2014 ANNUAL REPORT

FOR ALL OF AUCKLAND

Watercare
An Auckland Council Organisation

Understanding our reporting

Watercare reports on areas of the business which are important to stakeholders, regulators and the company. Watercare has sought to provide a comprehensive view of the business by producing both an annual report and a supplementary report that follows the Global Reporting Initiative (GRI) framework.

ANNUAL REPORT

Watercare's annual report covers its performance against 49 targets within eight focus areas.

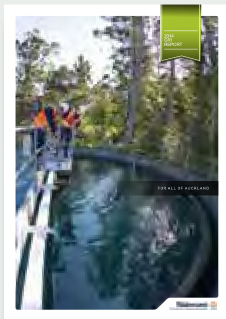
The report also includes the financial statements and statutory information.

Focus areas:

- Safe and reliable water
- Healthy waterways
- Health, safety and well-being
- Customer satisfaction
- Stakeholder relations
- Integrating sustainable thinking
- Effective asset management
- Sound financial management

For ease of reading, a dashboard of this year's performance is on page 6-7.

GRI REPORT



The GRI report forms the basis of Watercare's annual report and provides the underlying data supporting the annual report's performance measures.

Featuring a comprehensive level of data, the GRI report enables stakeholders to gain an in-depth understanding of Watercare's sustainability performance.

Themes:

- Customer
- Environment
- Community
- People
- Economy

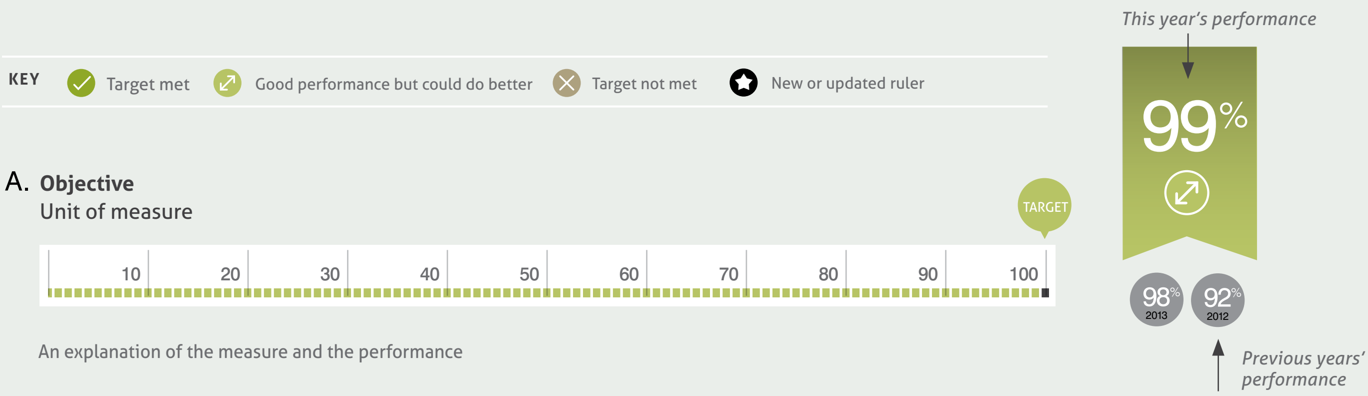
A content index on page 64 allows stakeholders to check that all material GRI indicators are reported.

HOW TO READ THE PERFORMANCE RULERS

(Pages 27-69)

Within each focus area, Watercare uses rulers to measure performance. Each ruler comprises 10 units, which are either a measure or an action to be achieved, earning a score out of 100 per cent. Previous years' performance is included when available, to allow the reader to compare performance from one year to the next.

Every target within a focus area is weighted based on its importance to Watercare in realising its vision. An average of the scores in a section may not accurately reflect actual performance in that area.



FEEDBACK Watercare remains committed to improving future annual reports. Please provide feedback on this report by emailing Anusha Vishnampet, Communications Advisor, at avishnampet@water.co.nz.

ANNUAL REPORT 2014 CONTENTS

Cover image: Watercare Maintenance Technician Ebrahim Mohamed and Process Technician Alex Walker work at a sludge dewatering tank at Huia Water Treatment Plant.

OVERVIEW OF WATERCARE

Our Vision: Outstanding and affordable water services for all the people of Auckland.

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

Each day, Watercare Services Limited (Watercare) supplies around 326 million litres of water to the people of Auckland and treats around 378 million litres of wastewater to a high standard.

