The programme would typically go well over budget, take twice as long to deliver and not come close to delivering the value the company had hoped for," says Paul.

"We simply can't work like that anymore.

"One of the great things about the new ways of working is that we're using principles from design thinking, working in a lean and agile way, and driving strong, cross-functional collaboration. Our aim is frequent iterations of delivery so we can release value for customers and employees early and often. This means we can build products and services based on customer and employee needs, and deliver the things that really make a difference."

The cross-functional teams (squads) work in time-boxed iterations. Two-week 'sprints' are used to plan, deliver and showcase small chunks of work to move the programme, release by release, closer to its goal.

"It's a continuous cycle of delivery, learning and improvement," Paul says.

The squads have already delivered enhancements to the way we work: improved risk calculations that include financial impacts of risks on projects; a pilot mobile app to help assess and record hazards online for our field crews; better asset categorisation; improving the quality of customer data; and testing a new, flexible billing system that provides options for automation.

CASE STUDY



VALUE BEING CREATED

Leading-edge resource efficiency

Industry-leading thinking and processes

Improving resilience in the aftermath of the Tasman Tempest

Efforts are well under way to improve the resilience of our water supply infrastructure and ensure we continue to provide a safe and reliable supply to Aucklanders.

In the autumn of 2017, an unprecedented amount of rain fell in 24 hours in the Hūnua Ranges, causing numerous slips, depositing significant amounts of silt into our water storage lakes and affecting the treatment processes at our largest water treatment plant in Ardmore.

In the following weeks, our staff worked hard to stabilise the systems at Ardmore and maximise production at our Waikato and Huia water treatment plants to ensure that no one was without water.

More than a year has passed and it's a very different picture now. Our dams are returning to a state that we normally see in these sources, with lower turbidity levels.

Our headworks team has been working hard to improve the stability of the areas hardest hit by this event. They have been hydro-seeding a number of areas with grass and native tree seed to stabilise the slopes and prevent further sedimentation in our dams.

Work is also in progress on a number of initiatives to upgrade our Ardmore, Waikato and Huia water treatment plants.

Ardmore: To increase the capacity of our sludge dewatering process, which was a major process constraint during the storm, we will be installing a new centrifuge and a filter press. The centrifuge dewateres the sludge by spinning it – similar to a salad spinner. The filter press works by squeezing the sludge to separate the solids from the

water in the same way as a coffee plunger separates coffee grounds.

Design is also under way for a new ultraviolet (UV) disinfection facility at Ardmore, expected to be the largest UV drinking water installation in New Zealand. We hope to have it operating by the summer of 2019.

Waikato: Upgrades at Waikato have allowed us to expand our maximum production capacity from 150 to 175 million litres a day. To achieve this additional production, we have added an extra super-pulsator clarifier, two more membrane filtration trains and a hydro-cyclone separation system to remove suspended material like sand.

Huia: The solids handling systems have been upgraded with a new centrifuge and new sludge process storage. A new powder-activated carbon dosing system, expected to arrive in late 2018, will allow the plant to better handle changes in water quality. The upgrades at Huia mean the plant can continue operating reliably and sustainably to produce 110 million litres a day until the replacement plant is built.

These improvements will put Watercare in a stronger position to face future incidences of extreme weather.



VALUE BEING CREATED

Future-proofed
growth and supply
assurance

Engaged
communities
and stakeholders

Rosedale plant's energy-efficiency ranking hits top five

Our Rosedale Wastewater Treatment Plant has been named in the top five most energy-efficient plants in Australasia.

Rosedale ranks number five out of 22 in the Water Services Association of Australia's 2017 survey of plants with activated sludge treatment and on-site co-generation.

Wastewater technology manager Paul Bickers says the top-five ranking was an outstanding outcome.

"It shows that, in terms of technology and efficient plant management, we're comparable to large plants in Australia," he says.

"And when it comes to energy efficiency, Rosedale has the advantage that the wastewater treatment process uses gravity to move flows around the plant, so the only pumping required is for the solids process. We also have natural UV disinfection that occurs in the ponds, so a lot of the time we can turn off the UV plant and rely on the sun instead."

Rosedale was also credited for its co-generation of power using biogas generated from the activated sludge.

"We're currently 74 per cent self-sufficient at Rosedale by creating and using our own power," Paul says.

Chief operations officer Shane Morgan says the benchmarking exercise serves as an effective tool to measure our plants' performance as part of our goal to achieve energy neutrality.

"We're aiming to reduce our energy use by eight gigawatt hours a year by the end of 2018 – and by the end of 2025, we want both our Rosedale and Māngere plants to be energy neutral.

"The survey gives us a sound baseline measure, before our programmes of work to hit our energy targets really kick off," Shane says.

Preliminary design is under way for a new thermal hydrolysis facility at Rosedale – the first in New Zealand. This innovation will improve the quality of the biosolids and further increase the biogas and power generation for the plant.

"Together with some other innovative process improvements, the thermal hydrolysis facility will move Rosedale closer to self-sufficiency," Shane says. "Further process enhancements are on the drawing board and are currently being trialled at laboratory scale."

Our frameworks

This year we have used the integrated reporting framework to look at our business model, activities and how we create value. These are displayed on pages 16 and 17. This is part of a company-wide initiative to embed integrated thinking into our decision-making, processes and activities.

This report has been prepared in line with the Global Reporting Initiative (GRI) Standards: Core option. We also use the GRI standards for reporting on sustainability performance to ensure our report aligns with worldwide best practice. The GRI is an internationally-recognised standard which encourages transparent reporting on performance and includes an established set of disclosures and performance indicators. An index of the indicators that we have reported against is included on page 16 of this report.

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 (three staff members).

As a not-for-profit, self-funded organisation solely responsible for the supply of water and treatment of wastewater for

Auckland, traditional reporting criteria such as competitive advantage, sources of differentiation and market positioning are not applicable to Watercare. Throughout this report, we have listed the sources of information used to compile the performance indicators and any significant assumptions or estimates applied. We have reported on three years of data in order to highlight trends and changes in performance, excluding those that were introduced in 2017 or 2018.

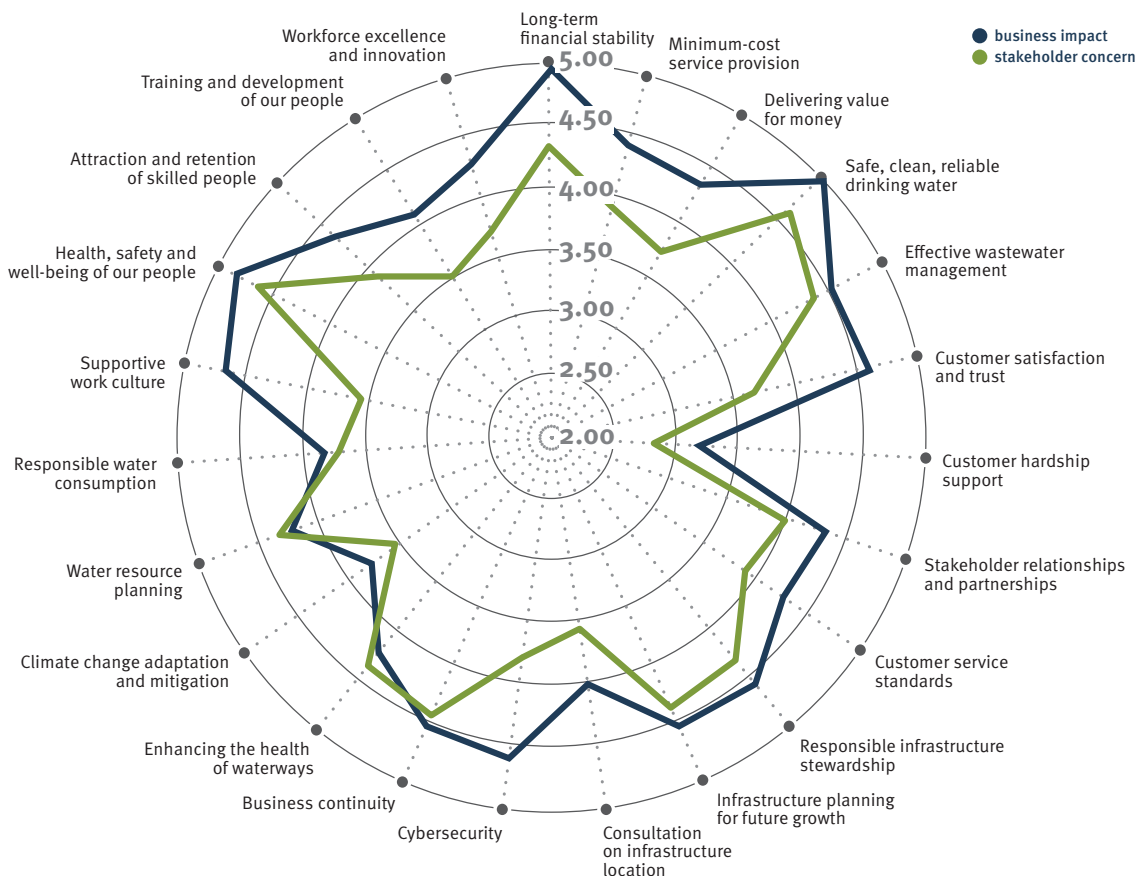
Materiality

Material matters are those that Watercare views as having a potentially significant impact on its business model and those that stakeholders highlight as being important to them.

As part of the integrated reporting project, we commissioned a stakeholder and materiality study in September 2017. We engaged an independent materiality expert who interviewed 15 internal stakeholders, (employees, our leadership team and chair of our board of directors) as well as 18 external stakeholders (this included residential and commercial customers, developers, local and central government, community and environmental groups and mana whenua).

Results of the study are displayed below.

2017 MATERIALITY RADAR



Our methodology

The participants were asked to rank (in a scale of 1 to 5) 23 issues based on importance to them at that time. The green line indicates the importance of these issues to the external stakeholders and the blue line signifies their importance to our internal stakeholders.

The close alignment of the blue and green lines indicate that the perception of material matters is reasonably consistent between our internal and external stakeholders.

Based on the stakeholder and materiality study in September, we updated the list of material issues by reviewing minutes of meetings and media coverage on issues in June 2018. Watercare has taken efforts to ensure all material issues are included in its reporting.

Stakeholder inclusiveness

Watercare is accountable to a wide range of stakeholders, which comprises the entities or individuals that can affect or be affected by the organisation’s activities.

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.

Our stakeholders considered the below issues as material in 2017/18



AUCKLAND COUNCIL

- Support and give effect to long-term plans and other initiatives
- Funding and sequencing for long-term infrastructure
- Adhere to a two-way ‘no surprises’ policy
- Support group efforts such as co-sourcing and procurement to reduce servicing costs

REGULATORS

- Involvement in the development of statutory and regulatory changes affecting the water industry

ENVIRONMENTAL GROUPS

- Climate change adaptation and mitigation
- Planned upgrades and consenting for infrastructure
- Water quality in receiving environments

RESIDENTIAL AND COMMERCIAL CUSTOMERS

- Safe and reliable water and wastewater services
- Responsiveness to issues (leaks, blockages, bursts)
- Affordability of services
- Timing, sequencing and location of Watercare-funded infrastructure

TANGATA WHENUA (MĀORI)

- Understanding Māori values and cultural impact of operations and initiatives
- Consulting on and supporting matters of mutual interest

LOCAL BOARDS

- Information on infrastructure projects ahead of works
- Timely information on local network issues so there are ‘no surprises’

LOCAL RESIDENTS AND COMMUNITY GROUPS THAT NEIGHBOUR OUR WORKSITES

- Opportunities for consultation on projects before work begins
- Accurate and timely information on projects’ progress
- Consideration for the social and environmental impacts of our projects

INFRASTRUCTURE PROVIDERS

- Coordinated approach to infrastructure projects to minimise disruption to the community
- Opportunities to collaborate and deliver infrastructure effectively

SUPPLIERS AND CONTRACTORS

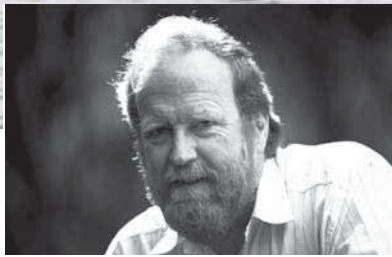
- Access to information on planned and upcoming projects
- Opportunities for innovation and collaboration

STAFF

- Supportive work culture
- Competitive pay
- Digital and organisational transformation

WIDER PUBLIC

- Security of supply now and in the future
- Access to water sources
- Wastewater overflows caused by network blockages and stormwater ingress
- Infrastructure to cater for growth



The Environmental Advisory Group (EAG) is an independent group of individuals with interest and expertise in water and/or wastewater-related topics. We advise, support and challenge Watercare’s approach to sustainability generally, and environmental matters in particular. We also help to anticipate emerging issues and inform strategy development. We express community concerns and press Watercare to exercise environmental leadership within the water industry.

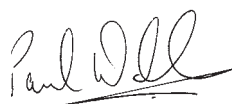
The new structure of the group, as reported in 2017, has widened our input into the environmental aspects of policy, both within Watercare and as it contributes to external demands.

Climate change has continued to be a major focus. Watercare’s assets have both a long life and long planning and construction lead times. It is expected that items currently in planning will still be operational when climate change effects become significant; so, failing now to consider the implications of possible sea level rise and extreme weather events could have major environmental and social consequences in future. EAG considers that this imperative to act now places Watercare in a position of natural leadership in climate change adaptation and that it can contribute significantly to achieving policy coherence within the Auckland Council family. Watercare is also building experience and data that can be shared with water and wastewater operations elsewhere in the country.

Through attendance at staff workshops, EAG members can confirm that a thorough approach is being taken by Watercare to the predicted effects of climate change in Auckland. There is a high degree of participation and buy-in by staff, which has resulted in recording an extensive set of potential implications for Watercare. We have had significant input, via a further workshop and teleconferencing, to the development of the climate change strategy arising from this work.

Other major topics engaged with during the past year include:

- Integrated reporting – an internal process with considerable potential to ensure proper accounting for environmental considerations across Watercare
- Preliminary discussions around replanting in the Hūnua catchment following the March 2017 ‘weather bomb’, including some potential to transition from exotic to native forest
- Measures to address wastewater discharges, including separation of combined sewers.



Paul Walbran
Chairman
Environmental Advisory Group

EAG group members and areas of interest:

Paul Walbran, Chairman
Water quality, harbour health, heritage

Betsy Kettle
Zero waste, water-sensitive urban design (WSUD)

Daniel Hikuroa
Mātauranga, mauri, waterscapes, water futures

Elizabeth Walker
Wetlands, water, community infrastructure, Aotearoa plants

Georgina Hart
Environmental management, business sustainability, water quality, restoration and conservation, climate change

Judy Bischoff
Water, energy efficiency, soils, waste, permaculture

Madeleine Wright
Environmental litigation, national policy development

During the year we farewelled **Chris Hatton**. We thank Chris for the wealth of environmental management experience he brought to the group. We are currently recruiting for his replacement.

Our stakeholders and materiality
Letter from Mana Whenua Kaitiaki Forum



Tapatahi tonu ana te hono ki te wāhi ngaro mai i ngā wā o nehe ki ērā o inanahi mō ake tonu atu. Me mihi ki te whenua me tangi hoki mo te hunga kua okioki. Rātou ki a rātou, tātou kua mahue nei ki muri, tēnei te tuku ake i te reo maioha atu ki a koutou katoa.

This past 2017/18 year has seen the continuation of the Mana Whenua Kaitiaki Forum’s Managers’ Group quest to align the mātauranga values from a mana whenua world-view to those values expressed within the integrated delivery of Watercare’s activities. Acknowledgement must be stated around the support from Watercare for this forum. This support enables the measured contribution towards the committed effort within our relationship-based partnership.

Numerous issues have been raised through proactive discussions within the dialogue between the two parties around the application of diligent kaitiakitanga in this Watercare context.

Although the bulk of Watercare’s activities are project based, this 2017/18 annual period has also seen the Kaitiaki Managers’ Group engaged in dialogue on the following key areas:

- Manukau Harbour Hydrodynamic Model – as of July 2018 includes three mana whenua representatives within the project team
- Water efficiency strategy across the Auckland region
- Technologies and trends in wastewater reuse
- Climate change impacts as well as the mitigation against such effects
- Central Interceptor, with a particular emphasis on pre-construction matters around finalising the preferred consortia.

Mana whenua have also continued their direct involvement with Watercare around the multiple projects across the region as well. Such activities are not covered in this report.

In addition, Watercare has been a key contributor to the development of the Safe Swim Programme, alongside mana whenua, the Regional Public Health Service, Surf Life Saving Northern Region as well as Auckland Council executive group representatives. Various third-party presentations, such as the Māori component of the Environmental Protection Authority, have also been received by the Mana Whenua Kaitiaki Forum in this reporting period.

This past period has also ended the first year of the expanded bimonthly format that has generated a wider consideration of other perspectives in the promotion of kaitiaki outcomes through this partnership arrangement across the region.

The testimony of commitment to excellence, combined with a collegial approach that extends to a willingness to work with other parties within and outside the council environment, is a hallmark of an indicator that promotes true social, environmental as well as economic uplift for one and all concerned.

Kia tau tonu te mauri, kāti ki konei.

Tame te Rangī
 Chair
 Mana Whenua Kaitiaki Forum

Mana Whenua Kaitiaki Forum:

Te Uri o Hau Settlement Trust
 Georgina Connelly

Te Rūnanga o Ngāti Whātua
 Tame Te Rangī

Ngāti Manuhiri Settlement Trust
 Terrence Hohneck

Ngāti Rehua - Ngāti Wai ki Aotea Trust
 Nicola MacDonald

Te Kawerau Iwi Settlement Trust
 Te Warena Taua

Makaurau Marae Māori Trust
 Te Warena Taua

Ngāti Paoa Iwi Trust
 Haydn Solomon

Ngāti Tamaterā Treaty Settlement Trust
 Antony Royal

Te Patukirikiri Incorporated
 David Williams

Ngati Whanaunga Incorporated
 Michael Baker

Ngā Maunga Whakahii o Kaipara Trust
 Tracy Davis

Ngāti Whātua o Orakei Trust
 Ngarimu Blair

Te Akitai Waiohua Iwi Authority
 Karen Wilson

Ngāti Tamaoho Trust
 Dennis Kirkwood

Ngāti Te Ata Claims Support Whanau
 Josie Smith

Te Whakakitenga o Waikato Incorporated
 Patience Te Ao

Ngai Tai Ki Tāmaki Tribal Trust
 James Brown

Ngati Maru Rūnanga Trust
 Wati Ngamane



Margaret Devlin

BA (HONS) BUSINESS STUDIES,
FINANCE AND ECONOMICS, CFinStD

Chair

Margaret Devlin is a professional director with extensive experience in governance and executive management primarily in the water and infrastructure sectors in New Zealand and the United Kingdom. She has served as a director for a range of entities with a particular focus on audit and risk.

General disclosure of interests:

Chair, Harrison Grierson Limited; Director, Meteorological Services of New Zealand Limited; Director, Waikato Regional Airport; Chair, Titanium Park (wholly-owned subsidiary of Waikato Regional Airport); Director, IT Partners Group; Director, Aurora Energy; Independent Chair, Audit and Risk Committee, Waikato District Council; Chair, Women in Infrastructure Network; Member, Waikato branch of Institute of Directors; Councillor, Waikato Institute of Technology (Wintec); Councillor and Member of the Audit and Risk Committee of the University of Waikato; Chair, Waikato Spatial Plan Joint Committee; Chair elect, Lyttelton Port Company Limited.

Julia Hoare

BCOM, FCA, CMInstD

Deputy Chair; 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 is the chair of the Auckland Committee of the Institute of Directors.

General disclosure of interests:

Director, AWF Madison Group Limited; Director, New Zealand Post Limited; Deputy Chair and Director, The a2 Milk Company (New Zealand) Limited; Director, Port of Tauranga Limited; Chair, Auckland Committee, Institute of Directors; Member, Advisory Panel to External Reporting Board; Member, Institute of Directors National Council; Director, Auckland International Airport Limited.

Hon. Dame Annette King

DNZM, BA

Chair of the Strategic Transformation Programme Committee

Former MP, Dame Annette King brings 30 years of governance, community and public health experience to Watercare. During her time in Parliament, Annette held several key ministerial portfolios – Health, Transport, Justice, Police and State Services – and was a member of the Finance and Expenditure, Health, and Local Government and Environment Select Committees. Annette continues as patron for a number of community organisations.