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

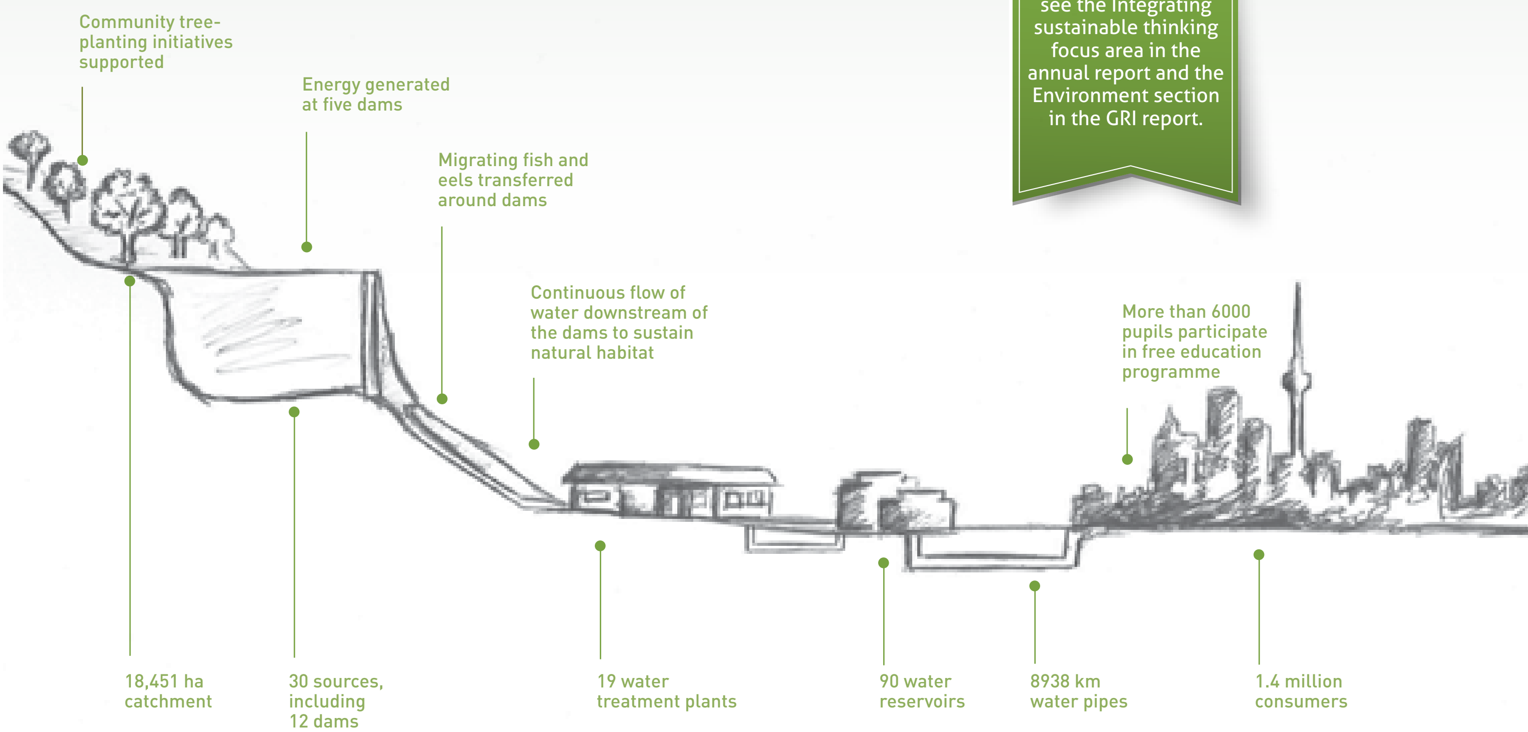
FOR ALL OF AUCKLAND

The integration of Auckland-wide wholesale and retail water and wastewater services in 2010 created the opportunity to more cost-effectively and efficiently deliver these services to all of Auckland. Since then, Watercare has invested $1 billion in maintaining, renewing and extending its extensive network of dams, pump stations, pipes and treatment plants to meet growing demand, lift levels of service, and improve environmental outcomes across Auckland. Watercare will continue to invest in its service network in all parts of the region, so that it can continue to provide outstanding and affordable water services for all the people of Auckland – now and into the future.

FROM SKY TO SEA

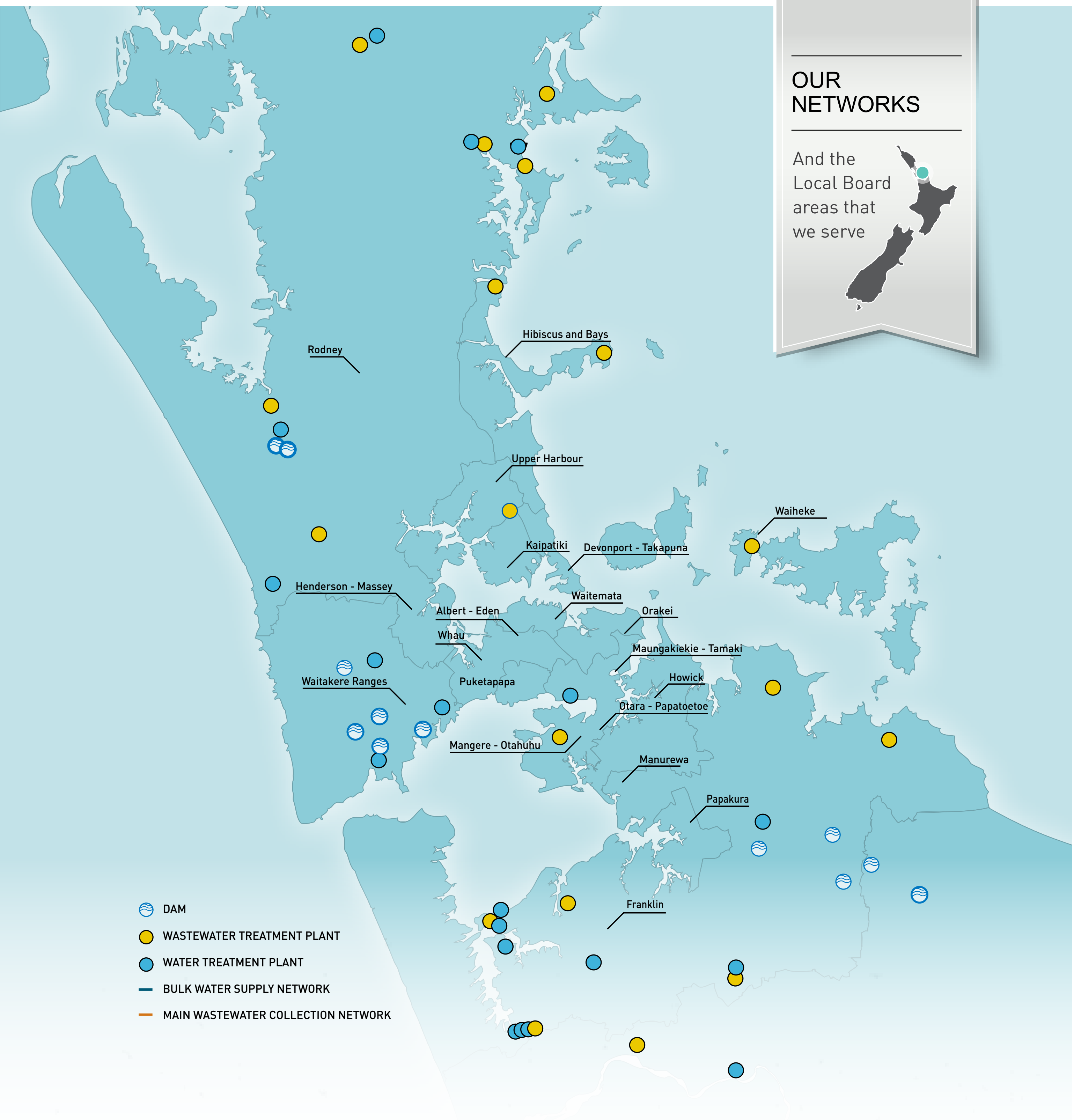
Watercare's operations

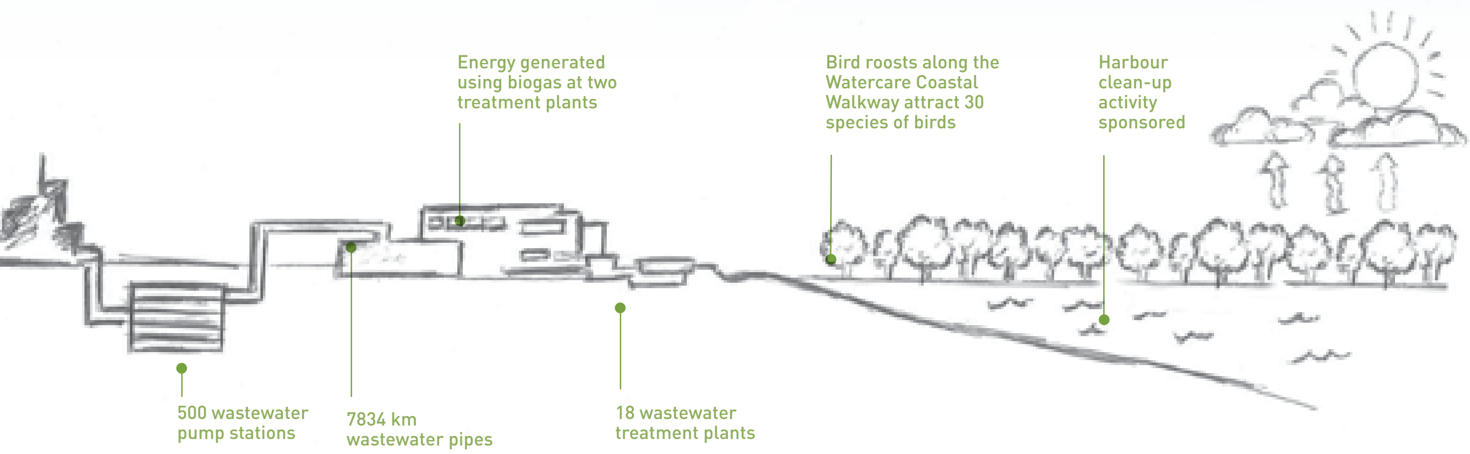
For more information, see the Integrating sustainable thinking focus area in the annual report and the Environment section in the GRI report.