General disclosure of interests:

Chair, Life Flight Trust Wellington; Interim Chair, Earthquake Commission (EQC); Member of the Appropriations Review Committee of the New Zealand Parliament.

PICTURED, FROM LEFT:

- David Thomas
- Hon. Dame Annette King
- Julia Hoare
- Margaret Devlin
- Brendon Green
- Nicola Crauford
- Catherine Harland

Catherine Harland

BA, PGDIPBUS, MBA, MInstD, JP

Chair of the People, Remuneration and Appointments Committee

Catherine Harland is a consultant with a background in research and public policy in local and central government. She has worked for MartinJenkins, The New Zealand Institute and Auckland University of Technology's Institute of Public Policy. Catherine was an elected local government member for 15 years and involved in various community groups including 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.

Nicola Crauford

BSC (HONS), PHD, FENGNZ, CPENG, FAICD, CFInstD

Chair of the Asset Management Plan (AMP) and Major Capex Committee (AMCC)

Dr Nicki Crauford is a professional company director with extensive experience in infrastructure including executive roles in oil and gas and the electricity sectors in New Zealand and the United Kingdom. She is currently Chair of GNS Science, Deputy Chair of Fire and Emergency New Zealand and a director of Wellington Water, Orion New Zealand and the Environmental Protection Authority. She is a former director of Genesis Energy.

Nicki is a Chartered Professional Engineer, a Fellow of Engineering New Zealand and the Australian Institute of Company Directors and a Chartered Fellow of the Institute of Directors.

General disclosure of interests:

Chair, GNS Science Limited; Deputy Chair, Fire and Emergency New Zealand; Director, Orion New Zealand Limited; Director, Wellington Water Limited; Director, Environmental Protection Authority (EPA); Member of the EPA decision-making committee relating to OMV's application for a discharge consent; Member of Electoral Authority – the Co-operative Bank Limited; Specialist Advisor, WorleyParsons New Zealand Limited; Director and Shareholder, Riposte Consulting Limited.

Brendon Green

BE CHEM AND PROCESS (HONS), POSTGRAD DIPLOMA IN DAIRY SCIENCE AND TECHNOLOGY

Brendon Green brings extensive experience from New Zealand and offshore, primarily in resource development for power stations (gas, geothermal, landfill and wind), forestry, minerals, oil and gas exploration, water and dairy sectors. His career includes technical and commercial roles with the New Zealand Dairy Board, Contact Energy, General Electric (Mexico and the United States) and Mercury in developing its renewable energy portfolio under Mighty River Power.

Brendon is the founder of Kaitiaki Advisory Limited and holds board and executive board positions with Tainui Kāwhia Incorporation, Te Rūnanganui o Ngāti Hikairo, Bay Dairy Limited and Advanced Biotech NZ Limited. He has served as chair for Tainui Kāwhia Incorporation and Tirohia Landfill Generation Joint Venture. Brendon is of Ngāti Hikairo and Ngāpuhi descent.

General disclosure of interests:

Director, Kaitiaki Advisory Limited; Director, Tainui Kawhia Incorporation; Director, Peak2Peak; Executive Director, Bay Dairy Limited; Executive Director, Advanced Biotech NZ Limited; Executive, Te Rūnanganui o Ngāti Hikairo; Management contract, Tainui Kawhia Minerals Management Ltd; Consultant to Trility (Australian water infrastructure company); Representative of Waipapa Marae, Kāwhia, Te Whakakitenga o Waikato Tainui.

David Thomas

BCA (HONS)

David Thomas has over 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 the Maori Development Corporation.

General disclosure of interests:

Chair, Ngāti Whakaue Tribal Lands Incorporated; Chair, Gypsum Board Manufacturers of Australasia; Shareholder/Employee, Fletcher Building Limited; Director, New Zealand Ceiling & Drywall Supplies Limited; Chair, Altus NZ Limited; Director, Delcon Holdings (No.8) Ltd; Director, Fletcher Building Products Ltd; Director, Fletcher Concrete and Infrastructure Ltd; Director, Home&Dry Ltd; Director, Iplex Pipelines NZ Ltd; Director, Pinkfit Ltd; Director, Selwyn Quarries Ltd; Director, Tasman Insulation New Zealand Ltd; Director, Winstone Wallboards Limited.

Tony Lanigan

MNZM, BE (HONS), PHD, FENGNZ, MICE

Chair of the Capital Projects Working Group (CPWG)

Dr Tony Lanigan is a professional civil engineer (FIPENZ), project-management consultant and former General Manager of Fletcher Construction. He was Chancellor of Auckland University of Technology and a director of Infrastructure Auckland.

General disclosure of interests:

Director, Habitat for Humanity New Zealand Limited; Director and Chair, New Zealand Housing Foundation Limited; Director and Shareholder, A G Lanigan & Associates (2007) Limited; Director, Tamaki 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.

(Dr Lanigan retired from the Watercare Board on 31 October 2017.)



Raveen Jaduram

BE (HONS), ME, FENGNZ

Chief Executive Officer

Raveen Jaduram has been chief executive of Watercare since 2014. He has held chief executive roles in private and public sectors in Australia and New Zealand. He is a dedicated infrastructure leader, passionate about water and sustainability. He is currently on the board of Committee for Auckland.

Amanda Singleton

BA COMMUNICATIONS

Chief Customer Officer

Amanda is originally from South Africa, where she worked in the telecommunications industry, as well as consulting for a number of major corporates in brand and corporate strategy. A passionate customer advocate, she has held senior customer roles at Genesis Energy and Vodafone since moving to New Zealand in 2014. Amanda was appointed Watercare's chief customer officer in May 2018 and has responsibility for building a customer-centric culture and overseeing all the customer touch-points in the business.

Rebecca Chenery

BBUS, DIP.MGMT

Chief Digital Officer

Rebecca Chenery has been with Watercare since 2010 and was appointed to the role of chief digital officer in January 2018. She has many 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 all technology aspects of the business along with Watercare's business transformation programme.

PICTURED, FROM LEFT:

Steve Webster
Marlon Bridge
Shane Morgan
Amanda Singleton
Raveen Jaduram
Jason Glennon
Rebecca Chenery
Rob Fisher
David Hawkins

Marlon Bridge

BCOM, DIPCOM, CA

Chief Financial Officer

Marlon Bridge is a chartered accountant with over 25 years' experience in senior private and public sector roles. Marlon has previous water utility experience as CFO of Manukau Water Limited and Chief Customer Officer for Watercare. He was appointed to the role of Chief Financial Officer in July 2018, and holds responsibility for Watercare's financial stability and commercial focus. He oversees the financial planning and analysis, supply chain, property, legal, internal audit, risk and resilience functions.

Steve Webster

DIP CM, BE (HONS), NZCE (CIVIL)

Chief Infrastructure Officer

Steve Webster is a civil engineer with more than 20 years' experience in senior leadership roles, predominantly in the infrastructure sectors in New Zealand and Australia, delivering projects and maintenance services to government, local authority and private asset owners. He was appointed Watercare's general manager – infrastructure delivery in May 2015 and appointed chief infrastructure officer in January 2018. Steve is responsible for Watercare's delivery of infrastructure projects from servicing strategies through planning to construction and for supporting external developer services to enable growth in Auckland.

David Hawkins

MPP, TTC, JP

Chief Corporate Affairs Officer

David Hawkins' responsibilities include government and community relations. 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.

Rob Fisher

ONZM, LLB, DIP TP

Company Secretary

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. As a litigator, he appeared frequently before the Environment Court, the High Court and the Court of Appeal. In a 40-year legal career, he has provided 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 in the New Zealand Law Awards and was made an Officer of the New Zealand Order of Merit in the 2011 Queen's Birthday Honours.

Jason Glennon

Chief People Officer

Jason has worked across a number of industries, including construction and fast-moving consumer goods. He has held a number of senior roles in human resources at Fonterra, Fletchers and Carter Holt Harvey.

Jason was appointed Watercare's chief people officer in January 2018. He has oversight of all people-related activities in the business and is responsible for creating a high-performing company culture.

Shane Morgan

ME (CIVIL AND RESOURCE ENGINEERING),
BE (ENGINEERING SCIENCE)

Chief Operations Officer

Shane Morgan is a water industry professional with 20 years' experience in both New Zealand and Australia. He has held roles in the public and private sectors, with experience in innovation management, planning, design, operations, and construction commissioning. Previously Watercare's wastewater operations manager, Shane was appointed chief operations officer in January 2018. Shane is responsible for the operation of Watercare's water and wastewater assets, networks and treatment facilities, asset management, maintenance and asset integrity functions, and operations control centre.



Shayne Cunis

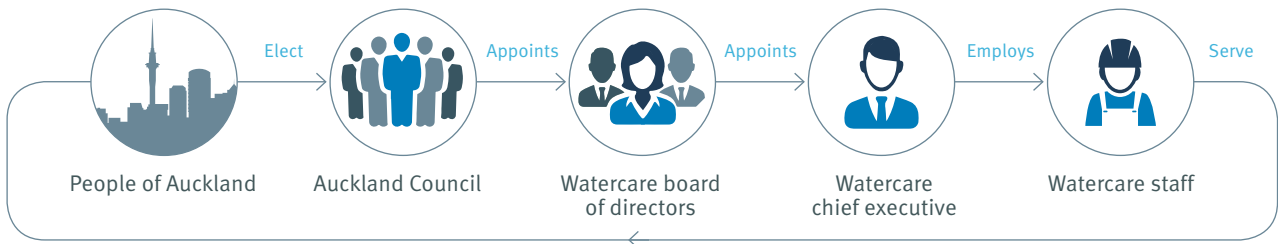
BE CIVIL (HONS), FENG NZ, CMEngNZ

Executive Programme Director Central Interceptor

Shayne Cunis is a chartered professional engineer and Fellow of Engineering NZ with more than 20 years' experience in the Auckland water supply industry. He was appointed as the executive programme director central interceptor project in January 2018 and reports to the chief executive.

Shayne has previously held senior operational management and executive roles at Watercare and has served on the board of Water New Zealand. He is a board member of the Water Research Foundation.

Watercare, a council-controlled organisation (CCO) is a wholly owned subsidiary of Auckland Council (the shareholder). The board of directors (the board) and management are committed to ensuring that we apply best-practice governance policies and procedures. The board is ultimately responsible for all decision-making by the company.

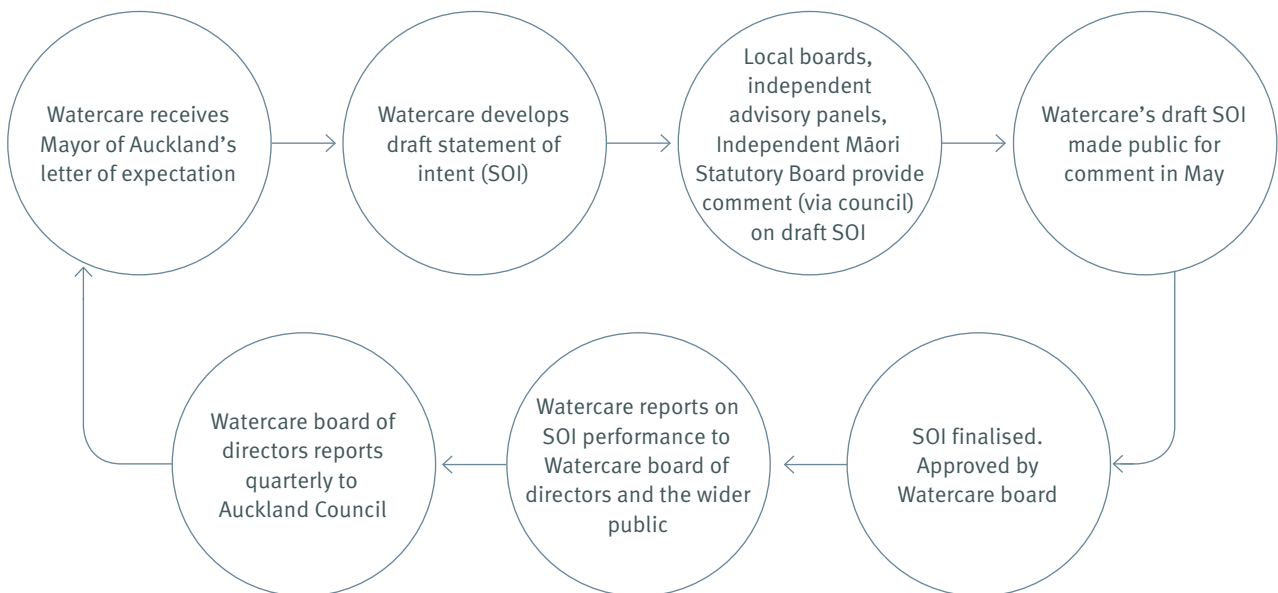


Our legislative framework

Watercare is a limited liability company registered under the Companies Act 1993, and a local government organisation under the Local Government Act 2002. Full details of the legislative framework we operate under can be found on our website.

Our governance framework

Every year, Watercare consults with its shareholder, Auckland Council, to develop a statement of intent (SOI) covering the next three years. The SOI identifies the relationship between Watercare’s activity and the delivery of those outcomes sought by the Mayor of Auckland and those specified within the Auckland Plan. Local boards, the Independent Māori Statutory Board and the general public are invited to comment on the final draft, before it is adopted by the board. The 2017-2020 SOI is available on our website.



Performance

We have an agreed set of performance measures and targets which form the basis of our accountability for delivering on the shareholder's strategic direction, priorities and targets. This annual report records our performance against both non-financial and financial performance measures included in the SOI.

The board is independently reviewed every two to three years.

Setting standards of conduct for staff

We demand the highest standards of behaviour from our staff. Policies governing the conduct of employees are published on our intranet including the Good Employer Policy, the Discrimination, Bullying and Harassment Policy, Sensitive Expenditure Policy, Gifts and Inducement Policy and Conflict of Interest 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 its planning, operations and reporting to regular independent review. We are committed to a culture of continuous improvement and seek independent feedback from specialist advisors to achieve this objective.

Board structure and functions

The board meets at regular intervals throughout the year. The public are welcome to attend all public sessions of board meetings.

As at 30 June 2018, the board had four committees. All directors are welcome to attend any committee meetings, but only committee members have voting rights.

- **Audit and Risk Committee**, chaired by Julia Hoare, helps the board fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. The committee has no delegated authority. Health and safety matters are the responsibility of the full board and are excluded from the duties of the Audit and Risk Committee.
- **People, Remuneration and Appointments Committee (PRAC)**, chaired by Catherine Harland, helps the board fulfil its wider human resources responsibilities to the company. The committee provides advice to the board on organisational capability and design, and human resource strategies, and annually reviews the chief executive's performance and remuneration framework.
- **Strategic Transformation Programme Committee (STPC)**, chaired by Hon. Dame Annette King, helps the board exercise due care, diligence and effective oversight of all matters relating to the delivery of Watercare's Strategic Transformation Programme.
- **Asset Management Plan (AMP) and Major Capex Committee (AMCC)**, chaired by Nicola Crauford, helps the board exercise due care, diligence and effective oversight of all matters relating to Watercare's AMP and major projects involving capital expenditure over \$100 million.

Board member attendance	Board	Audit and Risk	PRAC	CPWG	STPC	AMCC
Number of meetings	11	5	6	1	1	1
Margaret Devlin	11	4 ⁺	6 ⁺	–	–*	1
Nicola Crauford	11	–*	1*	1	1	1
Brendon Green (appointed to Audit and Risk part-way through the year)	11	–*	2*	1	1	–*
Catherine Harland	11	5*	6	1*	1*	1
Julia Hoare	10	5	3*	–*	–*	0
Hon. Dame Annette King (appointed 1 November 2017)	7	–*	2	–	1	–*
David Thomas	10	5	6	–*	–*	–*
Tony Lanigan (retired 31 October 2017)	3	–*	–*	1	NA	NA

+ Board Chair attends in ex-officio capacity.

* Not a committee member.

The Capital Projects Working Group (CPWG) was dissolved in late 2017. The STPC and AMCC were formed in May 2018.

Integrity

Corporate governance charter

This charter defines the duties and obligations of the board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties, and conflicts of interest. It incorporates the principles of the Institute of Directors of New Zealand's Code of Practice for directors, relevant sections of 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. PwC provides a Whistleblowing Disclosure Service so staff and others may confidentially and anonymously report matters of serious misconduct.

Complaints disclosure

Any complaints against the company are recorded. Targets have been set for the response to and resolution of complaints. Our level of service is reported in the annual report, to the shareholder quarterly, to the board monthly, and to the public at board meetings, as well as via our website.

Disclosures of interest

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

Transparency and accountability

Our financial statements, the statement of intent (SOI) and our long-term plans must be audited by the Auditor-General. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte Limited, 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 Limited must satisfy the independence requirements of the Auditor-General and External Reporting Board.

Watercare is committed to transparent performance 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) guidelines
- An overview of current water storage levels and other information (published weekly on our website)
- Special reports and project newsletters for interested parties.

As a council-controlled organisation, Watercare is subject to the Local Government Official Information and Meetings Act 1987, which provides to the public official information held by local authorities. The average response time this year was 3.7 days.

Watercare maintains a board-approved Risk Management Policy, the intent of which is to direct the risk management function. This policy focuses risk management onto those risks that are material to the achievement of the organisation’s principal objectives.

Watercare applies a risk management framework consistent with ISO 31000: 2018 Risk Management Guidelines in order to ensure that risks throughout the business are managed consistently.

This risk management framework defines the management policies, procedures and practices to be applied to the risk management tasks of identifying, analysing, evaluating, treating and continuing to monitor risk to provide enterprise-level information.

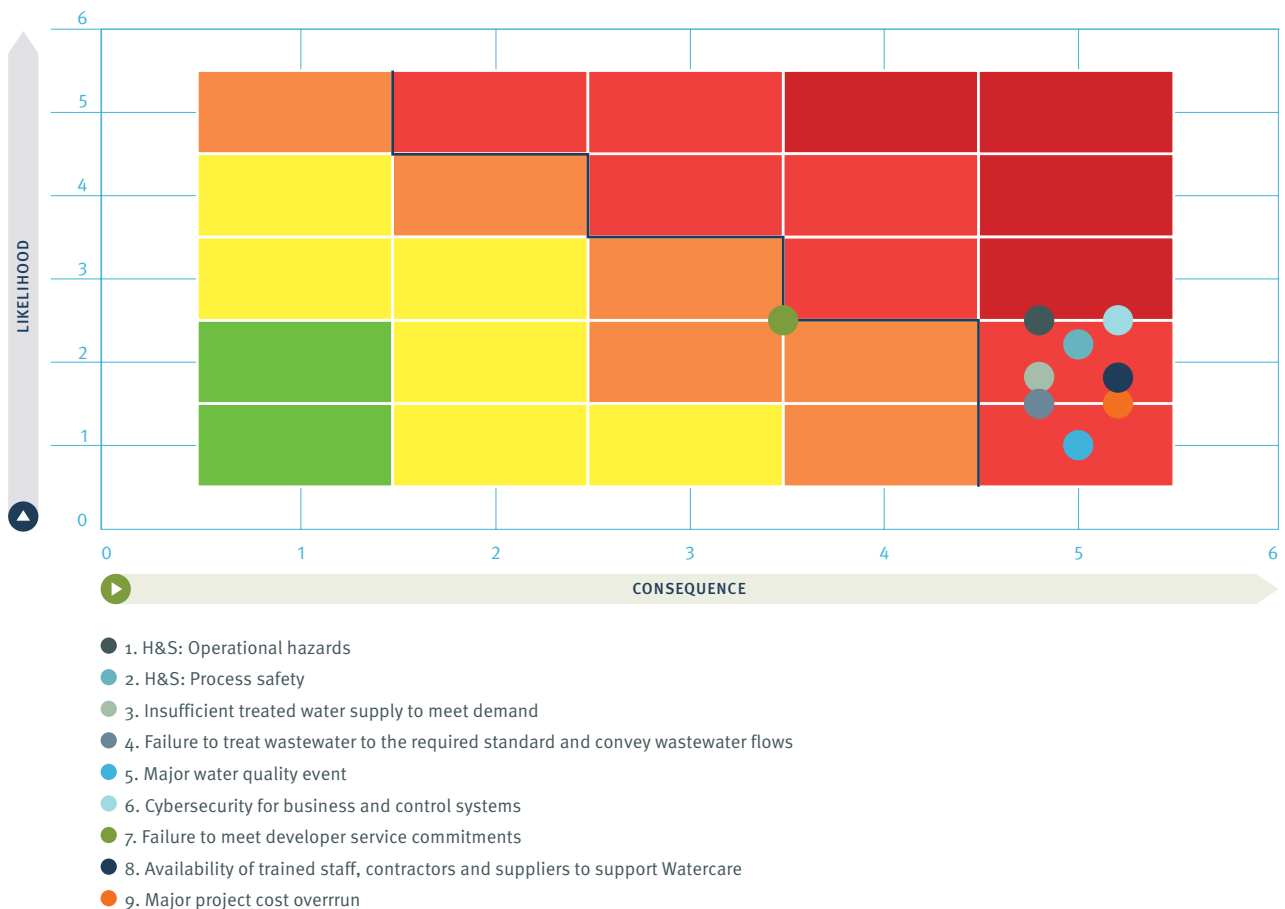
As part of the risk management framework, we have established a Risk Management Steering Committee, which meets quarterly to monitor emerging risk and risk mitigation actions and strategies. The committee comprises the chief executive, senior management and the head of risk and resilience.