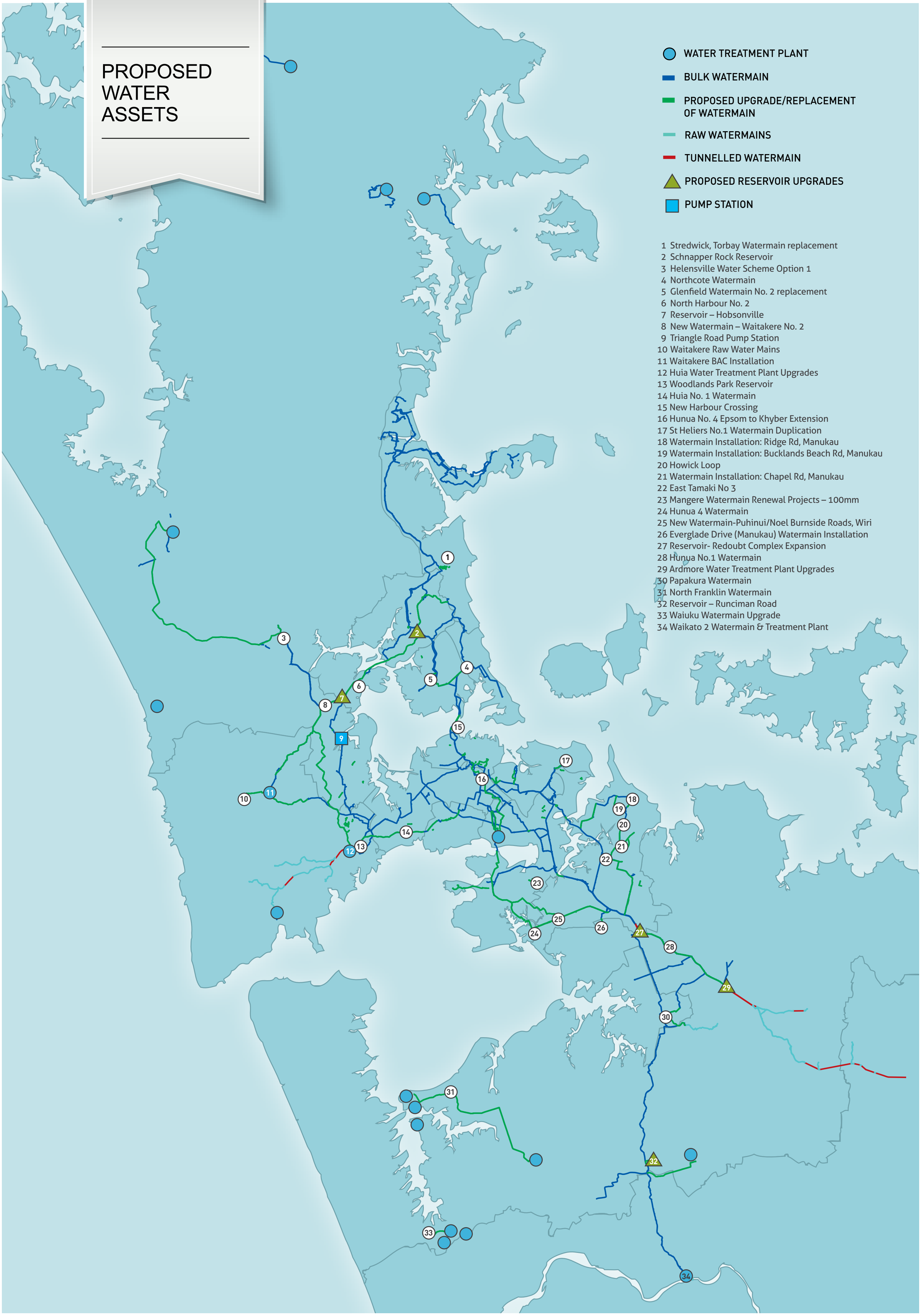
OUR NETWORKS

And the Local Board areas that we serve

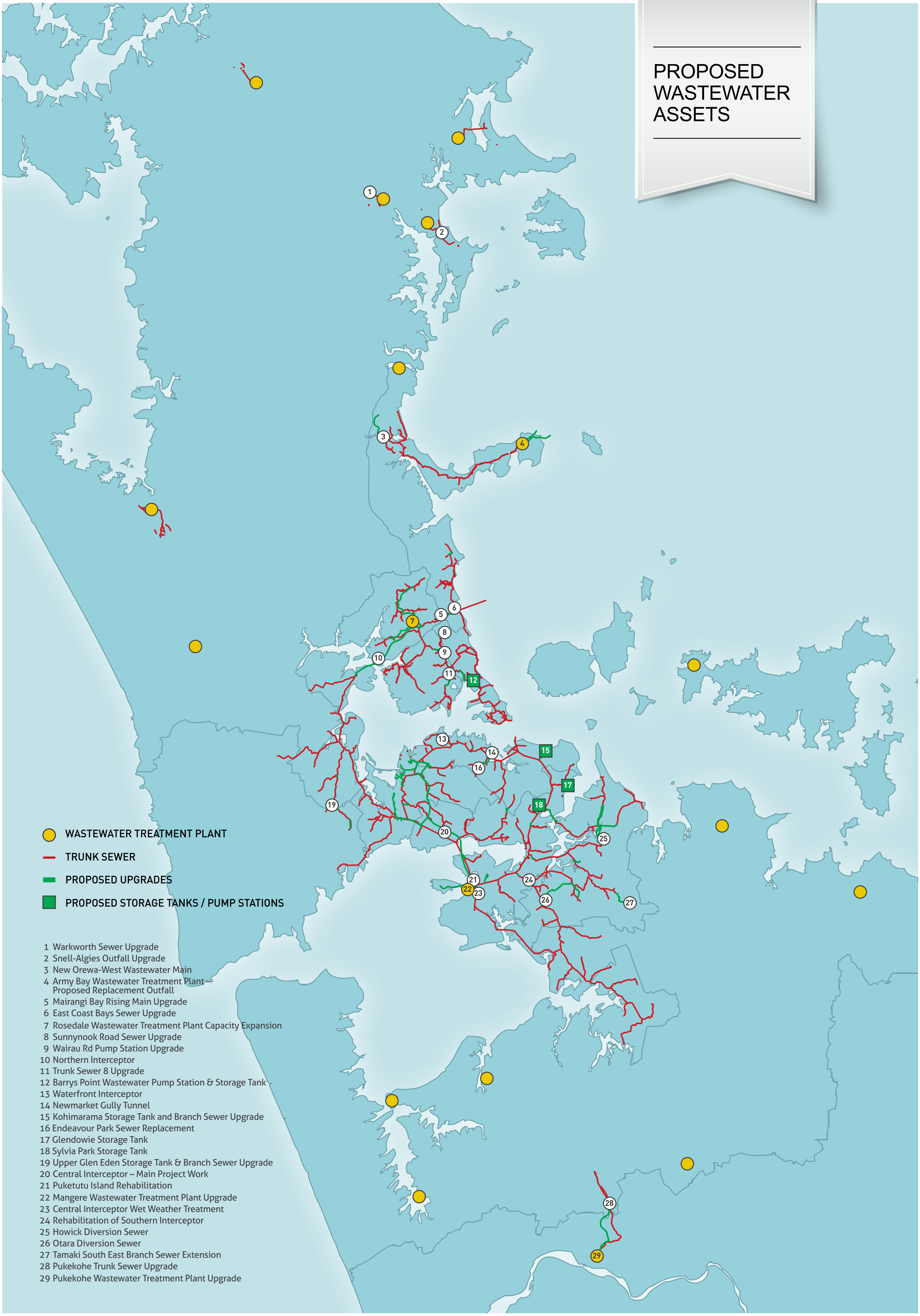




PROPOSED WATER ASSETS



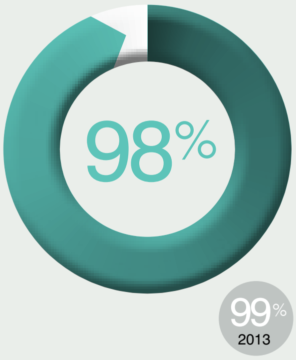
PROPOSED WASTEWATER ASSETS

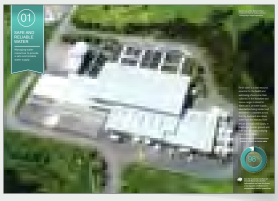


OUR PERFORMANCE

Watercare measures and manages its performance against 49 targets within eight focus areas. The dashboard scores are a weighted average of the percentage performance against targets in a focus area. This reflects the relative impact of each activity on the business.

01 SAFE AND RELIABLE WATER





See page 24

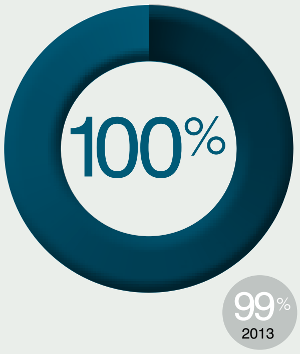
In 2013/14, Watercare:

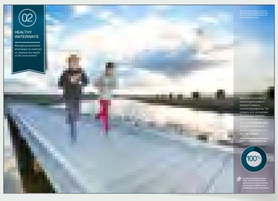
- Met all targets relating to water safety, Ministry of Health drinking water standards and service reliability except one (1a) and continued to make progress on the upgrade of non-metropolitan water treatment plants
- Addressed water quality issues in the Waitakere supply lakes
- Completed an extensive evaluation of potential sources of supply to meet expected future demand, which identified an increased take from the Waikato River as the most economic and environmentally-friendly solution to meet growth
- Resolved issues around water quality and taste in Pukekohe and Buckland by connecting these areas to the metropolitan water supply network (part of a continuing programme of work in the Franklin area)
- Planned for future growth in Auckland's north-west by connecting Riverhead and most of Kumeu–Huapai to the metropolitan water supply network

Next financial year:

- Advance plans to boost security of supply on the North Shore and meet expected demand and growth by beginning work on the 33 km, $240-million North Harbour No. 2 Watermain, which will run between the Titirangi and Albany reservoirs

02 HEALTHY WATERWAYS





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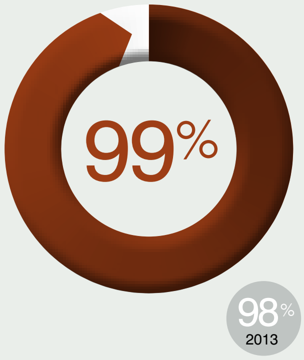
In 2013/14, Watercare:

- Made significant progress towards gaining resource consents for the $950-million Central Interceptor project, which will remove the environmental risk to the Manukau Harbour posed by the age of the existing infrastructure and substantially reduce wet weather overflows
- Commenced a $136-million upgrade of the Mangere Wastewater Treatment Plant, which will ensure continuing compliance with consent conditions and the ability to treat future increased flows without compromising environmental objectives
- Continued improvements to rural wastewater treatment plants, lifting service levels and enhancing environmental performance in areas not connected to the metropolitan wastewater network

Next financial year:

- Commence detailed design for the upgrade of the Rosedale Wastewater Treatment Plant, which will rebalance the wastewater network in line with projected population growth

03 HEALTH, SAFETY AND WELL-BEING



See page 36

In 2013/14, Watercare:

- Continued to develop its programmes and work methods to ensure public, staff and contractor safety. Examples include refreshing traffic-management plans and procedures, and the ongoing review of hazards at Watercare sites
- Maintained a strong focus on training in health and safety management for all staff
- Increased total training and development provided to staff

Next financial year:

- Review all processes to ensure compliance with the Health and Safety Reform Bill expected to be passed in late 2014 and with current best practice

04 CUSTOMER SATISFACTION

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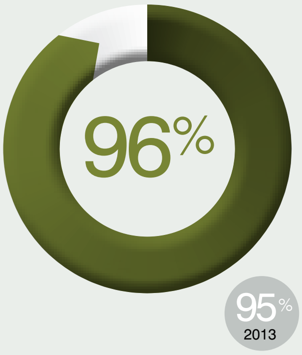
In 2013/14, Watercare:

- Implemented a one-team approach to resolving customer issues and complaints
- Introduced voice-activated billing emails for customers with visual impairment
- Continued to support the Water Utility Consumer Assistance Trust, which assists domestic customers unable to pay their water bills

Next financial year:

- Improve customer self-service, online payment options and e-billing to make these processes quicker, simpler and more intuitive
- Investigate options to replace existing customer information database with an integrated system that better links with mobile phone and self-service technology
- Provide dedicated support for non-domestic customers during the transition to the new wastewater tariff system

05 STAKEHOLDER RELATIONS



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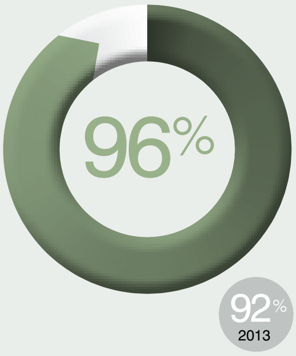
In 2013/14, Watercare:

- Liaised with Auckland Council on the Unitary Plan and Special Housing Areas
- Continued to communicate with Local Boards and engage with communities on Watercare projects in their areas
- Consulted with interested parties, particularly iwi, on numerous resource consent applications
- Continued to deliver a free education programme to schools across Auckland
- Actively participated in the development of relevant legislation and policy initiatives

Next financial year:

- Continue to engage with Local Boards, iwi and the community on infrastructure projects including: the Glen Eden and Mairangi Bay storage tanks; Huia Water Treatment Plant upgrade; Central Interceptor; Hunua No. 4 Watermain extension; Northern Interceptor; North Harbour No. 2 Watermain; upgrades at the Mangere and Rosedale wastewater treatment plants; and the resource consent application to increase the water take from the Waikato River

06 INTEGRATING SUSTAINABLE THINKING



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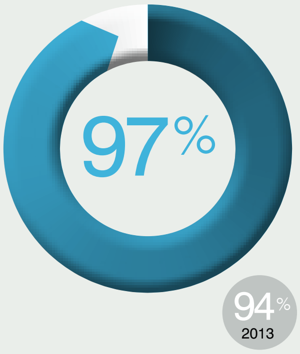
In 2013/14, Watercare:

- Developed and released the 2013–2016 Auckland Regional Water Demand Management Plan – Watercare's action plan to further improve water efficiency across the region
- Generated 31 per cent of total energy needs
- Continued the rehabilitation and restoration of the Mangere foreshore; began work on transforming Puketutu Island into a regional park
- Relocated offices to a 5-Star Green Star Certified building
- Created a Green Team of staff volunteers to work on improving the sustainability of Watercare's activities and workplaces

Next financial year:

- Assess the performance of the two-year Green Team programme and decide the best way forward
- Commence an internal assessment of the sustainability of infrastructure projects
- Implement a water efficiency programme for non-domestic customers
- Expand the scope of reporting on greenhouse gas emissions

07 EFFECTIVE ASSET MANAGEMENT



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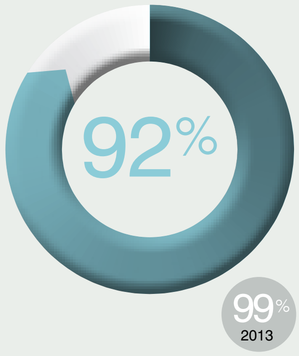
In 2013/14, Watercare:

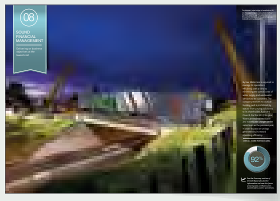
- Delivered 96% of its budgeted capital programme
- Continued to meet and exceed targets relating to demand management
- Refined maintenance systems and processes to improve returns on investment
- Updated the Asset Management Plan for the period 2015–2025

Next financial year:

- Refine the renewal strategy for local network infrastructure assets to ensure water quality and service levels are maintained
- Renew large transmission mains including Huia No. 1 and Hunua No. 1 to cater for current and future demand