Regular monitoring, review and reporting of risks is an important component of the Watercare Risk Management Framework, as it ensures new risks and changes to existing risks are identified and managed, and that risk treatment plans are developed and implemented.

A number of significant risks are monitored by the board at least quarterly, or as required. In addition, external reviews are carried out to ensure we meet and exceed good-practice measures in risk management.

Watercare’s enterprise risks primarily reflect the dependencies that the organisation has to deliver its services and these are outlined on the heatmap and table below:

Enterprise risk heatmap



Leadership and governance
Enterprise risk management (continued)

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p>Health and safety – operational hazards</p> <p><i>Watercare’s work involves significant operational hazards which include: confined spaces, working at height, trenching and excavations, working alone, working near/on bodies of water</i></p>	Workers may be exposed to serious harm	<ul style="list-style-type: none"> Financial Natural Human Social and Relationships 	<ul style="list-style-type: none"> Clear standards for work involving significant operational hazards Training of staff to industry standards Using qualified, well-trained contractors Ongoing monitoring of relevant lead-and-lag health and safety indicators
<p>Health and safety – process safety</p> <p><i>A catastrophic failure of a major Watercare plant such as an explosion, fire or chemical leak which carries significant health and safety risk</i></p>	Workers, the public or the environment may be exposed to serious harm	<ul style="list-style-type: none"> Manufactured Financial Natural Human Social and Relationships 	<ul style="list-style-type: none"> Plant design, operation and containment systems to address this risk Regular plant condition assessments and specific regulation-driven compliance reviews undertaken
<p>Insufficient treated water supply to meet demand</p> <p><i>The risk could arise from: protracted drought conditions, the loss of a major storage dam or the loss of water treatment capacity which could arise from climate change (including extreme weather events)</i></p>	Inability to supply sufficient treated water to meet Auckland’s demand	<ul style="list-style-type: none"> Manufactured Financial Natural Human Social and Relationships 	<ul style="list-style-type: none"> Risk mitigation is inherent in the design of the water systems, from source to treatment Integrated source management model for water abstraction Geographically separated dams Drought Management Plan
<p>Failure to treat wastewater to the required standard and convey wastewater flows</p> <p><i>This includes the impact of stormwater overflows in wet-weather events and longer-term climate change</i></p>	Environmental impacts or failure to meet consent conditions that impact stakeholders	<ul style="list-style-type: none"> Financial Natural Human Social and Relationships 	<ul style="list-style-type: none"> Wastewater treatment plant upgrades Asset management renewal and upgrade programmes Transmission and network upgrades to convey required stormwater and wastewater flows Network upgrades to address capacity constraints
<p>Major water quality event</p> <p><i>The quality of treated water supplied is compromised</i></p>	Compliance with DWSNZ and/or public health is adversely impacted	<ul style="list-style-type: none"> Manufactured Financial Natural Human Social and Relationships 	<ul style="list-style-type: none"> Operation within well-established water treatment protocols reflecting Ministry of Health/ DWSNZ requirements Disinfection and testing of all water prior to entering supply Chlorine levels are maintained in the distribution system Water safety and contamination notification in place Regular accreditation reviews with the Drinking Water Assessors
<p>Cybersecurity for business and control systems</p> <p><i>Malicious acts compromising SCADA control systems, noting the cyber threat environment continues to grow globally and in New Zealand</i></p>	Corporate network and/or operating control systems are compromised, impacting operations	<ul style="list-style-type: none"> Manufactured Financial Natural Human Social and Relationships Intellectual 	<ul style="list-style-type: none"> Comprehensive cybersecurity policies in place Regular staff training and awareness Deployment of specialist cybersecurity to reduce overall risk Independent experts used to advise on an enhanced cybersecurity roadmap and tools

Leadership and governance
Enterprise risk management (continued)

Enterprise risk description	Potential consequence	Integrated reporting capitals	Key controls and mitigation strategies
<p>Failure to meet developer service commitments</p> <p><i>Poor processes, engagement and slow delivery of Watercare's Asset Management Plan</i></p>	<p>Failure to meet developer service commitments</p>	<ul style="list-style-type: none"> • Manufactured • Financial • Natural • Human • Social and Relationships 	<ul style="list-style-type: none"> • Proactive developer relationship engagement • Digital Strategy – enable online connection service • Consenting Service Level Agreement with council • Improving transparency and working closely with developers on delivery of growth-related capital projects
<p>Availability of trained staff, contractors and suppliers</p> <p><i>Failure to attract and retain sufficient direct or supporting skilled and qualified resources</i></p>	<p>Watercare, contractors, suppliers and consultants not resourced to deliver Watercare's business</p>	<ul style="list-style-type: none"> • Manufactured • Financial • Natural • Human • Social and Relationships • Intellectual 	<ul style="list-style-type: none"> • Operational succession planning • Ensure sufficient numbers of skilled and qualified resources are available • Market resources are identified and retained to support business deliverables
<p>Major project cost overrun</p> <p><i>Actual cost of delivery is higher than anticipated</i></p>	<p>The funding requirement is outside the Asset Management Plan (AMP) envelope</p>	<ul style="list-style-type: none"> • Manufactured • Financial • Human • Social and Relationships • Intellectual 	<ul style="list-style-type: none"> • Procurement strategies to minimise capital and whole-of-life costs on new assets • Monitoring of projects costs and delivery times

FINANCIAL statements

These financial statements and the statement of service performance for Watercare Services Limited were approved and authorised for release for the year ended 30 June 2018



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Historical financial summary

FOR THE YEAR ENDED 30 JUNE

	2014	2015	2016	2017	2018
	\$000	\$000	\$000	\$000	\$000
Financial Performance					
Total revenue	500,470	520,407	570,429	631,009	641,586
Operating expenses	196,611	204,572	209,894	213,480	217,625
Depreciation and amortisation	205,947	208,739	216,250	228,124	219,979
Finance costs	69,149	73,992	77,684	80,768	82,110
Total expenses	471,707	487,303	503,828	522,372	519,714
Operating surplus from trading operations	28,763	33,104	66,601	108,637	121,872
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(11,975)	(11,052)	(10,968)	(9,334)	(8,488)
Net (loss) / gain on revaluation of derivative financial instruments	13,050	(88,644)	(137,600)	87,546	(20,808)
Operating surplus / (deficit) before tax	29,838	(66,592)	(81,967)	186,849	92,576
Income tax (expense) / benefit	(38,230)	11,236	14,780	(62,163)	(38,145)
Net surplus / (deficit) after tax	(8,392)	(55,356)	(67,187)	124,686	54,431
Financial Position					
Current assets	78,118	79,692	80,857	82,621	94,761
Non-current assets	8,308,101	8,605,062	8,739,757	8,862,924	9,992,051
Total assets	8,386,219	8,684,754	8,820,614	8,945,545	10,086,812
Current liabilities	533,685	320,837	504,561	360,715	482,209
Non-current liabilities	2,069,089	2,488,916	2,482,163	2,626,254	2,855,681
Total liabilities	2,602,774	2,809,753	2,986,724	2,986,969	3,337,890
Total equity	5,783,445	5,875,001	5,833,890	5,958,576	6,748,922
Cash Flow					
Net cash inflows – operating activities	222,570	224,712	247,754	275,508	316,761
Net cash outflows – investing activities	(328,411)	(285,494)	(311,593)	(302,111)	(326,223)
Net cash inflows – financing activities	106,025	63,487	60,456	27,563	8,425
Net change in cash flows	184	2,705	(3,383)	960	(1,037)
Key Statistics					
Property, plant and equipment	8,235,338	8,528,217	8,654,122	8,777,049	9,913,765
Capital expenditure	313,391	286,913	296,101	301,632	342,426
Net debt	1,453,464	1,513,996	1,577,571	1,603,895	1,613,065
Increase in net debt	105,601	60,532	63,575	26,324	9,170
Increase in net debt to capex	34%	22%	21%	9%	3%
EBITDA to interest expense ratio	4.1	4.0	4.2	4.4	4.8
Funds flow from operations to interest ratio	3.3	3.4	3.7	3.9	4.2
Funds flow from operations to average net debt	20%	20%	21%	22%	24%
Number (headcount) of permanent employees	772	817	861	909	908

	2018	2017	2018		
	ACTUAL \$000	ACTUAL \$000	BUDGET \$000	VARIANCE TO BUDGET	RESULT
Revenue	641,586	631,009	617,456	24,130	✓
Operating expenses	(217,625)	(213,480)	(213,591)	(4,034)	✗
Depreciation and amortisation	(219,979)	(228,124)	(230,000)	10,021	✓
Finance costs	(82,110)	(80,768)	(81,963)	(147)	✗
Total expenses	(519,714)	(522,372)	(525,554)	5,840	✓
Operating surplus from trading operations	121,872	108,637	91,902	29,970	✓
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(8,488)	(9,334)	(8,000)	(488)	✗
Net (loss) / gain on revaluation of derivative financial instruments	(20,808)	87,546	–	(20,808)	✗
Operating surplus before tax	92,576	186,849	83,902	8,674	✓
Income tax expense	(38,145)	(62,163)	(35,591)	(2,554)	✗
Net surplus for the year	54,431	124,686	48,311	6,120	✓
Gain on revaluation of property, plant and equipment	735,915	–	487,958	247,957	✓
Total comprehensive revenue and expense for the year, net of tax	790,346	124,686	536,269	254,077	✓

Key points

- Watercare's total revenue of \$641.6 million exceeded the budget by \$24.1 million. A hot summer was largely responsible for the \$8.1 million increase in water and wastewater revenue, while non-cash vested asset revenue contributed \$10.2 million to this favourable variance. The infrastructure growth fund added \$2.7 million revenue, reflecting the increased growth in the Auckland region.
- Operating costs were \$4.0 million higher than budget. Unplanned maintenance and general overhead expenses were the key adverse areas. Some extreme weather events impacted unplanned maintenance resulting in a \$1.4 million overspend against budget, while general overheads contributed \$3.0 million to the unfavourable variance. Finance costs were \$0.1 million higher than budget due to a lower level of interest being capitalised. Lower-than-budgeted depreciation and amortisation offsets the adverse variance.
- The company reports an operating surplus of \$121.9 million compared with a budgeted operating surplus of \$91.9 million, a favourable variance of \$30.0 million. Both business units are reporting an operating surplus from trading operations, being \$32.3 million for water and \$89.5 million for wastewater.
- The reported operating surplus from trading operations was prior to a non-cash adjustment for the revaluation of derivative financial instruments of \$20.8 million, and the (non-cash) loss on disposal of property, plant and equipment of \$8.5 million.
- 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 \$20.8 million (non-cash) loss due to the downward move in interest rates over the year. This accounting loss was not budgeted for.
- The company has recorded a loss on disposal of property, plant and equipment, and restructuring costs of \$8.5 million, being primarily the write-down of assets that were replaced in the normal course of business during the year.
- The resulting net surplus after tax of \$54.4 million was compared with a budgeted net surplus of \$48.3 million (2017: net surplus after tax of \$124.7 million).
- The property, plant and equipment asset classes were revalued in accordance with Accounting Standard requirements at 30 June 2018. The impact of the asset revaluation was a gain of \$735.9 million (net of tax).
- Total assets of the company have increased from \$8.9 billion to \$10.1 billion over the past 12 months, reflecting the company's continued investment in new infrastructure assets and upward revaluation of property, plant and equipment to fair value at 30 June 2018.
- Net debt increased by \$9.2 million during the year, funding the shortfall between operating cash flows and capital expenditure. The increase in net debt was lower than budget, reflecting better operating cash flows, proceeds from the sale of surplus land and lower capital expenditure for the period.

Financial Statements

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2018 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 2018.

These financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2018 were approved and authorised for release on 31 August 2018.

For and on behalf of management:




R P Jaduram
Chief Executive

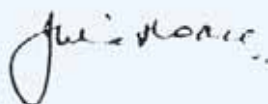


M A Bridge
Chief Financial Officer

For and on behalf of the Board of Directors:



M P Devlin
Chair



J C Hoare
Deputy Chair



TO THE READERS OF WATERCARE SERVICES LIMITED GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

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 Limited, to carry out the audit of the financial statements and the statement of service performance of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 60 to 99, that comprise the statement of financial position as at 30 June 2018, 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 statement of service performance of the Group on pages 100 to 103.

In our opinion:

- the financial statements of the Group on pages 60 to 99:
 - present fairly, in all material respects:
 - + its financial position as at 30 June 2018; 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 statement of service performance of the Group on pages 100 to 103 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 2018.

Our audit was completed on 31 August 2018. 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 relating to the financial statements and the statement of service performance, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

For the budget information reported in the financial statements and the statement of service performance, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information in the Annual Report that accompanies the financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements and the statement of service performance does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information identified above when it becomes available. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors and consider further appropriate actions.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of taxation services, and cyber and security risk advisory, which are compatible with those independence requirements. In addition to these assignments, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the Group. These assignments and trading activities have not impaired our independence as auditor of the Group. Other than the audit and these assignments and trading activities, we have no relationship with, or interests in, the Group



Andrew Burgess

Deloitte Limited

On behalf of the Auditor-General
Auckland, New Zealand

Statement of comprehensive revenue and expense

FOR THE YEAR ENDED 30 JUNE 2018

		2018	2017	2018
	NOTES	ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Revenue	NOTE 12, PAGE 84	641,586	631,009	617,456
Total revenue		641,586	631,009	617,456
Operating expenses				
Asset operating costs		(56,914)	(54,874)	(55,943)
Maintenance costs		(43,979)	(39,630)	(42,616)
Employee benefit expenses		(68,430)	(69,332)	(69,744)
Other expenses		(48,302)	(49,644)	(45,288)
Total operating expenses	NOTE 13, PAGE 86	(217,625)	(213,480)	(213,591)
Depreciation	NOTE 4, PAGE 69	(212,656)	(220,293)	(223,175)
Amortisation	NOTE 7, PAGE 75	(7,323)	(7,831)	(6,825)
Finance costs	NOTE 9, PAGE 78	(82,110)	(80,768)	(81,963)
Total expenses		(519,714)	(522,372)	(525,554)
Operating surplus from trading operations		121,872	108,637	91,902
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs		(8,488)	(9,334)	(8,000)
Net (loss) / gain on revaluation of derivative financial instruments	NOTE 11, PAGE 84	(20,808)	87,546	–
Operating surplus before tax		92,576	186,849	83,902
Income tax expense	NOTE 15, PAGE 88	(38,145)	(62,163)	(35,591)
Net surplus for the year		54,431	124,686	48,311
Other comprehensive revenue and expense net of tax				
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 74	735,915	–	487,958
Other comprehensive revenue and expense for the year, net of tax		735,915	–	487,958
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax		790,346	124,686	536,269

The financial statements should be read in conjunction with the notes on pages 64 to 98 inclusive.

Statement of financial position

AS AT 30 JUNE 2018

		2018	2017	2018
	NOTES	ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Assets				
Current				
Cash and cash equivalents		126	545	–
Trade and other receivables from exchange transactions	NOTE 17, PAGE 90	71,843	66,698	67,589
Inventories	NOTE 18, PAGE 90	10,898	8,934	7,132
Prepaid expenses	NOTE 20, PAGE 91	2,778	2,237	2,855
Derivative financial instruments	NOTE 10, PAGE 78	9,116	4,207	5,634
Total current assets		94,761	82,621	83,210
Non-current				
Property, plant and equipment	NOTE 4, PAGE 69	9,913,765	8,777,049	9,576,332
Intangible assets	NOTE 7, PAGE 75	43,289	45,564	46,315
Inventories	NOTE 18, PAGE 90	11,153	8,443	8,515
Prepaid expenses	NOTE 20, PAGE 91	23,844	23,641	22,796
Derivative financial instruments	NOTE 10, PAGE 78	–	8,227	7,486
Total non-current assets		9,992,051	8,862,924	9,661,444
Total assets		10,086,812	8,945,545	9,744,654
Liabilities				
Current				
Bank overdraft		618	–	–
Borrowings	NOTE 8, PAGE 76	143,088	230,367	230,447
Derivative financial instruments	NOTE 10, PAGE 78	226,008	38,618	37,536
Trade and other payables for exchange transactions	NOTE 19, PAGE 91	16,637	14,182	16,393
Accrued expenses	NOTE 21, PAGE 92	84,783	68,823	65,112
Provisions	NOTE 22, PAGE 93	11,075	8,725	7,759
Total current liabilities		482,209	360,715	357,247
Non-current				
Borrowings	NOTE 8, PAGE 76	1,469,485	1,374,073	1,451,338
Derivative financial instruments	NOTE 10, PAGE 78	–	169,900	169,734
Deferred tax liability	NOTE 16, PAGE 89	1,362,544	1,060,364	1,271,773
Trade and other payables for exchange transactions	NOTE 19, PAGE 91	1,579	2,186	–
Accrued expenses	NOTE 21, PAGE 92	14,842	12,717	14,301
Provisions	NOTE 22, PAGE 93	7,231	7,014	4,923
Total non-current liabilities		2,855,681	2,626,254	2,912,069
Total liabilities		3,337,890	2,986,969	3,269,316
Equity attributable to owners of the parent				
Retained earnings		3,917,524	3,867,688	3,889,331
Revaluation reserves	NOTE 6, PAGE 74	2,570,705	1,830,195	2,325,314
Issued capital	NOTE 23, PAGE 94	260,693	260,693	260,693
Total equity		6,748,922	5,958,576	6,475,338
Total equity and liabilities		10,086,812	8,945,545	9,744,654

The financial statements should be read in conjunction with the notes on pages 64 to 98 inclusive.

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2018

		2018	2017	2016
	NOTES	ACTUAL \$000	ACTUAL \$000	BUDGET \$000
Operating activities				
Cash was provided from:				
Receipts from customers		610,372	569,841	591,156
Dividends received		113	111	100
Interest received		10	43	–
Income tax refund		–	2	–
Subvention receipt	NOTE 15, PAGE 88	6,671	3,903	6,200
		<u>617,166</u>	<u>573,900</u>	<u>597,456</u>
Cash was applied to:				
Employees and suppliers		(218,015)	(218,844)	(212,989)
Finance costs paid		(82,390)	(79,548)	(82,178)
		<u>(300,405)</u>	<u>(298,392)</u>	<u>(295,167)</u>
Net cash inflows – operating activities	NOTE 14, PAGE 87	<u>316,761</u>	<u>275,508</u>	<u>302,289</u>
Investing activities				
Cash was provided from:				
Sale of property, plant and equipment, and intangibles		9,115	26,791	–
		<u>9,115</u>	<u>26,791</u>	<u>–</u>
Cash was applied to:				
Purchase and construction of property, plant and equipment, and intangibles		(323,855)	(301,160)	(358,464)
Purchase of forestry company		–	(18,000)	–
Interest capitalised on construction of property, plant and equipment, and intangibles	NOTE 9, PAGE 78	(11,483)	(9,742)	(12,650)
		<u>(335,338)</u>	<u>(328,902)</u>	<u>(371,114)</u>
Net cash outflows – investing activities		<u>(326,223)</u>	<u>(302,111)</u>	<u>(371,114)</u>
Financing activities				
Cash was provided from:				
Commercial paper issued (net)		–	169	170
Revolving credit facility (net)		–	9,000	17,000
Proceeds from Auckland Council loans – related party	NOTE 23, PAGE 94	250,000	250,000	132,494
		<u>250,000</u>	<u>259,169</u>	<u>149,664</u>
Cash was applied to:				
Repay commercial paper (net)		(149,236)	–	–
Repay revolving credit facility (net)		(11,500)	–	–
Repay term loans		–	(150,000)	–
Repay loans from Auckland Council – related party	NOTE 23, PAGE 94	(80,839)	(81,606)	(80,839)
		<u>(241,575)</u>	<u>(231,606)</u>	<u>(80,839)</u>
Net cash inflows – financing activities		<u>8,425</u>	<u>27,563</u>	<u>68,825</u>
Net change in cash flows		(1,037)	960	–
Cash and cash equivalents / (overdraft) at the beginning of the year		545	(415)	–
(Overdraft) / cash and cash equivalents at the end of the year		<u>(492)</u>	<u>545</u>	<u>–</u>
Cash and cash equivalents comprises:				
(Overdraft) / bank balances		(492)	545	–
		<u>(492)</u>	<u>545</u>	<u>–</u>

The financial statements should be read in conjunction with the notes on pages 64 to 98 inclusive.

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2018

	NOTES	RETAINED EARNINGS \$000	REVALUATION RESERVES \$000	ISSUED CAPITAL \$000	TOTAL \$000
Balance at 1 July 2016		3,733,270	1,839,927	260,693	5,833,890
Comprehensive revenue and expense					
Net surplus for the year		124,686	–	–	124,686
Other comprehensive revenue and expense					
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 74	–	–	–	–
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 74	9,732	(9,732)	–	–
Total comprehensive revenue and expense for the year, net of tax		134,418	(9,732)	–	124,686
Balance at 30 June 2017		3,867,688	1,830,195	260,693	5,958,576

	NOTES	RETAINED EARNINGS \$000	REVALUATION RESERVES \$000	ISSUED CAPITAL \$000	TOTAL \$000
Balance at 1 July 2017		3,867,688	1,830,195	260,693	5,958,576
Comprehensive revenue and expense					
Net surplus for the year		54,431	–	–	54,431
Other comprehensive revenue and expense					
Gain on revaluation of property, plant and equipment	NOTE 6, PAGE 74	–	735,915	–	735,915
Transfer between reserves on disposal of property, plant and equipment	NOTE 6, PAGE 74	(4,595)	4,595	–	–
Total comprehensive revenue and expense for the year, net of tax		49,836	740,510	–	790,346
Balance at 30 June 2018		3,917,524	2,570,705	260,693	6,748,922

The financial statements should be read in conjunction with the notes on pages 64 to 98 inclusive.

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 manage its operations efficiently with a view to providing 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 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 8 June 2017. 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 69
- Unbilled revenue estimate, note 12, page 84
- Provisions, note 22, page 93

Accounting standards and interpretations

PBE International Financial Reporting Standard (IFRS) 9 Financial Instruments is effective from periods beginning on or after 1 January 2021. PBE IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and relaxes current requirements for hedge accounting. The group intends to early adopt the standard when it becomes effective for for-profit entities from the period beginning on 1 July 2018. The group has determined that adopting PBE IFRS 9 does not materially impact the financial instruments.

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the group or are not expected to have a material impact on the financial statements and, therefore, have not been disclosed.

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

	2018 ACTUAL \$000	2018 BUDGET \$000	VARIANCE \$000	VARIANCE %
Revenue	641,586	617,456	24,130	3.9%
Depreciation	212,656	223,175	10,519	4.7%
Net loss on revaluation of derivative financial instruments	20,808	–	20,808	–
Gain on revaluation of property, plant and equipment	735,915	487,958	247,957	50.8%

- Revenue was \$24.1 million or 3.9% higher than budget. This was primarily due to (non-cash) vested assets revenue being \$10.2 million higher than budget. In addition, water and wastewater revenue and Infrastructure Growth Charge (IGC) revenue were higher than budget. The increase in IGC revenue can be attributed to the increase in development activity in the Auckland region.
- Depreciation was \$10.5 million or 4.7% lower than budget. The budget assumed a higher depreciation from asset capitalisations during the year.
- Under PBE accounting standards, the company revalues its interest rate swaps to fair value. This revaluation resulted in a \$20.8 million (non-cash) write-down due to a downward move in interest rates over the year. The revaluation is a (non-cash) unbudgeted accounting adjustment, primarily reflecting a decrease in the forward interest rate curve during the year.
- The property, plant and equipment asset classes were revalued in accordance with PBE accounting standard requirements at 30 June 2018. The impact of the asset revaluation was a gain of \$735.9 million (net of tax). The main value driver for infrastructure assets can be attributed to an increase in unit rates (circa 25 to 28%), significantly more than budgeted.

Statement of financial position – extract

	2018 ACTUAL \$000	2018 BUDGET \$000	VARIANCE \$000	VARIANCE %
Total current assets	94,761	83,210	11,551	13.9%
Total non-current assets	9,992,051	9,661,444	330,607	3.4%
Total current liabilities	482,209	357,247	(124,962)	(35%)
Total non-current liabilities	2,855,681	2,912,069	56,388	1.9%
Total equity	6,748,922	6,475,338	273,584	4.2%

- Current assets were \$11.6 million higher than budget, primarily due to an increase in trade receivables, inventory for capital projects and reclassification of derivative financial instruments from non-current to current as a result of the novation of interest rate swaps to Auckland Council that was agreed prior to year-end effective from 1 July 2018.
- Non-current assets were \$330.6 million higher than budget, primarily due to an upward revaluation of property, plant and equipment asset classes.
- Current liabilities were \$125.0 million higher than budget and non-current liabilities were \$56.4 million lower than budget driven mainly from the reclassification of derivative financial instruments between current and non-current liabilities due to novation of interest rate swaps to Auckland Council effective 1 July 2018. The variance in non-current liabilities were partially offset by a higher deferred tax liability on upward revaluation of property, plant and equipment asset classes.
- Equity is higher than budget at year-end, primarily due to the higher total comprehensive revenue and expense for the year as a result of an upward revaluation of property, plant and equipment asset classes.

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.

	2018 ACTUAL \$000	2018 BUDGET \$000	VARIANCE \$000	VARIANCE %
Net cash inflows – operating activities	316,761	302,289	14,472	4.8%
Net cash outflows – investing activities	(326,223)	(371,114)	44,891	12.1%
Net cash inflows – financing activities	8,425	68,825	(60,400)	(87.8%)

- Net operating cash inflows at \$316.8 million were higher than budget, primarily due to higher receipts from customers during the year. (Refer to note 14 on page 87 for the reconciliation of net surplus after tax to operating cash flows.)
- The net cash outflow from investing activities was 12.1% lower than budget due to lower spend on capital expenditure projects during the year.
- The net cash inflow from financing activities shows a net increase in borrowings in 2018 from the prior year of \$8.4 million, being lower than budget due to higher operating cash inflows and 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 or 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

	WATER 2018 \$000	WASTEWATER 2018 \$000	TOTAL 2018 \$000	WATER 2017 \$000	WASTEWATER 2017 \$000	TOTAL 2017 \$000
Revenue						
Water and wastewater	157,792	332,745	490,537	148,313	318,604	466,917
Other revenue	70,720	80,329	151,049	83,679	80,413	164,092
Total revenue	228,512	413,074	641,586	231,992	399,017	631,009
Operating expenses						
Asset operating costs	(19,583)	(37,331)	(56,914)	(17,928)	(36,946)	(54,874)
Maintenance costs	(22,805)	(21,174)	(43,979)	(19,771)	(19,859)	(39,630)
Employee benefit expenses	(24,081)	(44,349)	(68,430)	(25,687)	(43,645)	(69,332)
Other expenses	(16,467)	(31,835)	(48,302)	(17,028)	(32,616)	(49,644)
Total operating expenses	(82,936)	(134,689)	(217,625)	(80,414)	(133,066)	(213,480)
Depreciation	(98,251)	(114,405)	(212,656)	(98,662)	(121,631)	(220,293)
Amortisation	(2,053)	(5,270)	(7,323)	(2,426)	(5,405)	(7,831)
Finance costs	(12,930)	(69,180)	(82,110)	(12,445)	(68,323)	(80,768)
Total expenses	(196,170)	(323,544)	(519,714)	(193,947)	(328,425)	(522,372)
Operating surplus from trading operations	32,342	89,530	121,872	38,045	70,592	108,637
Net loss on disposal of and provision for redundant property, plant and equipment, and restructuring costs	(4,211)	(4,277)	(8,488)	(3,778)	(5,556)	(9,334)
Net (loss) / gain on revaluation of derivative financial instruments	(3,526)	(17,282)	(20,808)	13,895	73,651	87,546
Operating surplus before tax	24,605	67,971	92,576	48,162	138,687	186,849
Income tax expense	(10,503)	(27,642)	(38,145)	(16,394)	(45,769)	(62,163)
Net surplus for the year	14,102	40,329	54,431	31,768	92,918	124,686
Other comprehensive revenue and expense net of tax						
Gain on revaluation of property, plant and equipment	326,458	409,457	735,915	–	–	–
Other comprehensive revenue and expense for the year, net of tax	326,458	409,457	735,915	–	–	–
Total comprehensive revenue and expense for the year attributable to owners of the parent, net of tax	340,560	449,786	790,346	31,768	92,918	124,686

3. Business unit reporting (continued)**Business unit financial position**

	WATER 2018 \$000	WASTEWATER 2018 \$000	TOTAL 2018 \$000	WATER 2017 \$000	WASTEWATER 2017 \$000	TOTAL 2017 \$000
Assets						
Current						
Current assets	37,854	56,907	94,761	28,440	54,181	82,621
Total current assets	37,854	56,907	94,761	28,440	54,181	82,621
Non-current						
Property, plant and equipment	4,283,273	5,630,492	9,913,765	3,788,050	4,988,999	8,777,049
Intangible assets	10,477	32,812	43,289	11,202	34,362	45,564
Inventories	4,280	6,873	11,153	4,244	4,199	8,443
Prepaid expenses	–	23,844	23,844	–	23,641	23,641
Derivative financial instruments	–	–	–	1,315	6,912	8,227
Total non-current assets	4,298,030	5,694,021	9,992,051	3,804,811	5,058,113	8,862,924
Total assets	4,335,884	5,750,928	10,086,812	3,833,251	5,112,294	8,945,545
Liabilities						
Current						
Current liabilities	92,151	390,058	482,209	71,283	289,432	360,715
Total current liabilities	92,151	390,058	482,209	71,283	289,432	360,715
Non-current						
Borrowings	185,286	1,284,199	1,469,485	201,132	1,172,941	1,374,073
Derivative financial instruments	–	–	–	27,167	142,733	169,900
Deferred tax liability	438,039	924,505	1,362,544	336,819	723,545	1,060,364
Trade and other payables for exchange transactions	456	1,123	1,579	992	1,194	2,186
Accrued expenses	8,798	6,044	14,842	4,681	8,036	12,717
Provisions	552	6,679	7,231	554	6,460	7,014
Total non-current liabilities	633,131	2,222,550	2,855,681	571,345	2,054,909	2,626,254
Total liabilities	725,282	2,612,608	3,337,890	642,628	2,344,341	2,986,969
Equity attributable to owners of the parent	3,610,602	3,138,320	6,748,922	3,190,623	2,767,953	5,958,576
Total equity and liabilities	4,335,884	5,750,928	10,086,812	3,833,251	5,112,294	8,945,545

Business unit cash flows

	WATER 2018 \$000	WASTEWATER 2018 \$000	TOTAL 2018 \$000	WATER 2017 \$000	WASTEWATER 2017 \$000	TOTAL 2017 \$000
Net cash inflows – operating activities	121,693	195,068	316,761	118,668	156,840	275,508
Net cash outflows – investing activities	(62,709)	(263,514)	(326,223)	(89,392)	(212,719)	(302,111)
Net cash out / inflows – financing activities	(59,163)	67,588	8,425	(29,122)	56,685	27,563
Net change in cash flows	(179)	(858)	(1,037)	154	806	960

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 REMAINING USEFUL LIVES IN YEARS	
			2018	2017
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	up to 80	up to 80
Pipelines	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 166	up to 166
Tanks, tunnels, roads and reservoirs	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 98	up to 94
Dams	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 200	up to 200
Landfill	Infrastructure asset	Cost less accumulated depreciation and impairment losses	up to 35	up to 35
Machinery	Infrastructure asset	Fair value which is deemed to be depreciated replacement cost, less accumulated depreciation	up to 200	up to 200
Motor vehicles	Operational asset	Cost less accumulated depreciation and impairment losses	up to 22	up to 22
Office equipment	Operational asset	Cost less accumulated depreciation and impairment losses	up to 28	up to 28
Capital work in progress	Infrastructure assets mainly	Cost less accumulated impairment losses	–	–

Forestry assets owned by the company 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, page 74 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 2018 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 2018 by Beca. By the nature of Watercare's business the infrastructure assets are of a specialised nature, which are rarely traded in the marketplace; 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 during the period were:

- 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 2018 quarter and an estimate was made for the June 2018 quarter).
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

A revaluation of infrastructure assets was completed in the 2018 financial year. This is in line with group policy of having revaluations carried out at least every three years.

Depreciation

Depreciation is provided on a straight-line basis on all PPE, 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 \$000	BUILDINGS \$000	PIPELINES \$000	TANKS, TUNNELS, ROADS AND RESERVOIRS \$000	DAMS \$000	LANDFILL \$000	MACHINERY \$000	MOTOR VEHICLES \$000	OFFICE EQUIPMENT \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL \$000
Balance at 1 July 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)
Net book value	179,527	81,608	6,022,938	688,745	230,658	45,952	931,743	9,745	12,782	450,424	8,654,122
Year ended 30 June 2017											
Additions to work in progress	–	–	–	–	–	–	–	–	–	301,632	301,632
Additions to PPE	18,000	–	57,167	1,286	–	1,611	4,053	–	–	–	82,117
Transfers from work in progress	14,830	7,679	176,413	–	2,979	5,059	52,554	2,810	4,107	(277,122)	(10,691)
Disposals	(16,492)	(50)	(5,275)	(21)	–	–	(2,706)	(96)	(2)	–	(24,642)
Revaluation	–	–	–	–	–	–	–	–	–	–	–
Impairment	(2,965)	–	–	–	–	–	–	–	(647)	(1,606)	(5,218)
Transfer from / (to) other classes	–	–	1,324	(1,346)	–	–	44	–	–	–	22
Depreciation	–	(2,178)	(148,935)	(11,304)	(2,010)	(2,042)	(48,330)	(1,920)	(3,574)	–	(220,293)
Closing carrying amount	192,900	87,059	6,103,632	677,360	231,627	50,580	937,358	10,539	12,666	473,328	8,777,049
Balance at 30 June 2017											
Cost or valuation	192,900	89,238	6,388,533	699,859	235,604	57,251	1,035,214	18,347	29,919	473,328	9,220,193
Accumulated depreciation	–	(2,179)	(284,901)	(22,499)	(3,977)	(6,671)	(97,856)	(7,808)	(17,253)	–	(443,144)
Carrying amount	192,900	87,059	6,103,632	677,360	231,627	50,580	937,358	10,539	12,666	473,328	8,777,049
Year ended 30 June 2018											
Additions to work in progress	–	–	–	–	–	–	–	–	–	342,426	342,426
Additions to PPE	–	118	28,889	131	–	–	1,063	–	–	–	30,201
Transfers from work in progress	7,784	4,858	87,904	9,258	394	4,106	232,654	2,446	6,887	(361,424)	(5,133)
Disposals	(3,750)	–	(8,876)	(521)	–	–	(2,130)	(116)	(176)	–	(15,569)
Revaluation	56,989	9,506	873,501	131	41,449	–	18,365	–	–	–	999,941
Impairment	–	–	–	–	–	–	–	–	(22)	(2,472)	(2,494)
Transfer from / (to) other classes	–	(101)	–	–	–	–	(974)	–	1,075	–	–
Depreciation	–	(2,288)	(136,558)	(11,481)	(2,024)	(1,995)	(51,659)	(2,339)	(4,312)	–	(212,656)
Closing carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765
Balance at 30 June 2018											
Cost or valuation	253,923	99,192	6,949,495	675,019	271,446	61,357	1,142,887	20,078	34,761	451,858	9,960,016
Accumulated depreciation	–	(40)	(1,003)	(141)	–	(8,666)	(8,210)	(9,548)	(18,643)	–	(46,251)
Carrying amount	253,923	99,152	6,948,492	674,878	271,446	52,691	1,134,677	10,530	16,118	451,858	9,913,765

4. Property, plant and equipment (continued)

Service concession assets – included in the previous page

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 92. 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 \$000	MACHINERY \$000	TOTAL \$000
Balance at 1 July 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
Year ended 30 June 2017			
Additions to PPE	7,256	693	7,949
Disposals	(133)	–	(133)
Depreciation	(3,516)	(182)	(3,698)
Closing carrying amount	156,712	4,521	161,233
Balance at 30 June 2017			
Cost or valuation	163,738	4,868	168,606
Accumulated depreciation	(7,026)	(347)	(7,373)
Carrying amount	156,712	4,521	161,233
Year ended 30 June 2018			
Additions to PPE	1,976	–	1,976
Disposals	(5)	–	(5)
Revaluation	22,794	221	23,015
Depreciation	(47)	–	(47)
Closing carrying amount	181,430	4,742	186,172
Balance at 30 June 2018			
Cost or valuation	181,477	4,742	186,219
Accumulated depreciation	(47)	–	(47)
Carrying amount	181,430	4,742	186,172

4. Property, plant and equipment (continued)

Capital work in progress (WIP)

WORK IN PROGRESS RELATES TO THE FOLLOWING PROJECTS:	2018 \$000	2017 \$000
Water treatment plant	42,639	38,239
Wastewater treatment plant	124,187	175,768
Wastewater pump station and sewer	139,953	166,146
Watermains, pump stations and reservoirs	87,019	60,158
Dams and raw water transmission pipelines	2,100	3,111
Other	55,960	29,906
Total work in progress	451,858	473,328

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 assets 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 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 \$000	BUILDINGS \$000	PIPELINES \$000	TANKS, TUNNELS, ROADS AND RESERVOIRS \$000	DAMS \$000	MACHINERY \$000	TOTAL \$000
Balance at 1 July 2016	94,837	24,675	1,169,985	325,275	100,856	124,299	1,839,927
Revaluation during the year – net of deferred tax	–	–	–	–	–	–	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(6,635)	57	(1,778)	(20)	–	(1,356)	(9,732)
Balance at 30 June 2017	88,202	24,732	1,168,207	325,255	100,856	122,943	1,830,195

	LAND \$000	BUILDINGS \$000	PIPELINES \$000	TANKS, TUNNELS, ROADS AND RESERVOIRS \$000	DAMS \$000	MACHINERY \$000	TOTAL \$000
Balance at 1 July 2017	88,202	24,732	1,168,207	325,255	100,856	122,943	1,830,195
Revaluation during the year – net of deferred tax	56,989	6,844	628,921	94	29,844	13,223	735,915
Transfer (to) / from other classes	–	735	–	–	–	(735)	–
Transferred to retained earnings on disposal of property, plant and equipment (net of tax)	(2,842)	(21)	1,701	1,565	–	4,192	4,595
Balance at 30 June 2018	142,349	32,290	1,798,829	326,914	130,700	139,623	2,570,705

7. Intangible assets

Measurement

Intangible assets are initially recorded at cost.

ASSET CLASS	SUBSEQUENT MEASUREMENT BASIS	ESTIMATED REMAINING USEFUL LIVES IN YEARS	
		2018	2017
Network models	Cost less accumulated amortisation and impairment losses	up to 10	up to 10
Computer software	Cost less accumulated amortisation and impairment losses	up to 10	up to 10
Resource consents	Cost less accumulated amortisation and impairment losses	up to 35	up to 35

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.