08 SOUND FINANCIAL MANAGEMENT





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In 2013/14, Watercare:

- Maintained water and wastewater charges at 2012/13 levels
- Met SOI target relating to cash flow/interest cover ratio
- Reduced its cost of funds, but failed to meet internal benchmark for interest cost
- Borrowed at lower interest rates through Auckland Council
- Reduced operating costs by renegotiating contracts for electricity and chemicals
- Reduced the level of aged receivables

Next financial year:

- Continue to focus on procurement efficiencies
- Implement the streamlined non-domestic wastewater tariff system

CHAIRMAN'S REPORT

We have been wholly responsible for the provision of water and wastewater services in Auckland for four years now and I am proud to say that we are continuing to deliver on our vision of outstanding and affordable services for Aucklanders. Compared to the previous regimes we have managed to save in excess of $100m per year and over the last three years drinking water prices have gone up by less than two percent a year. While it will be difficult to hold prices to this level given the predicted growth and the need to fund major projects – such as the Central Interceptor and the new Waikato pipeline – we are endeavouring to keep price increases to a minimum. However, Watercare will increase its water and wastewater charges for the first time in two years on 1 July 2014 due to increasing capital and operating costs. This will see the average household bill rise by less than $2 per month.

One of our major initiatives has been to introduce a more consistent and equitable charging regime across Auckland. Historically, under the local and district councils that used to govern Auckland, the amount households and businesses paid for services varied significantly depending on the location of their property. In total we inherited 72 different pricing regimes. Therefore, the development of a standardised pricing regime that is more equitable and better reflects the true costs became a priority for the company following integration.

Subsequently, Watercare reduced and standardised the price of drinking water across Auckland in 2011 (to match the lowest local Council price; see table on page 12) and standardised wastewater charges for domestic customers the following year. Since 2012, there has been a continuing concerted effort to standardise wastewater charges for non-domestic customers. The process has been challenging as Watercare inherited 44 tariffs from the legacy councils and water companies. We consulted with non-domestic customers extensively, and based on their feedback, simplified the previous 44 tariffs to four pricing plans, based on the volume of wastewater discharged by the customer.

As a result, in May 2013 we announced the new wastewater tariff for non-domestic customers and our focus over the last 12 months has been to help customers prepare for the new tariff, which will be phased in over a three-year period from 1 July 2013. While the new tariff will not generate additional revenue for Watercare, the effect on individual customers will vary with bills increasing or decreasing to a greater or lesser degree.

Auckland's population is predicted to grow by one million people over the next 30 years. In response, Auckland Council has developed a strategy to make Auckland the world's most liveable city. The *Auckland Plan* shows how the council will prepare for the additional people and provide 400,000 new homes. This places considerable pressure on our capacity and supply systems. The council has been working to identify Special Housing Areas (SHAs) where the development of affordable housing can be fast tracked. Over the last 12 months, Watercare has been working closely with council on this process, assessing the impact on both existing and planned water and wastewater infrastructure. We have undertaken considerable work to ensure our capital works programme supports the first three tranches of SHAs. One area of concern for us is growth in rural communities not adjacent to our current infrastructure.

Over the next 10 years, Watercare needs to invest $4 billion* in infrastructure. To fund that investment in a way that is fair for all, we employ a combination of service charges, growth charges and borrowing that balances the financial contribution made by present and future generations and ensures the costs of growth and development are accurately aligned. From 1 July 2014, our infrastructure growth charges will rise as a result of increasing growth. These charges only partially recover the capital costs associated with growth, from those who increase demand on the system and thus reducing the impact on existing customers, as well as the next generation. We are analysing how much of the growth will need to be subsidised by existing users.

Details of many of our infrastructure projects – including projects to improve services in rural areas – are included in the Acting Chief Executive's Report and in the focus areas. Two major initiatives we would like to highlight are:

- Planning for the Central Interceptor tunnel which will carry wastewater 13-kilometres from Western Springs to the Mangere Wastewater Treatment Plant. This $950-million project will replace the ageing Hillsborough Tunnel and Manukau Siphon that are nearing the end of their life, reduce overflows significantly and cater for population growth. We are pleased to report that resource consent was granted in November 2013 and we are currently working on a detailed design as well as confirming the construction methodology. The construction is expected to take six years to complete.
- The proposal to increase the net water take from the Waikato River progressively over the next 35 years, from the current 150 million to 350 million litres per day. The company lodged its resource consent application with the Waikato Regional Council in December 2013 and continues to consult with stakeholders. Watercare decided to apply for additional take from the Waikato River as that was the only viable option available to sustain the supply of drinking water to Auckland in the future. Once the consent is granted, Watercare will plan a staged expansion of the Waikato Water Treatment Plant and the construction of a second pipeline from the plant. This will secure Auckland's water supply for more than 30 years. Considering demand, climate change and other environmental factors, it is prudent to plan for a progressively increased take from the Waikato from the summer of 2017/18.

As in previous years, the board wishes to record its appreciation of Watercare's management and staff. It is through their commitment that the company is realising its vision.

*Real dollars, not including capitalised interest

We would like to thank Raveen Jaduram for his contribution as Acting Chief Executive in Mark Ford's absence due to illness. Raveen's considerable experience in the sector has ensured that the high standards set by Mark have continued to be upheld.

We would also like to thank Mark Ford for his enormous contribution to Watercare. Mark is retiring following ill health earlier in the year. During Mark's 20-year leadership role the company has become recognised globally as an example of best practice in the provision of water supply and wastewater services. Auckland's water and wastewater infrastructure has become significantly more robust and resilient and able to cope with the demands of a growing population and increasingly robust environmental standards. On behalf of the Board, I would like to wish Mark well and thank him for an outstanding legacy.

Finally, I want to acknowledge the stewardship of two Board members who retired in October 2013, my predecessor Chairman Ross Keenan, and director and Chairman of the Audit and Risk Committee, Jeff Todd. Under their direction, the company instigated a range of initiatives to ensure all of our customers receive the same great services at the same affordable prices.