CARRYING AMOUNT	NETWORK MODELS \$000	COMPUTER SOFTWARE \$000	RESOURCE CONSENTS \$000	EASEMENTS \$000	TOTAL \$000
Balance at 1 July 2016					
Cost	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
Year ended 30 June 2017					
Transferred from work in progress	351	7,439	2,808	93	10,691
Impairment	–	(154)	–	–	(154)
Transfer from / (to) other classes	–	(22)	–	–	(22)
Amortisation	(846)	(5,860)	(1,125)	–	(7,831)
Closing carrying amount	3,012	12,297	29,067	1,188	45,564
Balance at 30 June 2017					
Cost	5,299	56,297	38,244	1,188	101,028
Accumulated amortisation	(2,287)	(44,000)	(9,177)	–	(55,464)
Carrying amount	3,012	12,297	29,067	1,188	45,564
Year ended 30 June 2018					
Transferred from work in progress	739	1,269	2,908	215	5,131
Impairment	(17)	(66)	–	–	(83)
Amortisation	(690)	(5,143)	(1,490)	–	(7,323)
Closing carrying amount	3,044	8,357	30,485	1,403	43,289
Balance at 30 June 2018					
Cost or valuation	5,742	55,287	41,152	1,403	103,584
Accumulated amortisation	(2,698)	(46,930)	(10,667)	–	(60,295)
Carrying amount	3,044	8,357	30,485	1,403	43,289

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% of total tangible assets.
- Total liabilities plus total contingent liabilities do not exceed 65% 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% of total tangible assets of the borrowing group.

All of these ratios have been met for the years ended 30 June 2018 and 30 June 2017. 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. Also refer to note 28, page 98.

	2018			2017		
	FACE VALUE \$000	UNAMORTISED COST \$000	CARRYING VALUE \$000	FACE VALUE \$000	UNAMORTISED COST \$000	CARRYING VALUE \$000
Current						
Related party term loan (unsecured)	1,491	–	1,491	80,839	–	80,839
Medium-term notes (unsecured)	125,000	97	125,097	–	292	292
Commercial paper (unsecured)	–	–	–	150,000	(764)	149,236
Bank loan (unsecured)	16,500	–	16,500	–	–	–
Total current borrowings	142,991	97	143,088	230,839	(472)	230,367
Non-current						
Related party term loan (unsecured)	1,469,485	–	1,469,485	1,220,976	–	1,220,976
Medium-term notes (unsecured)	–	–	–	125,000	97	125,097
Bank loan (unsecured)	–	–	–	28,000	–	28,000
Total non-current borrowings	1,469,485	–	1,469,485	1,373,976	97	1,374,073
Total borrowings	1,612,476	97	1,612,573	1,604,815	(375)	1,604,440

8. Borrowings (continued)

INTEREST RATES AT BALANCE DATE:	2018 %	2017 %
Related-party term loan		
Weighted average	3.18	3.35
Average including interest rate swaps	6.19	6.34
Medium-term notes		
Weighted average	5.49	5.49
Weighted average including interest rate swaps	3.41	3.34
Bank loan		
Weighted average	2.51	2.51
Weighted average including interest rate swaps	2.51	2.51
Commercial paper		
Weighted average	–	2.02
Weighted average including interest rate swaps	–	4.73
Total debt		
Weighted average	3.35	3.38
Weighted average including interest rate swaps	5.94	5.89

The group had the following undrawn committed facilities available:

	2018 \$000	2017 \$000
Bank overdraft facility; expires on cancellation	1,377	2,000
Revolving advances; expires July 2018 (2017: expires November 2018)	43,500	32,000
Commercial paper stand-by facility; expires June 2020 (2017: expires June 2020)	150,000	150,000
Total undrawn committed facilities	194,877	184,000

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% 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 2018 and 30 June 2017.

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 3.37% (2017: 3.61%) was used to determine the amount of capitalised interest. All other finance costs are expensed in the period in which they occur.

	2018 \$000	2017 \$000
Interest on bank overdraft and borrowings, paid and payable	93,593	90,510
Capitalised interest on construction of property, plant and equipment, and intangibles	(11,483)	(9,742)
Net finance costs	82,110	80,768

10. Financial instruments and risk management

Risk management objectives and policies

The group's management monitors and manages 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 and foreign exchange options
Credit risk	Cash and cash equivalents, trade receivables from exchange transactions and derivatives	Credit ratings	Credit limits, performance guarantees and third-party bonds
Liquidity risk	Maturing liabilities and timing mismatches between revenue and expenses	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The group's risk management is carried out by a treasury function (Treasury) 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 risks 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.

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 to fixed rates, 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 or deficit.

10. Financial instruments and risk management (continued)

The group's exposure to market interest rates relates primarily to the group's debt obligations, which are disclosed in note 8, page 76. The notional amounts and fixed interest rates in place at balance date to manage interest rate risk were as follows:

	2018		2017	
	FIXED INTEREST RATE %	NOTIONAL AMOUNT \$000	FIXED INTEREST RATE %	NOTIONAL AMOUNT \$000
INTEREST RATE SWAPS				
Receivable maturities (fixed to floating):				
Within one year*	5.80	225,000	–	–
One to two years	–	–	5.69	125,000
Four to five years	–	–	5.94	50,000
Beyond five years	–	–	6.24	60,000
Payable maturities (floating to fixed):				
Within one year*	5.12	1,600,000	3.55	25,000
One to two years	–	–	5.62	105,000
Two to three years	–	–	4.06	20,000
Three to four years	–	–	4.14	125,000
Four to five years	–	–	4.55	230,000
Beyond five years	–	–	5.34	1,140,000

	2018			2017		
	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT \$000	CAP RATE %	FLOOR RATE %	NOTIONAL AMOUNT \$000
INTEREST RATE 'COLLAR' OPTION						
Within one year*	5.25	4.35	50,000	–	–	–
Four to five years	–	–	–	5.25	4.35	50,000

* All interest rate swaps and interest rate 'collar' option has been novated to Auckland Council. This was agreed prior to year-end and is effective from 1 July 2018; refer to note 28, page 98.

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, the post-tax surplus or deficit and equity would have been affected as follows:

	2018		2017	
	POST-TAX SURPLUS HIGHER / (LOWER) \$000	EQUITY HIGHER / (LOWER) \$000	POST-TAX SURPLUS HIGHER / (LOWER) \$000	EQUITY HIGHER / (LOWER) \$000
SENSITIVITY TO POSSIBLE MOVEMENTS:				
Interest paid				
1% (100 basis points) higher for the year	(803)	(803)	(850)	(850)
1% (100 basis points) lower for the year	803	803	850	850
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	67,625	67,625	72,473	72,473
1% (100 basis points) lower at year-end	(73,969)	(73,969)	(79,968)	(79,968)

10. Financial instruments and risk management (continued)

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 (2017: NZ\$250,000), the group manages this risk with forward foreign exchange contracts or options.

The group had no forward foreign exchange contracts at balance date. Prior year forward foreign exchange contracts were as follows:

	AVERAGE EXCHANGE RATE	FOREIGN CURRENCY (FC) 000	CONTRACT VALUE NZ\$000	MARK-TO- MARKET GAIN / (LOSS) NZ\$000
2017				
Australian dollar (AUD)				
Less than three months	0.9559	120	126	1
Three months and beyond	0.9500	460	484	(1)
Total forward foreign exchange contracts			610	-

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, the post-tax surplus or deficit and equity would have been affected as follows:

	2018		2017	
	POST-TAX SURPLUS HIGHER / (LOWER) \$000	EQUITY HIGHER / (LOWER) \$000	POST-TAX SURPLUS HIGHER / (LOWER) \$000	EQUITY HIGHER / (LOWER) \$000
SENSITIVITY TO POSSIBLE MOVEMENTS:				
Change in Australian dollar exchange rate				
10% increase	-	-	(40)	(40)
10% decrease	-	-	49	49

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:

	2018			2017		
	CARRYING AMOUNT \$000	PROVISION FOR DOUBTFUL DEBTS \$000	NET CARRYING AMOUNT \$000	CARRYING AMOUNT \$000	PROVISION FOR DOUBTFUL DEBTS \$000	NET CARRYING AMOUNT \$000
Not past due	33,285	-	33,285	29,083	-	29,083
Past due 1 to 30 days	4,392	(49)	4,343	4,456	(16)	4,440
Past due 30 to 60 days	1,805	(94)	1,711	1,189	(69)	1,120
Past due more than 60 days	6,175	(1,481)	4,694	4,428	(871)	3,557
Total	45,657	(1,624)	44,033	39,156	(956)	38,200

10. Financial instruments and risk management (continued)

	2018 \$000	2017 \$000
MOVEMENT IN THE PROVISION FOR DOUBTFUL DEBTS		
Balance at 1 July	956	1,193
Additions during the year	797	19
Bad debts written off	(129)	(256)
Balance at 30 June	1,624	956

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 from 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 \$150 million (2017: \$150 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

	CURRENT		NON-CURRENT			GROSS NOMINAL CASH OUTFLOW \$000	CARRYING AMOUNT \$000
	0-6 MONTHS \$000	7-12 MONTHS \$000	1-2 YEARS \$000	2-3 YEARS \$000	OVER 3 YEARS \$000		
2018							
Financial liabilities							
Bank overdraft	623	-	-	-	-	623	618
Trade and other payables for exchange transactions	15,772	865	1,579	-	-	18,216	18,216
Accrued expenses*	62,864	-	-	-	-	62,864	62,864
Interest rate swaps**	-	-	-	-	-	-	221,476
Interest rate 'collar' option**	-	-	-	-	-	-	4,532
Borrowings	143,751	-	-	1,602,135	-	1,745,886	1,612,573
Total	223,010	865	1,579	1,602,135	-	1,827,589	1,920,279

10. Financial instruments and risk management (continued)**Gross contractual maturity analysis (continued)**

	CURRENT		NON-CURRENT			GROSS NOMINAL CASH OUTFLOW \$000	CARRYING AMOUNT \$000
	0-6 MONTHS \$000	7-12 MONTHS \$000	1-2 YEARS \$000	2-3 YEARS \$000	OVER 3 YEARS \$000		
2017							
Financial liabilities							
Trade and other payables for exchange transactions	13,461	721	2,139	47	-	16,368	16,368
Accrued expenses*	56,099	-	-	-	-	56,099	56,099
Forward exchange contracts	1	-	-	-	-	1	1
Interest rate swaps	22,294	22,201	36,475	32,767	195,456	309,193	203,985
Interest rate 'collar' option	588	572	890	798	1,126	3,974	4,532
Borrowings	255,710	25,028	284,228	242,300	1,154,125	1,961,391	1,604,440
Total	348,153	48,522	323,732	275,912	1,350,707	2,347,026	1,885,425

* Excludes current and non-current revenue received in advance of \$36.8 million (2017: \$25.4 million) as it was not categorised as a financial liability; refer to note 21, page 92.

** All interest rate swaps and interest rate 'collar' option has been novated to Auckland Council, effective 1 July 2018. Contractual cash flows on these derivative financial instruments will be assumed by Auckland Council; refer to note 28, page 98.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had \$194.9 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2017: \$184 million).

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

Amortised cost

Because of the 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 2018 or 30 June 2017.

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.

10. Financial instruments and risk management (continued)

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.

The group'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 the group 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 2018. Fair values at balance date were assessed using a range of market interest rates of between 2.06% and 3.28% (2017: 2.08% and 3.59%), derived from the interest rate swap curve.

Financial assets and liabilities

	2018		2017	
	CARRYING AMOUNT \$000	FAIR VALUE \$000	CARRYING AMOUNT \$000	FAIR VALUE \$000
Financial assets – current				
Loans and receivables				
Cash and cash equivalents	126	126	545	545
Trade and other receivables from exchange transactions	71,843	71,843	66,698	66,698
Fair value through surplus or deficit				
Derivative financial instruments**	9,116	9,116	4,207	4,207
Financial assets – non-current				
Fair value through surplus or deficit				
Derivative financial instruments**	–	–	8,227	8,227
Total financial assets	81,085	81,085	79,677	79,677
Financial liabilities – current				
Amortised cost				
Trade and other payables for exchange transactions	16,637	16,637	14,182	14,182
Accrued expenses*	62,864	62,864	56,099	56,099
Bank overdraft (unsecured)	618	618	–	–
Related party term loan (unsecured)	1,491	1,491	80,839	81,969
Medium-term notes (unsecured)	125,097	127,773	292	292
Bank loan (unsecured)	16,500	16,501	–	–
Commercial paper (unsecured)	–	–	149,236	149,595
Fair value through surplus or deficit				
Derivative financial instruments **	226,008	226,008	38,618	38,618
Financial liabilities – non-current				
Amortised cost				
Trade and other payables for exchange transactions	1,579	1,579	2,186	2,186
Related party term loan (unsecured)	1,469,485	1,476,028	1,220,976	1,236,010
Medium-term notes (unsecured)	–	–	125,097	131,510
Bank loan (unsecured)	–	–	28,000	28,002
Fair value through surplus or deficit				
Derivative financial instruments**	–	–	169,900	169,900
Total financial liabilities	1,920,279	1,929,499	1,885,425	1,908,363

* Excludes current and non-current revenue received in advance of \$36.8 million (2017: \$25.4 million) as it was not categorised as a financial liability; refer to note 21, page 92.

** Derivative financial instruments comprising interest rate swaps and interest rate 'collar' option have been reclassified from non-current to current component of financial assets and liabilities due to the novation to Auckland Council effective 1 July 2018; refer to note 28, page 98.

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 61, and debt including borrowings and covenants compliance as disclosed in note 8 on pages 76 and 77.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. In ensuring that the group has sufficient solvency to satisfy all its operational needs, management 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 while 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 2018 and 30 June 2017.

11. Revaluation of derivative financial instruments

	2018 \$000	2017 \$000
Interest rate swaps contracts loss / (gain)	20,808	(87,553)
Forward foreign exchange contracts loss	–	7
Net revaluation loss / (gain)	20,808	(87,546)

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 readings are 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 the 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 is recognised when payment is received for approved connections.

12. Revenue (continued)**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 the 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 are not classified as capital expenditure.

	NOTE	2018 \$000	2017 \$000
Revenue from exchange transactions			
Revenue from sale of goods			
Water revenue – gross		159,845	149,923
Water leak remission		(2,053)	(1,610)
Water revenue – net of leak remissions		157,792	148,313
Revenue from sale of services			
Wastewater revenue – gross		337,829	322,521
Wastewater leak remission		(5,084)	(3,917)
Wastewater revenue – net of leak remissions		332,745	318,604
Total water and wastewater revenue – net of leak remissions		490,537	466,917
New meters and service connections		11,972	10,585
Laboratory revenue		6,249	6,464
Total revenue from sale of goods and services		508,758	483,966
Infrastructure Growth Charge revenue		89,148	79,115
Dividend income		113	111
Subvention income	NOTE 15, PAGE 88	7,049	2,139
Interest income		10	43
Other revenue		6,307	4,715
Total other revenue from exchange transactions		102,627	86,123
Total revenue from exchange transactions		611,385	570,089
Revenue from non-exchange transactions			
Transfers revenue			
Vested assets revenue		30,201	60,920
Total revenue from non-exchange transactions		30,201	60,920
Total revenue		641,586	631,009

13. Operating expenses

	NOTES	2018 \$000	2017 \$000
Operating expenses include:			
Auditor's remuneration			
• annual audit and review of the financial statements – Deloitte		619	583
• audit of financial statements – Office of the Auditor-General (OAG) contribution		39	38
• other services – Deloitte		466	302
Directors and trustees' fees	NOTE 27, PAGE 97	486	484
Environmentally significant costs			
• chemicals		11,513	11,034
• energy		17,891	17,270
Cost of consumables and spare parts consumed	NOTE 18, PAGE 90	15,952	15,679
Operating leases and rent		6,707	5,813
Increase in provision for doubtful debts	NOTE 10, PAGE 81	797	19
Bad debts written off	NOTE 10, PAGE 81	129	256
Salaries and wages			
• paid to employees		85,501	81,487
• capitalised on construction of property, plant and equipment		(20,621)	(15,280)
• included in employee benefit expenses		64,880	66,207

Auditor's remuneration for other services relates to a review of ERP systems, cybersecurity advice including planning and implementation, cyber strategy and framework advisory, Central Interceptor supplier procurement and tax advisory. Prior year fees for other services provided by the auditor relate to a review of ERP systems, cybersecurity advice including planning and implementation, tax advisory and negative pledge reporting.

14. Reconciliation of operating cash flows

	2018 \$000	2017 \$000
Reconciliation of net surplus after tax to net cash flows from operating activities		
Net surplus for the year	54,431	124,686
Non-cash and non-operating items:		
Depreciation and amortisation	219,979	228,124
Net loss on disposal of and provision for redundant property, plant and equipment	7,031	9,122
Vested assets revenue	(30,201)	(60,920)
Net loss / (gain) on revaluation of derivative financial instruments	20,808	(87,546)
Medium-term notes premium amortisation and time value of money charges	(292)	(278)
Deferred tax	38,145	62,163
Movements in working capital:		
(Increase) / decrease in assets:		
Inventories	1,633	(3,257)
Trade and other receivables from exchange transactions	7,322	3,150
Prepaid expenses	(744)	702
Increase / (decrease) in liabilities:		
Trade and other payables for exchange transactions	(1,711)	439
Accrued expenses	(1,064)	(2,740)
Provisions	1,424	1,863
Net cash inflows from operating activities	316,761	275,508

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 2018, Watercare agreed to a maximum of tax losses to be sold to Auckland Council tax group of \$52 million (2017: \$49 million), of which, \$6.5 million (2017: \$6.2 million) was accrued as subvention and the balance of \$45.5 million (2017: \$42.8 million) was recognised as an estimated loss offset with Auckland Council tax group.

For the year ended 30 June 2018, Watercare received a cash payment of \$6.7 million (2017: \$3.9 million) from Auckland Council tax group with a tax impact of \$52.9 million (2017: \$31 million).

This has resulted in subvention income of \$7 million (net) being recognised in the financial statements reflecting the \$6.5 million accrual at 30 June 2018 and under accrual of \$0.5 million at 30 June 2017.

	2018 \$000	2017 \$000
Operating surplus before tax	92,576	186,849
Income tax calculated at current tax rate of 28%	25,921	52,318
Increase / (decrease) in income tax due to:		
• Dividend and other income exempt from taxation	(4,752)	(1,433)
• Assessable income	–	4,168
• Non-deductible expenses	1,481	2,012
• Imputation credits on dividends received	(43)	(42)
• Prior year and other adjustments	(119)	386
• Release of unused tax provision	(8)	–
• Subvention income and tax loss offset with Auckland Council tax group	15,665	4,754
Tax effect of non-deductible items and prior period adjustments	12,224	9,845
Income tax expense	38,145	62,163
Represented by:		
Current tax	(8)	–
Deferred tax	38,153	62,163
Total income tax expense	38,145	62,163

Imputation credits

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

	2018 \$000	2017 \$000
Total imputation credits	30,521	30,478

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 arise because the carrying value of property, plant and equipment is higher for accounting purposes than it is 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 the 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.

(i) Recognised deferred tax assets and liabilities

	2018 ASSETS \$000	2017 ASSETS \$000	2018 LIABILITIES \$000	2017 LIABILITIES \$000	2018 NET \$000	2017 NET \$000
Property, plant and equipment	–	–	(1,661,467)	(1,352,628)	(1,661,467)	(1,352,628)
Financial instruments	60,730	54,904	–	–	60,730	54,904
Employee benefits and other provisions	3,315	2,890	–	–	3,315	2,890
Tax losses	257,406	253,702	–	–	257,406	253,702
Other	–	–	(22,528)	(19,232)	(22,528)	(19,232)
Total	321,451	311,496	(1,683,995)	(1,371,860)	(1,362,544)	(1,060,364)

(ii) Movement in deferred tax

	PROPERTY, PLANT AND EQUIPMENT \$000	FINANCIAL INSTRUMENTS \$000	EMPLOYEE ENTITLEMENTS AND OTHER PROVISIONS \$000	TAX LOSSES \$000	OTHER \$000	TOTAL \$000
Balance as at 1 July 2016	1,305,383	(79,416)	(2,698)	(241,417)	16,349	998,201
Charged / (credited) to comprehensive revenue and expense	47,245	24,512	(192)	(12,285)	2,883	62,163
Charged to other comprehensive revenue and expense, resulting from revaluation	–	–	–	–	–	–
Balance as at 30 June 2017	1,352,628	(54,904)	(2,890)	(253,702)	19,232	1,060,364
Balance as at 1 July 2017	1,352,628	(54,904)	(2,890)	(253,702)	19,232	1,060,364
Charged / (credited) to comprehensive revenue and expense	44,812	(5,826)	(425)	(3,704)	3,296	38,153
Charged to other comprehensive revenue and expense, resulting from revaluation	264,027	–	–	–	–	264,027
Balance as at 30 June 2018	1,661,467	(60,730)	(3,315)	(257,406)	22,528	1,362,544

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 (2017: 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 78.)

CURRENT	2018 \$000	2017 \$000
Trade receivables	44,500	37,669
Trade receivables – related parties	1,157	1,487
Provision for doubtful debts	(1,624)	(956)
	44,033	38,200
Other receivables – related parties	6,555	6,577
Other receivables	–	2,516
Unbilled revenue accrual	21,255	19,405
Trade and other receivables from exchange transactions	71,843	66,698

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 \$16.0 million (2017: \$15.7 million).

	2018 \$000	2017 \$000
Spare parts at cost	6,098	5,743
Consumables at cost	3,705	3,429
Treated water at cost	850	864
Project stock	12,335	8,218
Provision for obsolescence	(937)	(877)
Total	22,051	17,377
Represented as:		
Current inventory	10,898	8,934
Non-current inventory	11,153	8,443
Total	22,051	17,377

19. Trade and other payables for exchange transactions

Trade and other payables for exchange transactions are unsecured and usually paid within 30 days (2017: 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.

	2018 \$000	2017 \$000
Current		
Trade creditors	7,982	7,656
Trade creditors – related parties	53	109
Contract retentions	4,273	4,461
Other payables	4,329	1,956
Total current trade and other payables for exchange transactions	16,637	14,182
Non-current		
Contract retentions	1,579	2,186
Total non-current trade and other payables for exchange transactions	1,579	2,186
Total trade and other payables for exchange transactions	18,216	16,368

20. Prepaid expenses

	2018 \$000	2017 \$000
Current		
Puketutu Island lease	443	443
Other prepaid expenses	2,335	1,794
Total current prepaid expenses	2,778	2,237
Non-current		
Puketutu Island lease	20,851	21,294
Other prepaid expenses	2,993	2,347
Total non-current prepaid expenses	23,844	23,641
Total prepaid expenses	26,622	25,878

Prepayments include an amount 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. Other prepaid expenses relate mainly to prepaid insurance, biosolids levy and software licensing fees.

21. Accrued expenses

	2018 \$000	2017 \$000
Current		
Capital work in progress accruals	34,125	26,321
Interest payable	11,377	11,501
Revenue received in advance	21,919	12,724
Operating costs accruals	17,362	18,277
Total current accrued expenses	84,783	68,823
Non-current		
Revenue received in advance	14,842	12,717
Total non-current accrued expenses	14,842	12,717
Total accrued expenses	99,625	81,540

Revenue received in advance includes \$7.5 million (2017: \$7.7 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 related party accruals. (Refer to note 23, page 94 for a breakdown of related party 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 the group 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, it is probable that there will be a future outflow of resources, and that the amount of the provision can be reliably measured.

	2018 \$000	2017 \$000
Current		
Employee entitlements	8,053	7,844
Decommissioning costs	27	131
Other provisions	2,995	750
Total current provisions	11,075	8,725
Non-current		
Employee entitlements	1,717	1,744
Decommissioning costs	5,514	5,270
Total non-current provisions	7,231	7,014
Total provisions	18,306	15,739

	EMPLOYEE ENTITLEMENTS \$000	DECOMMISSIONING COSTS \$000	OTHER PROVISIONS \$000	TOTAL \$000
Balance at 1 July 2017	9,588	5,401	750	15,739
Additions during the year	10,484	244	2,995	13,723
Reductions resulting from payments	(10,302)	(104)	(597)	(11,003)
Unused provisions reversed during the year	–	–	(153)	(153)
Balance at 30 June 2018	9,770	5,541	2,995	18,306

The group is currently depositing biosolids on Puketutu Island in Māngere, 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 the 2046 to 2055 financial years, with a net present value at balance date of \$5.5 million (2017: \$5.3 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 4.75% 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; therefore, an estimate has been made based on the information available at balance date.

Other provisions of \$3.0 million relate to claims made by contractors in respect of capital projects and the business operating model restructure (2017: \$0.8 million).

23. Equity and related parties

Equity

Watercare is 100% owned by Auckland Council. The total number of authorised and issued shares at balance date was 260,693,164 (2017: 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 78.

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 four 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 Trust subsidiaries in the form of grants; this is treated as expenditure in the company's books and as revenue in the Trust subsidiaries' books. On consolidation, this expenditure is offset by the revenue in the subsidiaries' books while 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 2018, two of the five trustees on the board were current Watercare employees.

Auckland City Water Limited

Auckland City Water Limited is 100% owned (2017: 100%) by Watercare and it is a non-trading company.

Hūnua Forests Limited

On 23 January 2017 Watercare purchased 100% of the shares of Waytemore Forests Limited. That company's name was subsequently changed to Hūnua Forests Limited (HFL). The assets of the company were primarily forestry rights relating to forested areas in and close to the Hūnua water catchment. These assets are held within the land asset class which are disclosed in the PPE movements schedule in note 4 on page 71. Although the whole company was acquired, the transaction was accounted for as an asset acquisition, because the main commercial objective of the transaction was to acquire the forestry rights held by HFL in the Hūnua water catchment area. The rights will be amended to protect the catchment area from future contamination risks and to improve security of water supply.

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 8, page 76. With centralised treasury function effective 1 July 2018, inter-company interest rate swaps with Auckland Council were closed out during the year. Loss on the close-out of \$1 million is recorded in the statement of comprehensive revenue and expense. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2018 \$000	2017 \$000
Loans from Auckland Council, balance at 30 June	1,470,976	1,301,815
Interest payable on loans from Auckland Council	6,554	5,802
Interest expense on loans from Auckland Council	40,997	41,574
Loans borrowed from Auckland Council during the year	250,000	250,000
Loans repaid to Auckland Council during the year	80,839	81,606
Interest receivable (net) on interest rate swaps with Auckland Council	–	245
Interest expense on swaps (net) with Auckland Council	361	361
Debt guarantee fee payable to Auckland Council	–	123
Debt guarantee expense with Auckland Council	146	385

23. Equity and related parties (continued)

Transactions with related parties (continued)

During the year, the group paid \$0.1 million to Te Motu A Hiaroa (Puketutu Island) Governance Trust as final settlement for receiving monies and incurring expenses on behalf of the Trust over the years.

The group has a loss offset and subvention arrangement with Auckland Council tax group as detailed in note 15, page 88.

Periodically the group enters into land sale and purchase agreements with the Auckland Council group. As these transactions are always carried out on an arm's-length basis they are not separately disclosed.

The group provides retail water and wastewater services to 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 sale and purchase transactions with related parties in the normal course of its business, such as the payment of rates. These were not collectively significant.

	2018 \$000	2017 \$000
Sales to related parties	21,171	15,638
Trade receivables from exchange transactions – related parties	1,157	1,487
Purchases from related parties	2,998	2,513
Land rates – Auckland Council	2,165	2,014
Trade payables for exchange transactions – related parties	53	109
Receivables accruals – related parties	6,555	6,576
Payables accruals – related parties	1,528	1,207

24. Commitments

	2018 \$000	2017 \$000
Capital expenditure		
The capital expenditure committed to, but not recognised in these financial statements at balance date was:		
Buildings	2,836	3,278
Pipelines	142,914	164,851
Tanks, tunnels, roads and reservoirs	36,347	17,865
Intangibles	1,378	2,333
Other	33,863	29,066
Total capital expenditure commitments	217,338	217,393
Anticipated payment schedule		
Less than one year	113,730	162,494
One to two years	98,269	29,282
Two to five years	3,627	23,691
Beyond five years	1,712	1,926
Total capital expenditure commitments	217,338	217,393

24. Commitments (continued)

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 (2017: \$0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs and office equipment.

	2018 \$000	2017 \$000
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	6,573	6,287
One to two years	6,503	6,262
Two to five years	18,523	17,467
Beyond five years	84,781	84,941
Total lease commitments	116,380	114,957

25. Contingencies

There are no contingencies to report at balance date.

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 2018 was \$2.2 million (2017: \$2.1 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 13 FTE (2017: 10 FTE). The increase in FTE is temporary, due to a restructure as a result of a new business operating model. The aggregate remuneration received by the key management personnel is shown below:

		2018 \$000	2017 \$000
Employees' salaries and wages, directors' fees and trustees' fees		4,512	4,074
Aggregate remuneration		4,512	4,074
DIRECTORS' FEES	APPOINTED	2018 \$000	2017 \$000
Margaret Devlin (Chair – appointed November 2016)	November 2016	108	71
Julia Hoare	November 2013	67	65
Tony Lanigan (resigned October 2017)	April 2011	18	53
Catherine Harland	April 2011	66	53
Nicola Crauford	April 2014	56	53
David Thomas	November 2014	54	53
Brendon Green	November 2016	54	36
Annette King	November 2017	39	–
David Clarke (Chairman – resigned October 2016)	July 2008	–	36
Mike Allen (resigned October 2016)	December 2011	–	22
Peter Drummond (resigned October 2016)	January 2010	–	18
Total		462	460
TRUSTEES' FEES	APPOINTED	2018 \$000	2017 \$000
Watercare Utility Consumer Assistance Trust			
Jeff Morrison (Chairman)	December 2015	8	8
Maureen Little	October 2011	5	5
Lauren Godsiff	October 2011	6	6
Emily Charlton-Rapana	July 2015	5	5
Total		24	24
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	–	–
Total		–	–
DIRECTORS' FEES	APPOINTED	2018 \$000	2017 \$000
Hūnua Forests Limited			
Brian Monk	January 2017	–	–
Rob Fisher	January 2017	–	–
Total		–	–

28. Events occurring after balance date

Watercare and its parent, Auckland Council, entered into a service level agreement for the provision of treasury services post 30 June 2018 and an inter-company loan agreement for existing loans at 30 June 2018. The initial terms of both agreements is for three years commencing 1 July 2018 until 30 June 2021. All existing loans become one loan with a fixed maturity of 30 June 2021.

The key objective of the centralised treasury function is to achieve cost savings and efficiencies across the council group and access to funding at cheaper interest rates for Watercare. Under the agreement, council will provide all of Watercare's financing needs within agreed forward limits as prescribed in the recently approved 2018–2028 Council Long Term Plan, together with risk management of the weighted average interest rate; liquidity and funding risk management; treasury reporting; and foreign exchange transacting. The agreement relinquishes Watercare from maintaining its own treasury policy for liquidity and financial risk management.

On 1 July 2018, all Watercare external interest rate swaps and the interest rate 'collar' options have been novated to Auckland Council. The net derivative liability at balance date of \$217.7 million has been recognised as a capital contribution through equity. Council effectively takes responsibility for contractual cash flow payments through the novation of these derivative financial instruments. Existing external borrowings will be refinanced by council and repaid on maturity.

Statutory information

FOR THE YEAR ENDED 30 JUNE 2018

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.

EMPLOYEES' REMUNERATION RANGE (\$)	2018
	NUMBER OF EMPLOYEES
100,000 – 110,000	70
110,001 – 120,000	59
120,001 – 130,000	33
130,001 – 140,000	26
140,001 – 150,000	14*
150,001 – 160,000	16
160,001 – 170,000	5
170,001 – 180,000	7
180,001 – 190,000	2
190,001 – 200,000	3
200,001 – 210,000	2
210,001 – 220,000	1
220,001 – 230,000	3
230,001 – 240,000	3
250,001 – 260,000	2
260,001 – 270,000	3
280,001 – 290,000	1
310,001 – 320,000	2*
350,001 – 360,000	1
360,001 – 370,000	2
400,001 – 410,000	1*
410,001 – 420,000	1
440,000 – 450,000	1*
450,000 – 460,000	1*
720,000 – 730,000	1

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

Safe and reliable services

Provide uninterrupted access to safe, clean and drinkable water

(i) The extent to which Watercare's drinking water supply complies with part 4 of the drinking water standards (Bacterial Compliance Criteria).

(SOI Target 2017/18: = 100% – Achieved: 100%;
Previous year: 100%)

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. The reported result is based on the grading achieved in November 2017, for the year beginning 1 July 2016 and ending 30 June 2017 inclusive. The 2017/18 result will be available after the grading in November 2018 for the year beginning 1 July 2017 and ending 30 June 2018.

(ii) The extent to which Watercare's drinking water supply complies with part 5 of the drinking water standards (Protozoal Compliance Criteria).

(SOI Target 2017/18: = 100% – Achieved: 100%;
Previous year: 100%)

Watercare met this target. Water treated at all of our graded treatment plants met the Protozoal 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. The reported result is based on the grading achieved in November 2017, for the year beginning 1 July 2016 and ending 30 June 2017 inclusive. The 2017/18 result will be available after the grading in November 2018 for the year beginning 1 July 2017 and ending 30 June 2018.

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

(SOI Target 2017/18: ≤ 60 mins – Achieved: 54 mins;
Previous year: 41 mins)

Watercare met this target. The median response time for our maintenance crew to attend to urgent issues was 54 minutes, which is within the target of 60 minutes or less.

(iv) 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 2017/18: ≤ 5 hours – Achieved: 3 hours;
Previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve urgent issues such as faults or interruptions was 3 hours, which is within the target of 5 hours or less.

(v) 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 2017/18: ≤ 3 days – Achieved: 3 days;
Previous year: 1 day)

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.

The change in time taken to attend to non-urgent call-outs is the result of an efficiency programme and technology improvements to re-prioritise fault calls so that we utilise our maintenance crews more efficiently, and at the same time continue to be responsive to urgent issues raised by customers.

(vi) 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 2017/18: ≤ 6 days – Achieved: 3 days;
Previous year: 2 days)

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

(vii) 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 are expressed per 1000 connections to the local authority's networked reticulation system.

(SOI Target 2017/18: ≤ 10 – Achieved: 4; Previous year: 6)

Watercare met this target. It relates to the volume of calls we received regarding water quality and supply issues for the year ended 30 June 2018. The number of complaints received per 1000 connections was 4, which is well within the target of 10 or fewer.

(viii) The percentage of real water loss from Watercare's networked reticulation system.

(SOI Target 2017/18: $\leq 13\%$ – Not achieved: 13.1%; Previous year: 11.9%)

Watercare substantially met this target, with water loss marginally above the specified target (13.1%). 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.

The total volume of water produced is calculated by using readings from our Bulk Supply Points (BSP). A review over the year has identified that some BSPs are overestimating supply, which overstates real losses by as much as 0.8%. Improved checking procedures have been implemented to ensure these errors are corrected for the year 2018/19.

(ix) Gross per-capita consumption* of water per day per resident.

(SOI Target 2017/18: 268 +/- 2.5% – Not achieved: 278; Previous year: 273)

Watercare did not meet this target. The gross per-capita consumption was 278 litres per day this year, against a target of 268 litres per day (+/- 2.5%). The increase in gross per-capita consumption can be attributed to the long, hot and dry weather and, consequently, a prolonged period of high water demand from customers in our network as well as consumers who normally depend on rainwater tanks for their water supply. Consumption increased by 5% from late spring to early autumn during the 2017/18 year compared to the same period in 2016/17.

We acknowledge that we need to increase our focus on implementing our water efficiency strategy to make a meaningful impact and ensure we meet the targets in the coming years.

Internally, we are working to streamline the delivery of the water efficiency programme to domestic and non-domestic customers, and develop tools to understand localised demand and its causes. Due to the lag in population data collection (up-to-date Census data is available every five years) and the pace of growth in Auckland, it is difficult to calculate per-capita consumption accurately.

* Gross per-capita consumption includes both residential and commercial water consumption.

Provide reliable wastewater services and manage discharges to maintain or improve the health of the environment

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

(SOI Target 2017/18: ≤ 10 – Achieved: 0.3; Previous year: 0.4)

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 0.3 dry-weather overflows per 1000 connections, which is well under the target of 10 or fewer.

The dry-weather overflows recorded in 2017/18 were a result of third-party occurrences like blockages and incorrect disposal of fats, oils and grease down the wastewater network.

(ii) 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.

(SOI Target 2017/18: a) ≤ 2 , b) ≤ 2 , c) ≤ 2 , d) = 0.

Achieved: a) = 0, b) = 0, c) = 0, d) = 0;

Previous year: a) = 0, b) = 0, c) = 0, d) = 0)

Watercare met this target. There were no abatement, infringement or enforcement notices or convictions for the 2017/18 year.

(iii) 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 2017/18: ≤ 60 mins – Achieved: 48 mins; Previous year: 50 mins)

Watercare met this target. The median response time for our maintenance crew to attend to wastewater overflows or blockages was 48 minutes, which is within the target of 60 minutes or less.

- (iv) **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 2017/18: ≤ 5 hours – Achieved: 3 hours;
Previous year: 3 hours)

Watercare met this target. The median response time for our maintenance crew to resolve wastewater overflows or blockages was 3 hours, which is within the target of 5 hours or less.

- (v) **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.

(SOI Target 2017/18: ≤ 50 – Achieved: 19;
Previous year: 24)

Watercare met this target. It relates to the volume of calls we received regarding wastewater odours, overflows, broken pipes and other network issues for the year ended 30 June 2018. The number of complaints received per 1000 connections was 19, which is well within the target of 50 or fewer.

- (vi) **Average number of wet-weather overflows per discharge location.**

(SOI Target 2017/18: ≤ 2 – Achieved: 1.7;
Previous year: 3.4)

Watercare met this target. The average number of wet-weather overflows for the transmission network per discharge location was 1.7, which is within the target of two or fewer overflows.

Health, safety and well-being

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

(SOI Target 2017/18: ≤ 5 – Achieved: 3.5;
Previous year: 2.4)

Watercare met this target. We recorded an LTIFR of 3.5, which is within the target of five or fewer. Although there has been an increase in our LTIFR since 2016/17, there were no injuries of a serious nature during the year.

We continued to focus on increased reporting and providing training to staff to improve health and safety

understanding and capability across the business. We refined our 'permit to work' system and ran a pilot programme to trial it. Training for the roll-out of the revised system is under way across various areas of the business.

Our focus for the next year is on integrating wellness into health and safety. We aim to establish our wellness committee, determine its focus areas and deliver a tailored wellness programme in 2018/19.

- (ii) **Total recordable injury frequency rate (TRIFR) per million hours worked.**

(SOI Target 2017/18: ≤ 20 – Achieved: 8.2;
Previous year: 13.2)

Watercare met this target, achieving a TRIFR of 8, against a target of 20 or fewer injuries for every million hours worked per year. This rate is significantly lower than the TRIFR for 2016/17 and in general, it has been steadily decreasing over the past three years. This can be attributed to the increased reporting that has enabled more learnings and better behaviours, resulting in fewer injuries at work.

- (iii) **Percentage of voluntary leavers relative to the number of permanent staff.**

(SOI Target 2017/18: $\leq 12\%$ – Not Achieved: 13.8%;
Previous year: 12.1%)

Watercare did not meet this target. Voluntary staff turnover for 2017/18 was 13.8%, against a target of 12% or less. The increase in staff turnover reflects the overall trends in the labour market. Our growing economy has meant that employers are competing for the same pool of talent and this has challenged retention across all industries. It is worth noting that the national average rate for attrition based on the Institute of Human Resources' most recent survey is 18.8%.

Customer satisfaction

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

(SOI Target 2017/18: $\geq 80\%$ – Achieved: 83%;
Previous year: 84%)

Watercare met this target. We used an automated feedback programme (Voice of the Customer) to survey customers after they interact with Watercare. We consider customers as being satisfied if they rate their overall experience between 7 and 10 on a scale of 0–10. For 2017/18, 4238 customers rated us between 7 and 10 out of 5079 respondents, which equates to 83%.

(ii) Percentage of complaints ‘resolved and closed’ within 10 working days.

(SOI Target 2017/18: $\geq 95\%$ – Achieved: 98%;
Previous year: 98%)

Watercare met this target. In 2017/18, 848 complaints were received and of these complaints, 98% (833) were resolved within the stipulated 10-day period, against a target of 95% or more. The overall number of complaints increased by 20% this year compared to the result of 709 in 2016/17, and can be attributed to the introduction of more digital channels for customers to engage with us. However, our resolution rate remained high at 98%.

For the purpose of this measure, a ‘complaint’ relates to transactional complaints such as price increases, account maintenance, employee behaviour, payments and refunds. It excludes calls received about drinking water quality and wastewater issues as these have been reported separately above.

(iii) Percentage of the 19 iwi groups throughout Auckland that Watercare has entered into a Memorandum of Understanding (MoU) with.