D J Clarke
Chairman

Lower Huia Dam in the Waitakere ranges

ACTING CHIEF EXECUTIVE'S REPORT

Each day, we work hard to deliver the things our customers want from us: the secure supply of safe drinking water; and the collection, treatment and disposal of wastewater in a way that keeps our environment and waterways healthy. In this year's annual report I am pleased to share the excellent progress Watercare is making in delivering those services.

In his report, the Chairman outlined the progress we have made over the last four years with respect to standardising the water and wastewater tariffs in the interest of equity. I would like to take this opportunity to highlight the work we have carried out to improve the services our rural communities receive.

Serving our rural communities

Watercare inherited Auckland's rural water networks and treatment plants in 2010. Many of these faced water quality issues and/or struggled to meet peak demand. The district councils that had been responsible for these networks and plants had not been able to carry out all of the necessary upgrades due to the relatively small customer base that was expected to fund the work. Therefore, delivering quality water that meets the Ministry of Health's drinking water standards became a priority for Watercare (page 27).

We began instigating a range of long- and short-term initiatives to address rural shortfalls in 2011. The company embarked on a $116-million project to serve the Franklin district with water from the metropolitan supply. I am very pleased to report that we connected the townships of Pukekohe and Buckland in September 2013 and subsequently decommissioned their old treatment plants. The remaining townships will be connected within the next 12 months and a further four plants will be decommissioned (page 26).

In the Rodney district, a project to expand water networks in the townships of Kumeu-Huapai and Riverhead, served by the metropolitan water supply, is well underway and expected to be completed by August 2014. This new infrastructure, coupled with our earlier work on the wastewater network, is supporting growth in the area and I am proud of this achievement. Also in Rodney, work to secure new water sources for Warkworth, Wellsford and Helensville continues.

Along with water infrastructure, Watercare inherited the region's rural wastewater networks and treatment plants in 2010 and many of these had capacity and/or compliance issues. We continue to make progress on upgrading these networks and plants. We want to ensure the wastewater infrastructure in every rural town offers an appropriate level of capacity and treatment to protect public health and accommodate future growth.

Developing and maintaining our networks

While our work in the rural areas is critical, it represents only a fraction of our total infrastructure programme. Currently, more than 180 projects with a total cost of over $2.7 billion are underway to update and expand infrastructure across Auckland.

In the last 12 months, we delivered 96 per cent of our infrastructure programme (page 7). In addition to the work undertaken in rural areas, highlights for the year included:

- Completing the third section of the $350-million Hunua 4 watermain. This watermain will provide for growth and improve security of supply to central Auckland and the North Shore once it is complete in 2016.
- Increasing the capacity of the Waikato Water Treatment Plant from 125 to 150 million litres per day.
- Completing the major earthworks associated with a $136-million project to construct a new treatment facility at the Mangere Wastewater Treatment Plant. The Biological Nutrient Removal facility will increase the plant's treatment capacity by 20 per cent and has been designed to allow for future expansion if required (page 62).
- Completing the major preparatory works associated with the rehabilitation of a former quarry on Puketutu Island using treated biosolids. Watercare's vision for the island is for it to become an outstanding regional park that recognises its unique Maori and European heritage.

Our infrastructure projects are not planned and delivered in isolation. We work closely with the planning, operational and regulatory sections of Auckland Council and with developers. This year we have been participating in the development of the Auckland and Unitary plans to ensure the infrastructure requirements are well understood and appropriately integrated.

Watercare has more than $8 billion worth of assets and is planning to invest a further $4 billion in assets over the next 10 years. Despite these significant figures, we are not just an infrastructure company. We are also a service delivery company focused on meeting the water supply and wastewater treatment needs of our customers, the people of Auckland,

Watercare Network Engineer Maria Eliza with students from James Cook High School.

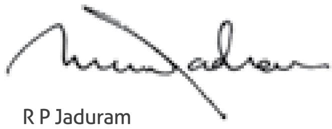
A service organisation

Watercare has more than $8 billion worth of assets and is planning to invest a further $4 billion* in assets over the next 10 years. Despite these significant figures, we are not just an infrastructure company. We are also a service delivery company focused on meeting the water supply and wastewater treatment needs of our customers, the people of Auckland.

Every day, our network teams are on the job throughout Auckland, maintaining over 16,000-kilometres of pipes, hundreds of reservoirs and dozens of plants to ensure the continuous supply of drinking water and the collection, treatment and disposal of wastewater in a way that keeps our waterways healthy. Our contact centre staff handle over 1500 emails, phone calls and letters from customers every day.

Our commitment to our customers extends to the affordability of the services we provide. We do not operate to make a profit and are prohibited by statute from paying a dividend to our shareholder, Auckland Council. I am pleased to report that this year we were able to hold our water and wastewater prices as a result of the cost savings and efficiencies achieved last year. Our customers' monthly water bills represented only 0.9 per cent of the average household income (page 45), meeting the target for affordability of services. However, increasing operational and capital costs means there will be a small price adjustment on 1 July 2014.

I express my sincere gratitude to all our employees for their dedication, passion and contribution throughout the year. I am also indebted to the Board of Directors for giving me the opportunity to serve as Acting Chief Executive and to Mark Ford who has continued to offer valuable advice, support and guidance.



R P Jaduram
Chief Executive (Acting)

* Real dollars, not including capitalised interest

A HISTORY OF WATER TARIFFS FROM 2010 TO 2014							Estimated annual water bill for a residential household using 600 litres per day		
Previous council area prior to the 2010 amalgamation	2010/2011: Previous council water tariff per 1000 litres*	2011/2012: Watercare water tariff per 1000 litres	12/2013: Watercare water tariff per 1000 litres	2013/2014: Watercare water tariff per 1000 litres	2014/15: Watercare water tariff per 1000 litres	Change to volumetric water price since amalgamation*	Under 2010 tariffs**	Under 2014 tariff	Change in average household's annual water bill since amalgamation**
Rodney District (Rural and Towns)	$3.50	$1.30	$1.343	No change	$1.375	-61%	$1,010	$301	-70%
Rodney District (Hibiscus Coast)	$1.96	$1.30	$1.343	No change	$1.375	-30%	$510	$301	-41%
North Shore City	$1.52	$1.30	$1.343	No change	$1.375	-10%	$333	$301	-10%
Waitakere City	$1.74	$1.30	$1.343	No change	$1.375	-21%	$380	$301	-21%
Auckland City	$1.62	$1.30	$1.343	No change	$1.375	-15%	$396	$301	-24%
Manukau City	$1.31	$1.30	$1.343	No change	$1.375	5%	$286	$301	5%
Franklin District	$2.00	$1.30	$1.343	No change	$1.375	-31%	$438	$301	-31%

All prices include GST.