(SOI Target 2017/18: 88% – Not Achieved: 32%;
Previous year: 16%)

Watercare did not meet this target. However, over the year our relationships have strengthened and the number of MoUs signed has doubled. We signed MoUs with six iwi groups in 2016/17, which equates to 32% against a target of 88%.

Our focus has been on maintaining and enhancing our relationship with iwi groups. Kanohi ki te kanohi (face to face) kōrero (discussions) have taken place over the year. Our chief executive, company secretary and Poutiaki Tikanga Māori (principal advisor) represent Watercare at these discussions. The iwi mentioned are represented by the chair of the respective iwi rūpū (group) and/or senior governance representatives.

It is important to note that from a cultural perspective the kanohi ki te kanohi, rangatira ki te rangatira (face to face, leader to leader) hui have importance and, over time, the signing of a relationship agreement may occur.

Early engagement and collaboration with mana whenua has led to a number of major projects receiving resource consents without formal submissions made by any of the 19 tribal authorities.

These projects include:

- the Central Interceptor
- the new outfall from the Army Bay Wastewater Treatment Plant
- the new wastewater treatment plant at Snell’s Beach to cater for the growth at Warkworth.

- the proposed application to increase discharge of treated wastewater from a new plant to be constructed at Pukekohe. Nine marae on the Waikato River came together to form Te Taniwha O Waikato (“Te Taniwha”), which supported the application.

Financial responsibility

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

(SOI Target 2017/18: ≥ 2.5 – Achieved: 4.2;
Previous year: 3.9)

Watercare met this target. The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2018 was 4.2. 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.

(ii) Percentage of household expenditure on water supply services relative to the average household income.

(SOI Target 2017/18: $\leq 1.5\%$ – Achieved: 0.9%;
Previous year: 0.9%)

Watercare met this target. The average monthly household water and wastewater bill from us was \$78.22 for the period 1 July 2017 to 30 June 2018 inclusive. Statistics New Zealand’s current (2017) average monthly household income in Auckland is \$9,172.80. This means that the average household water bill represents 0.9% 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.

To provide a meaningful comparison, a litre of retail bottled water costs approximately \$2.00, whereas 1000 litres of tap water supplied by Watercare cost \$1.48 in 2017/18.



INDEPENDENT LIMITED ASSURANCE REPORT TO DIRECTORS OF WATERCARE SERVICES LIMITED

Conclusion

Based on our engagement to provide limited assurance, which is not a reasonable assurance engagement or an audit, we have not become aware of any matter that would lead us to believe that, the selected non-financial information has not been prepared in accordance with the Global Reporting Initiative Reporting Standards (“GRI Standards”) for the period 1 July 2017 to 30 June 2018.

Information subject to assurance

We have performed an engagement to provide limited assurance in relation to Watercare Services Limited’s (“Watercare”) selected non-financial information within the Annual Report for the period 1 July 2017 to 30 June 2018.

Selected non-financial information

The selected non-financial information covers the collation and presentation of the ‘GRI Standards’ related non-financial areas within the report on pages 21 to 41 and pages 106 to 120, excluding:

- The 2018 financial indicators and the financial statements on pages 54 to 103.
- Statement of Intent (SOI) targets and information on pages 1 to 20, 42 to 53 and 121 to 126.
- The online supplements.

Standards we followed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements other than audits or reviews of historical financials*. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In accordance with that standard we have:

- used our professional judgement to plan and perform the engagement to obtain limited assurance that the selected non-financial information within the Annual Report is free from material misstatement, whether due to fraud or error
- considered relevant internal controls when designing our assurance procedures, however we do not express a conclusion on the effectiveness of these controls; and
- ensured that the engagement team possess the appropriate knowledge, skills and professional competencies.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Restriction of distribution and use

Our report should not be regarded as suitable to be used or relied on by any parties other than Watercare for any purpose or in any context. Any party other than Watercare who obtains access to our report or a copy thereof and chooses to rely on our report (or any part thereof) will do so at its own risk.

To the fullest extent permitted by law, we accept or assume no responsibility and deny any liability to any party other than Watercare for our work, for this independent limited assurance report, or for the conclusions we have reached.

Our report is released to the Directors of Watercare on the basis that it shall not be copied, referred to or disclosed, in whole (save for Watercare’s own internal purposes) or in part, without our prior written consent.

Watercare’s responsibility for the Annual Report

Watercare is responsible for the preparation and fair presentation of the selected non-financial information in accordance with the GRI Standards. This responsibility includes such internal control as the directors determine is necessary to enable the preparation of the selected non-financial information that is free from material misstatement whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion to the directors on the preparation and presentation of the selected non-financial information in accordance with GRI Standards.

Our independence and quality control

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.

Our firm has also provided advisory services to Watercare. Subject to certain restrictions, partners and employees of our firm may also deal with Watercare on normal terms within the ordinary course of trading activities of the business of Watercare. These matters have not impaired our independence as assurance providers of Watercare for this engagement. The firm has no other relationship with, or interest in, Watercare.



KPMG

Auckland

10 September 2018

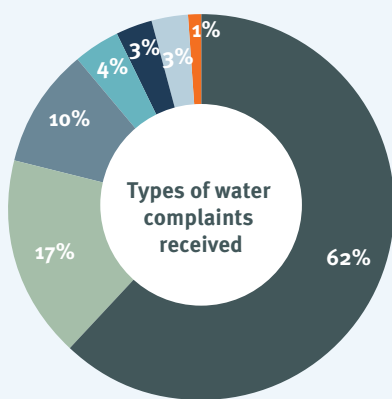
Customer focus

Grade of service: Calls answered within 20 seconds

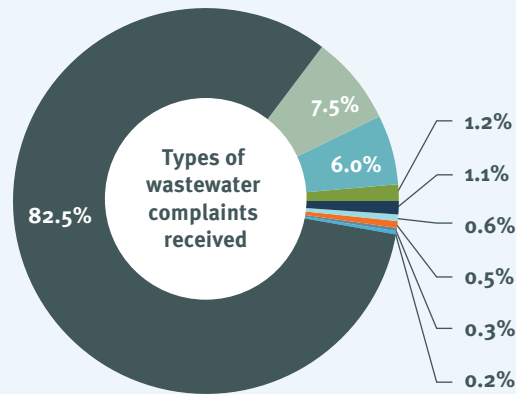
Grade of service is a call centre industry performance measure, aimed at ensuring calls are answered within 20 seconds.

In 2017/18, 87.6% of calls were answered within 20 seconds. This is a significant improvement compared to the 2016/17 result of 73.1%. Our focus is to ensure that customer queries are answered in one phone call and occasionally this may necessitate spending more time on the phone with a customer and impacting our performance in this area.

Water and wastewater complaints



- Discoloured water
- Low pressure (urgent)
- Tainted water
- Low pressure (routine)
- Flush water quality
- Illness complaint
- Low water pressure



- Sewer overflow / blockage
- Sewer manhole (routine)
- Sewer odour
- Sewer safety problem (urgent)
- Sewer manhole (urgent)
- Sewer third-party damage
- Sewer pump station (routine)
- Sewer pipe broken
- Sewer incident

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.

Water supply reticulation

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

Affordability of services

Account area	Cost of water and wastewater services per household per month 2017/18	% of average weekly income earnings 2017/18	Cost of water and wastewater services per household per month 2016/2017	% of average weekly income earnings 2016/17	Cost of water and wastewater services per household per month 2015/16	% of average weekly income earnings 2015/16
Franklin	\$63.48	0.69%	\$61.08	0.70%	\$59.03	0.70%
Manukau	\$87.01	0.95%	\$83.70	0.95%	\$80.50	0.96%
Auckland City	\$84.43	0.92%	\$81.00	0.92%	\$77.75	0.93%
North Shore	\$74.12	0.81%	\$71.43	0.82%	\$68.89	0.82%
Rodney	\$60.41	0.66%	\$58.30	0.67%	\$55.54	0.66%
Waitākere	\$67.72	0.74%	\$65.18	0.74%	\$62.71	0.75%
Average	\$78.22	0.85%	\$75.33	0.86%	\$72.47	0.86%

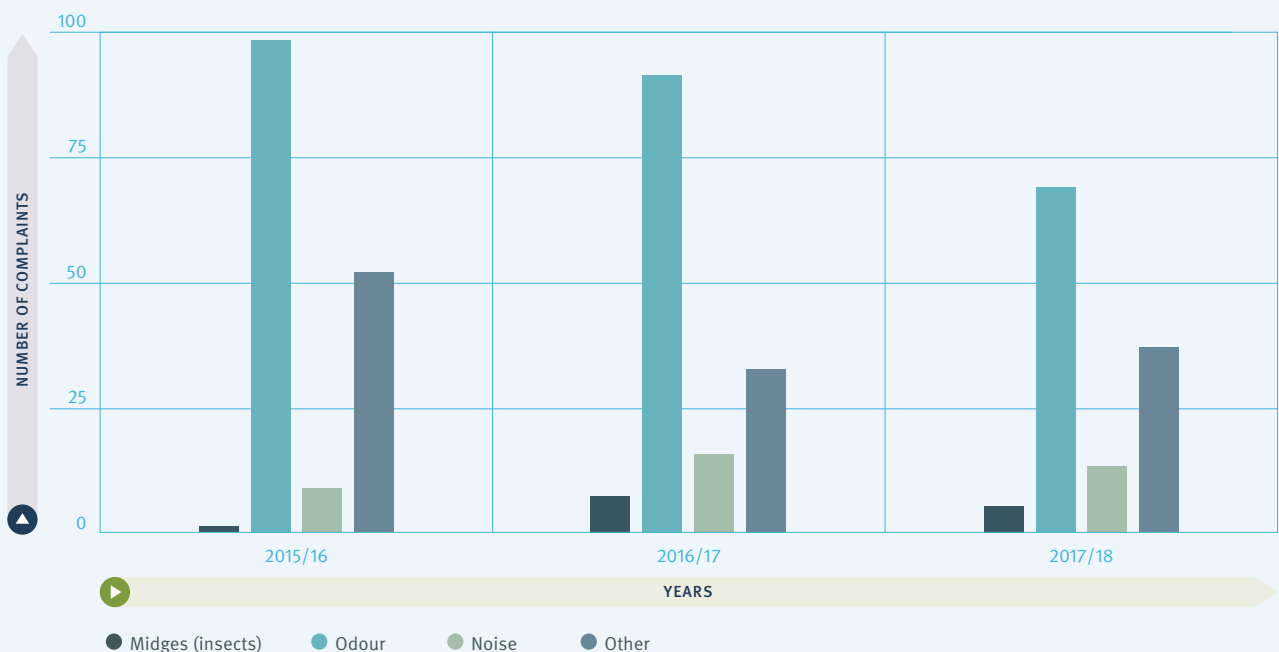
Midge, odour and noise management at operational sites

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 introduced a new method to manage nuisance midges. ‘Other’ includes complaints relating to maintenance of our structures such as rubbish in a car park, graffiti, fencing, access etc.

Midge, odour and noise complaints



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 8.3 for the Auckland region.

Unplanned water interruptions per 1000 connections

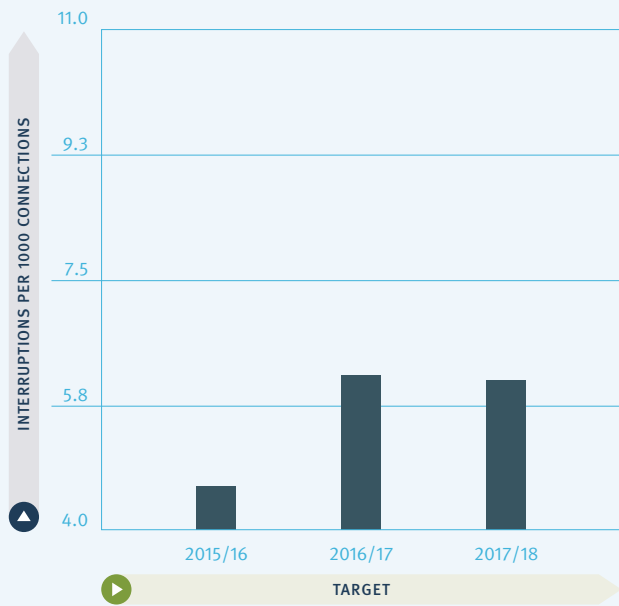
The Auckland region covered a total of 435,000 water supply connections in 2017/18. As a measure of reliability of service, we monitor the number of times the water supply to our customers is interrupted.

We aim to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the 2017/18 year was 6 for the Auckland region.

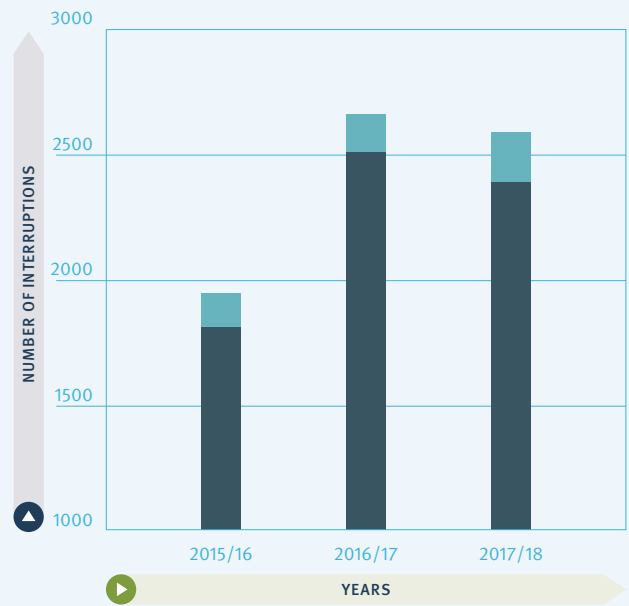
Unplanned water interruptions restored within 5 hours

In order to minimise the impact on our customers, Watercare aims to ensure at least 95% of all unplanned water interruptions are restored within 5 hours. The result for the year was 92.7% for the Auckland region. This was due to the high number of complex watermain breaks that occurred in our network in 2017/18. We are working with our maintenance contractors to improve processes and reduce the shutdown duration; these include regular reporting and performance tracking against restoration targets.

Unplanned water interruptions



Unplanned water interruptions restored within 5 hours



- Interruptions restored within 5 hours
- Interruptions not restored within 5 hours

Business excellence

Staff engagement

We use AskYourTeam (AYT) surveys for measuring staff engagement. AYT is a comprehensive tool that measures key factors which influence organisational success such as people, strategy, engagement and stakeholders. This tool allows us to identify specific areas for improvement and test more frequently to determine progress against objectives. The survey identified some areas for improvement in 2018/19, including: remuneration benchmarking against industry standards, developing a clear remuneration policy, recognising people in meaningful ways and enabling more opportunities for collaboration across the business.

	2017/18	2016/17	2015/16
Survey response rate (%)	72%	75%	90%
Staff engagement score	67	65	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.

	2017/18			2016/17			2015/16		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Individual employment agreements (IEA)	436	263	699	475	277	752	443	265	708
Collective employment agreements (CEA)	173	12	185	136	2	138	137	2	139
Part-time employees	5	19	24	2	17	19	2	12	14
Fixed-term individual agreements (IEA) >1yr	9	19	28	5	7	12	2	11	13
Fixed-term individual agreements (IEA) <1yr	3	1	4	7	5	12	3	6	9
TOTAL fixed-term and permanent employees	626	314	940	625	308	933	587	296	883
Casual employees	5	10	15	14	11	25	10	10	20

Staff and salary ratio

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 decreased this year for executive, senior management and technical roles. The management, operational and support roles saw an increase in the salary ratio this year.

Individual salaries are not reported to protect confidentiality. Data does not include the chief executive, as it is the sole role in the band, nor staff employed in operational roles under CEAs who are paid on a different grading system relative to the terms of their particular employment agreement. 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.

2017/18	2017/18				2016/17		2015/16	
	Male	Female	Staff ratio	Salary ratio	Staff ratio	Salary ratio	Staff ratio	Salary ratio
Executive and senior management	9	2	18%	84%	20%	90%	17%	92%
Management	67	27	29%	84%	17%	83%	17%	83%
Technical	301	111	27%	90%	22%	92%	25%	91%
Operational and support	246	173	41%	92%	48%	86%	43%	95%

Training per staff member

Our staff received an average of 28 hours of training in 2017/18, excluding time spent on employee orientation. This is an increase of 22% compared to 2016/17. For 2018/19, we are looking to introduce an improved method of capturing staff training details to ensure more effective and accurate reporting.

	2017/18	2016/17	2015/16
Average staff numbers over the year	920	917	869
Average hours of training for permanent employees	28	23	26
Total training spend (\$)	\$1,354,830	\$1,338,368	\$1,061,886
Ratio (\$ per average staff numbers)	\$1,473	\$1,460	\$1,222

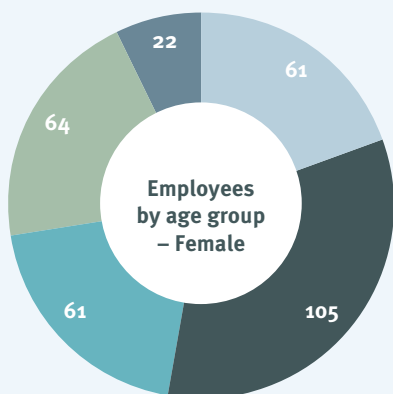
Training breakdown not captured in 2017/18.

Performance review process

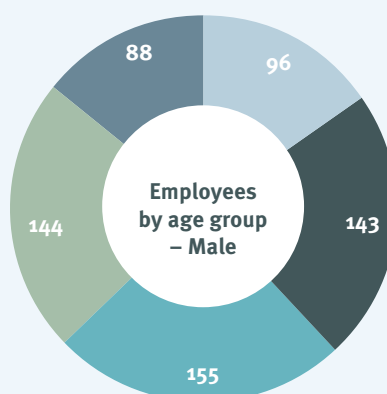
We schedule performance reviews annually for employees. These were conducted in August 2017 for 66% of those who were eligible.

Workforce employment breakdown

The number of staff has increased slightly 0.8% from 933 in 2016/17 to 940 in 2017/18. Most of our employees are employed in the Auckland region. Watercare also operates laboratory testing services in Queenstown and Invercargill, where three 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.



- Under 30
- 30-39
- 40-49
- 50-59
- 60 or older



- Under 30
- 30-39
- 40-49
- 50-59
- 60 or older

New hires by gender and age

	2017/18	2016/17	2015/16
Male	115	149	140
Female	85	84	65
Total	200	233	205

Age group	2017/18	%	2016/17	2015/16
Under 30	99	50%	99	67
30-39	54	27%	60	62
40-49	31	16%	44	47
50-59	11	6%	25	23
60 or older	5	3%	5	6
Total	200		233	205

Parental leave

Watercare offers an additional eight weeks of paid parental leave beyond that provided as part of the government-funded parental leave, and two weeks of paid parental leave for partners. In 2017/18, 82% 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.

Number who have taken parental leave:	2017/18	2016/17	2015/16
Male	22	16	10
Female	16	15	12
Total	38	31	22
Number due to return from parental leave each year:	2017/18	2016/17	2015/16
Male	*	16	8
Female	11	7	12
Total	11	23	20
Number having return from parental leave:	2017/18	2016/17	2015/16
Male	*	15	8
Female	9	5	10
Total	9	20	18
% returning after parental leave	82%	87%	90%

* Watercare provides parental leave for male employees also but we do not consider it as a break from employment; hence they are not recorded in the above table.

ACC workplace management practices accreditation

Watercare currently holds a tertiary accreditation for the ACC Workplace Safety Management Practices (WSMP) programme.

The certification expires on 31 December 2018.

Absenteeism due to illness

Watercare recorded an unplanned absenteeism rate of 3.04%, which is an increase over last year's result of 2.29%. Overall sick-leave utilisation remains at approximately 7.9 days per employee in 2017/18. 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 established health and safety (H&S) committees, and holds meetings across the company that are in accordance with the Health and Safety at Work Act 2015. The percentage of H&S attendance at committee meetings was 11.8% in proportion to the number of our staff. Union representatives and members participate in the H&S committees as well. Nominated H&S representatives have been trained by the Employers and Manufacturers Association.

Involuntary staff turnover

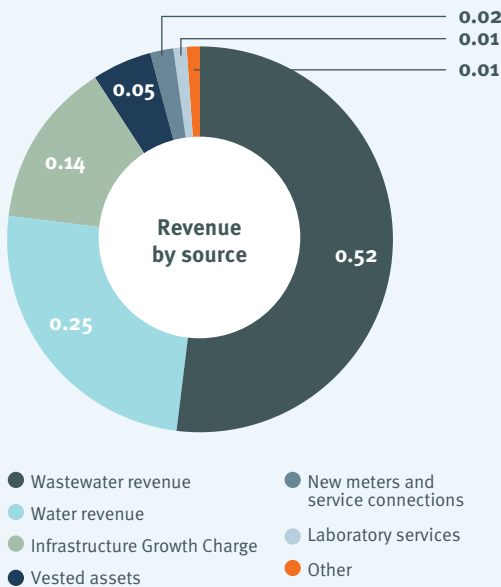
Involuntary turnover includes retirements, deaths, abandonment of employment and negotiated or managed exits. In 2017/18, there were 27 instances of involuntary turnover, compared to 31 in 2016/17.

	2017/18	2016/17	2015/16
Total %	2.90%	3.44%	3.80%
Male	19	28	24
Female	8	3	8
Age group:			
Under 30	1	4	3
30-39	6	11	4
40-49	2	3	9
50-59	7	7	4
60 or older	11	6	12

Financial responsibility

Revenue

Total revenue at \$641.6 million in 2017/18 compared favourably with \$631.0 million in 2016/17. Water and wastewater revenues of \$490.6 million were \$23.6 million ahead of 2016/17 with \$7.5 million of the increase due to the 2.5% price increase on 1 July 2017 and \$16.1 million largely as a result of an overall volume increase. Infrastructure Growth Charge revenue totalled \$89.2 million compared with \$79.1 million in 2016/17, only recovering 45% of the \$198 million capital expenditure on growth projects in the year. Other key elements of revenue included \$30.2 million for the cost of physical assets funding by external parties and vested to Watercare ownership, and \$7.1 million of revenue recognised in respect of the sale of Watercare tax losses within the Auckland Council group.



Finance costs

Total finance costs of \$93.6 million were incurred during the year, of which \$11.5 million was treated as a capital cost on large-scale, long-term capital projects. The remainder of \$82.1 million was expensed to the statement of revenue and expense.

The overall average interest rate was 5.94%, compared with 5.89% in 2016/17.

Operating expenses

Operating expenses of \$217.6 million were \$4.0 million higher than budget for the year. This was primarily due to higher unplanned maintenance and general overheads.



Operating expenses increased 1.9% in 2017/18 compared to 2016/17 and have grown an average of 2.6% per annum over the past four years. The increase in maintenance costs is due to unplanned maintenance.

Operating surplus from trading operations

An operating surplus from trading operations of \$121.9 million was achieved in 2017/18, with revenue \$24.1 million ahead of budget, and total expenses \$5.8 million lower than budget.

Net surplus for the year

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

In order to enable a smoother and more predictable future price path, Watercare 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 \$20.8 million (non-cash) loss due to the downward move in interest rates over the year. The loss on revaluation and other below the operating surplus from trading operations line items delivered a net surplus after tax of \$54.4 million for the year ending 30 June 2018.

Net new debt

In 2017/18 \$250.8 million of net new debt was entered into by Watercare. Consistent with our SOI undertaking, all of the new long-term debt was sourced from Auckland Council as this is the lowest cost source of debt for Watercare.

During the year, \$241.6 million of debt from previous years was repaid resulting in an overall \$9.2 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 the Auckland region.

Total assets

Total Watercare assets grew from \$8.95 billion to \$10.09 billion in 2017/18. The increase related to a revaluation gain of \$1.00 billion and the cost of new infrastructure asset spending during the year.

Procurement and savings

Watercare's procurement function has continued its programme of improvement initiatives focused on our people, procedures and tools aimed at enabling more effective and efficient procurement across our business. In addition to our own business, Watercare has also participated in a number of group initiatives with Auckland Council, Auckland Transport and other CCOs for the benefit of our company. This has included joint sourcing, spend analysis and sustainability initiatives.

In 2017/18, savings of \$10.2 million were achieved, mainly in the procurement of construction, infrastructure professional services, chemicals, electricity and digital technology. The procurement team was also recognised for its efforts in delivering agile procurement for the strategic transformation programme by winning the Successful Procurement Change category in the NZ Procurement Excellence Awards.

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 \$7,979,729, an increase of 62% compared to 2016/17.

The average amount of outstanding debt was \$287 this year compared to \$248 in 2016/17.

		% of total
Debit balances 31+ days (end of June 2018)	\$7,979,729	17.9%
Number of accounts with 31+ days of debt	27,819	9.0%
Average debt (31+ days)	\$287	

* Excluding council group and Infrastructure Growth Charges

Top 15 suppliers

No.	Supplier	Value
1	Downer New Zealand Limited	\$30,051,217
2	McConnell Dowell Constructors Ltd	\$27,607,589
3	McConnell Dowell – HEB Joint Venture	\$27,082,678
4	Fulton Hogan Ltd	\$23,843,398
5	City Care	\$21,767,892
6	Cassidy Construction Ltd	\$17,669,716
7	March Cato Ltd	\$14,981,794
8	Fletcher Construction Co Ltd NZ Building	\$12,419,794
9	Pipeline & Civil	\$11,517,488
10	Waiiau Pa Bulk Haulage Limited	\$10,663,383
11	Ixom Operations Pty Ltd	\$10,132,774
12	Fulton Hogan Ltd Infrastructure Services	\$ 8,318,329
13	Steelpipe Limited	\$ 8,105,075
14	CH2M Beca Ltd	\$ 8,103,205
15	HEB Construction Limited	\$ 8,032,185
	Total	\$240,296,519

Procurement expenditure by category

Category	%
Construction	43.51
Maintenance	18.76
Engineering professionals' fees	7.17
Equipment and spares	6.00
Business support	5.45
Information services	5.25
Utilities	4.64
Retail	3.66
Chemicals	2.82
Operations support	1.07
Property	1.05
Waste	0.48
Non-assigned	0.14

Fully sustainable

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. This year we supplied around 365 million litres of water to the people of Auckland and treated around 460 million litres of wastewater to a high standard, every day.

Water supply

	2017/18	2016/17	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)	12	12	12
'A'-grade water treatment plants	15	15	15
Other water treatment plants	–	–	–
Length of treated watermains (km)	9,187	9,096	9,064
Service reservoirs	85	89	88
Pump stations	93	93	92
Annual volume produced (ex plant m ³)	153,784,185	149,488,237	148,674,615
Annual volume sold (m ³)	127,548,898	123,291,865	121,072,423

Volume of water by source

	2017/18		2016/17		2015/16
	Volume (m ³)	%	Volume (m ³)	%	Volume (m ³)
Waitakere Dam	3,839,835	2%	3,481,154	2%	3,753,913
Upper Huia Dam	8,102,899	5%	5,895,649	4%	4,013,773
Upper Nihotupu Dam	8,272,721	5%	7,278,570	5%	6,208,120
Lower Huia Dam	6,611,783	4%	8,617,074	6%	6,528,504
Lower Nihotupu Dam	1,329,914	1%	3,333,443	2%	7,497,197
Cosseys Dam	12,388,820	8%	12,397,456	8%	12,225,078
Upper Mangatāwhiri Dam	29,291,746	19%	22,832,396	15%	22,523,768
Wairoa Dam	12,265,389	8%	12,774,149	8%	6,286,530
Mangatangi Dam	45,572,241	29%	46,103,369	31%	28,853,035
Waikato River	20,210,713	13%	20,973,406	14%	41,839,028
Onehunga Aquifer	4,326,071	3%	4,511,210	3%	6,470,573
Rural North	1,539,685	1%	1,774,126	1%	1,404,251
Rural South	942,431	1%	896,396	1%	984,069
Total	154,694,248		150,868,397		148,587,839

Conservation activities

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

Name of site	Ecological attributes supported by Watercare
Māngere Coastal Walkway	Public walkways, bird roosts and native and marine habitat. The bird roosts are of local, regional and international significance to wading migratory birds. It is estimated that over 50% of New Zealand's wading bird population passes through the Manukau Harbour. The roosts also provide an alternative habitat for birds and keep them away from the Auckland International Airport area. We liaise regularly with airport staff to assist them in reducing the risk of bird strike.
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
Oruarangi Awa	Marine estuarine ecosystems being restored
Waikato RiverCare Riparian planting along the lower Waikato River	Riparian planting along the lower Waikato River to enhance river water quality
Hūnua Ranges	Native bush, wildlife habitat and Watercare's programme to revert the plantation pine forest into a diverse native bush
Waitākere Ranges	Native bush and wildlife habitat
Mangakura Catchment	Native bush and wildlife habitat
Sandhills Wetland	Native bush and wildlife habitat
Bycroft Wetland, Onehunga	Home of rare and endangered moss species, indigenous vegetation and wildlife
Pukekohe Wastewater Treatment Plant	Home of birdlife as an extension of the adjacent wetland owned by Fish & Game
Auckland Volcanic Cones	The cones are parks and heritage areas and a defining feature of Auckland. Eight of them host Watercare's reservoirs

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 and Waikato RiverCare, two conservation programmes in the Hūnua Ranges and Waikato River respectively. Watercare funds the Water Utility Consumer Assistance Trust, which helps domestic customers facing financial difficulties to manage their water costs.

Programme	2018	2017	2016
Watercare Education Programme	\$35,057	\$8,448	\$8,982
Watercare Utility Consumer Assistance Trust	\$80,000	\$100,000	\$100,000
Trees for Survival	\$3,450	\$3,450	\$3,450
Watercare Harbour Clean Up Trust	\$306,250	\$325,000	\$250,000
Waikato RiverCare	\$50,000	\$10,000	-
Mark Ford Ngā Tapuwae Scholarship	\$10,000	\$10,000	\$10,000
Total	\$484,757	\$456,898	\$372,432

Watercare education programme

This year, Watercare's free education programme was delivered at 29 schools, with a total participation of 6375 students for 255 lessons. As part of this educational initiative, we launched an illustrated storybook on water treatment titled **Sam and Flo's Amazing Watery Adventure**, aimed at primary and intermediate schoolchildren, and distributed two free copies to every primary school in Auckland.

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.

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.

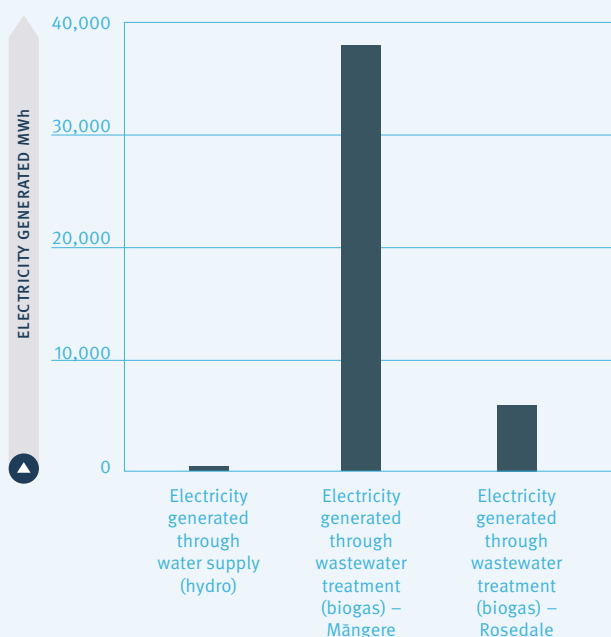
In 2017/18, a total of 36,404 tonnes of carbon dioxide equivalent (CO₂e) was generated, which is a 6% decrease compared with the previous year's result of 38,890 t CO₂e.

Energy use and internal generation

Watercare co-generates electricity from biogas at both the Māngere and Rosedale wastewater treatment plants. 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 Hūnua dams generating hydroelectric power.

This year, we used 166,376MWh of electricity, an increase of 0.4% compared to 2016/17. We generated 26.6% of our total energy use internally, compared to 29.6% last year. Building on our vision in 2017/18 to achieve energy savings of 8kWh by 2020 and energy neutrality at Māngere and Rosedale plants by 2025, we achieved energy savings of 3.5GWh through better process optimisation at Māngere Wastewater Treatment Plant and improvements for Rosedale Wastewater Treatment Plant.

Electricity generation



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 2017/18, Watercare was able to reuse 82% of the solids from our water treatment process and 81% of the solids from our wastewater treatment process.

Operational waste from:	2017/18	2016/17	2015/16
Water treatment* (m ³)	12,494	13,277	11,414
Wastewater treatment** (t)	138,885	142,195	137,317

* Sludge

** Biosolids, grits and screenings

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 2.39 tonnes from last year’s 2.56 tonnes, as a result of effective controls and continued monitoring.

Substance	2017/18		2016/17	
	Concentration (mg/kg)	Disposed weight (tonnes)	Concentration (mg/kg)	Disposed weight (tonnes)
Arsenic	5.20	0.19	5.20	0.17
Cadmium	0.81	0.03	1.10	0.04
Chromium	41.19	1.49	52.76	1.70
Lead	18.52	0.67	19.81	0.64
Mercury	0.56	0.02	0.46	0.01
Total	66.28	2.39	79.32	2.56

Resource consents

As at 30 June 2018, Watercare held an average of 514 active resource consents per month for our products and facilities. We achieved a monthly average of 96.84% compliance with the active conditions associated with these consents.

All large metropolitan wastewater treatment plants were technically compliant for the full year. There were some non-compliances relating to wastewater treatment at several regional wastewater facilities during the year, due to exceedance of the discharge standards in processed water volume or quality of wastewater. We have investigated each of these non-compliances and are satisfied that there were no adverse effects on the environment.

All non-compliances were reported to the regulator. There have been no sanctions, fines or enforcement actions brought against Watercare for the above matters, nor have there been any complaints.

In all cases, non-compliances occurred at facilities where upgrades are under way, either through design, consenting, construction or commissioning phases of work.

Resource consent conditions



General disclosures

GRI 102: General disclosures 2016	
Organisational profile	
102-1	Watercare Services Limited
102-2	Water supply and wastewater services
102-3	Auckland, New Zealand
102-4	New Zealand
102-5	100% owned by Auckland Council
102-6	Auckland, New Zealand
102-7	GR report p.110, p.112, p.114, Reporting and materiality p.40, Financials p.61
102-8	GR report p.109
102-9	GR report p.113
102-10	No change in size, structure or ownership over the reporting period
102-11	Governance p.48, Enterprise risk management p.51
102-12	Watercare has not endorsed any external charters
102-13	Watercare is a member of the Water Services Association of Australia, Water New Zealand, the Sustainable Business Network, and the Water Research Foundation.
Strategy	
102-14	Chair and chief executive's report p.11-13, Natural environment p.21, Reporting and materiality p.40, GR report p.114
Ethics and integrity	
102-16	Governance p.49
Governance	
102-18	Leadership and governance p.44-50
Stakeholder engagement	
102-40	Reporting and materiality p.41
102-41	GR report p.109
102-42	Reporting and materiality p.40-41
102-43	Governance p.40-41
102-44	Reporting on what's important p.18
Reporting practice	
102-45	Refer Financials p.54-98
102-46	Reporting and materiality p.40
102-47	Reporting and materiality p.40, Chair and chief executive's report p.11-13
102-48	No significant change
102-49	No significant change
102-50	1 July 2017 to 30 June 2018
102-51	September 2017
102-52	Annual reporting cycle
102-53	communications@water.co.nz
102-54	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI index p.118-120
102-56	Annual report Assurance statements p.104-105, p.58-59

Material topics

Category: Economic**GRI 201: Economic performance 2016**

103	Chair and chief executive's report p.11-13
201-1	GR report p.112, Financials p.55
201-2	Chair and chief executive's report p.11-13, Delivering what matters p.32
201-4	Financial Capital and Resources p.31

GRI 203: Indirect economic impacts 2016

103	Assets and infrastructure p.27, Financial Capital and resources p.31
203-1	Assets and infrastructure p.27, Financial Capital and resources p.31

Category: Environmental**GRI 302: Energy 2016**

103	GR report p.115-116
302-1	GR report p.115-116

GRI 303: Water 2016

103	Chair and chief executive's report p.11
303-1	GR report p.114
303-2	GR report p.114

GRI 304: Biodiversity 2016

103	GR report p.115
304-1	GR report p.115

GRI 305: Emissions 2016

103	GR report p.115
305-1	GR report p.115
305-5	GR report p.115

GRI 306: Effluents and waste 2016

103	GR report p.116-117
306-1	GR report p.116-117

GRI 307: Environmental compliance 2016

103	Chair and chief executive's report p.11-13, Natural environment p.21
307-1	Statement of service performance p.100, GR report p.117

Material topics (continued)

Category: Social	
GRI 401: Employment 2016	
103	GR report p.110-111
401-1	GR report p.111
401-3	GR report p.111 (partially reported to this GRI Standard)
GRI 403: Occupational health and safety 2016	
103	Statement of service report p.102
403-1	GR report p.111
403-2	Statement of service performance p.102
403-4	GR report p.111
GRI 404: Training and education 2016	
103	GR report p.110
404-2	Case Study p.35
404-3	GR report p.110
GRI 405: Diversity and equal opportunity 2016	
103	GR report p.109-110
405-1	Leadership and governance p.44-45, GR report p.109-110
405-2	GR report p.109
GRI 413: Local communities 2016	
103	Reporting and materiality p.40-41
413-1	Reporting and materiality p.40-41, GR report p.115
413-2	GR report p.114-115
GRI 416: Customer health and safety 2016	
103	Natural environment p.21
416-1	Performance highlights p.14, 2018 Statement of Service Performance p.100-103
416-2	2018 Statement of Service Performance p.100-103, GR report p.117
GRI 419: Socioeconomic compliance 2016	
103	People and culture p.23, Financial capital and resources p.31
419-1	No non-compliance reported

Inputs – Value In

Watercare’s ability to carry out its activities is influenced by the following resources and relationships:

Natural capital

- Availability of and access to water sources
- Availability and access to discharge points for treated wastewater
- Ecosystem services
- Understanding of environmental dynamics

Human capital

- Access to the right people
- Staff training and development
- Positive organisational culture
- Understanding future workforce needs

Social and relationships capital

- Understanding of customer needs
- Understanding of community and environmental stakeholder expectations
- Engagement with owner, regulator and government
- Engagement with iwi
- Relationships with unions
- Relationships with contractors, suppliers, consultants and industry professionals

Manufactured capital

- Company assets (e.g. dams, plants, pump stations)
- Critical third-party infrastructure (e.g. roads, energy)
- Quality of wastewater
- Volume of stormwater
- Availability of construction materials
- Chemicals
- Energy

Intellectual capital

- Technology
- Business continuity and crisis management procedures
- Processes and systems
- Documented good practice
- Datasets

Financial capital

- Access to affordable capital and debt
- Access to sufficient free cash flow

Outcomes – Value Out

Through the provision of safe and reliable water and wastewater services, Watercare delivers the following:

Natural capital

- We mitigate the negative impact of our activities
- We protect and enhance the environment and ecosystems
- We use resources efficiently and reduce waste, leading to a circular economy

Human capital

- We have a productive and engaged workforce
- We develop talents and skills in the industry
- We are committed to the health and safety of our staff and contractors
- We are an employer of choice

Social and relationships capital

- We provide continuity of service
- We create a positive customer experience and receive positive feedback
- We are trusted by our customers and stakeholders who understand our purpose and value our service
- We have a strong relationship with our shareholder
- We have strong relationships with iwi, regulators and government
- We contribute to public health and well-being
- We provide affordable water and wastewater services
- We enable the Auckland Plan supporting growth / development
- We are a client of choice for our suppliers

Manufactured capital

- We ensure our water and wastewater assets are well maintained and perform well
- We build and maintain resilient, fit-for-purpose infrastructure
- We plan and construct in a timely way

Intellectual capital

- We make robust decisions that are informed and effective
- We continually strive for process excellence
- We strive for continuous improvement, and to be a future-proofed organisation
- We are industry leaders

Financial capital

- We are a minimum-cost provider
- We are financially stable over the long term
- We optimise cash flow and interest cover
- We optimise asset value
- We are a commercially savvy business

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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% 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 watermains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure Growth Charge (IGC)	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Integrated Reporting	This is an internationally recognised framework for reports. It is a concise communication about how an organisation's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.
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. It is known as the Auckland Water Efficiency Strategy.
Reliability-Centred Maintenance (RCM)	A framework that 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 Water Services (ANZ) Pty Limited (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 (e.g. 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 sewerage network from domestic, commercial or industrial locations.

Watercare Services Limited

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