* Excludes 2010 fixed charges for Auckland City and Rodney.

** Includes 2010 fixed charges for Auckland City and Rodney.

IN RECOGNITION OF LEADERSHIP

Mark Ford

Companion of the New Zealand Order of Merit

The retirement of Mark Ford as Chief Executive in September this year represents the end of an era for the company. During almost two decades of service, Mark's exceptional knowledge of the water industry and his outstanding qualities of leadership contributed greatly to the maturing of the company from a local bulk water and waste water utility to a regional distributor and retailer. Under his stewardship Auckland's water infrastructure became much more robust and resilient. He leaves the company well positioned to continue providing the safe and reliable water supplies that New Zealand's most rapidly growing region requires for its wellbeing.

Mark Ford with the Right Honourable Sir Anand Satyanand

The legacy Mark leaves covers many complex and large projects that involved significant investment. That Watercare was able to achieve delivery of these on time and within budgeted parameters is testament to the qualities and skills that he brought to the position, and to his understanding of the community he served, especially iwi. Under his leadership, Watercare grew to hold assets worth more than $7.8 billion and supply essential services to more than 1.4 million Aucklanders.

Major projects carried out under Mark's term included:

- the $500-million upgrade of the Mangere Wastewater Treatment Plant and associated restoration of Manukau Harbour wetlands and surrounds;
- the commissioning of the Waikato River water pipeline and treatment plant along with resolution of complex resource consent issues and the concerns of tangata whenua;
- the $120-million construction of a high-capacity tunnel and pump station to replace an ageing wastewater pipe that bisected Hobson Bay and a pump station that overflowed during wet weather;
- the transformation from a bulk water supply company to an integrated bulk and retail service provider for all of Auckland;
- the delivery of a $116-million project to connect the townships of Franklin to the metropolitan supply, overcoming long-standing quality and supply issues.

This is an outstanding record for the company and a legacy of which Mark can be extremely proud. His close attention to preserving the natural environment was a hallmark of his administration. The sharp focus and attention he gave to restoring sections of the Manukau Harbour after the decommissioning of the Mangere oxidation ponds was a notable feature of his tenure. Aucklanders have Mark and his team to thank for the outstanding walkways that have now become an integral part of the southern shores of the harbour.

The growing global reputation of Watercare as a company devoted to best practice management of its responsibilities meant that Mark's special skills were quickly recognised in Wellington. The Government turned to him for the expertise needed in 2009 to transition eight local authorities into one Auckland Council. That this task, as Executive Chairman of the Auckland Transition Agency, was also accomplished on time and that for the most part Aucklanders had a seamless change to the new local government administration was testament to his organisation and leadership qualities.

His willingness to serve community interests was rapidly taken up. Mark completed two years as Chair of the Auckland Regional Transport Authority and subsequently a one year term as Chair of Auckland Transport following the establishment of the Auckland Council. When the Crown-owned entity Solid Energy appeared in grave danger of financial collapse, it was to Mark that the Government turned to secure that company's future. Appointed as Chairman in 2012 Mark resigned the position earlier this year because of health concerns. He had also served as Chair of the agency established to oversee restoration of Christchurch's transport, water and wastewater infrastructure following the devastating earthquakes of 2011. That he undertook many of these duties without receiving personal recompense became well known.

Government recognition of Mark's services came in 2011 when he became a Companion of the New Zealand Order of Merit in the Queen's Birthday Honours list.

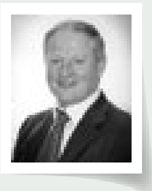
Mark returned to Watercare following his term with the Auckland Transition Agency and the Board was pleased that he accepted our invitation to return to his former position. That ill-health has now forced him to relinquish his duties is much regretted by the Board. We wish him, and his family, well in coming months. As commented by the Mayor of Auckland: "He has played an important part in ensuring the wellbeing of Aucklanders".

DIRECTORS' PROFILES

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

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

General disclosure of interests:
Chairman, TRGG Ltd – Radiology Services; Chairman, New Zealand Institute of Rural Health; Chairman, Skin Institute; Director, Hawkins Watts Ltd; Director, Cranleigh Merchant Bankers; Director, FarmIQ Systems Ltd; Director, Ngāi Tahu Tourism Ltd; Chairman, Jucy Group Ltd; Director, Hynds Group Ltd; Director, Health Alliance Ltd; Trustee, South Auckland Foundation



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

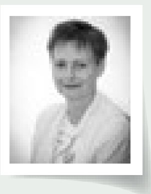
Mike Allen has extensive experience in investment banking and general management both in the United Kingdom and New Zealand. He has previously consulted to the Australasian water and infrastructure sectors.

General disclosure of interests:
Director, Coats PLC; Director, Guinness Peat Group; Director, Godfrey Hirst Ltd; Shareholder, Innoflow; Director, Tainui Group Holdings Ltd; Director, Breakwater Consulting Ltd

Peter S Drummond
MNZM, AFInstD

Peter Drummond is an experienced director and chairman, with extensive international business management and marketing expertise. He was previously chairman of Watercare and brings extensive knowledge of the wholesale and retail water services industry. Peter has also served on the boards of Vector, MidCentral Health and HortResearch Ltd, as well as a large range of community organisations such as Variety – The Children's Charity. He rejoined the Watercare board in March 2010.

General disclosure of interests:
Chairman, Appliance Connection Ltd; Chairman, Watercare Harbour Clean-Up Trust; Chairman, Variety Medical Missions South Pacific; Chairman, Ngāti Whātua o Ōrākei Whai Maia; Chairman, Variety International – The Children's Charity (Los Angeles); Director, NARTA New Zealand Ltd; Director, NARTA International Pty Ltd; Panel member, Fire Review, Department of Internal Affairs



Catherine Harland
BA, PGDipBus, MBA, MInstD, JP

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

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

Susan Huria
FPRINZ, MInstD
Chair of the Remuneration Committee

Susan Huria is a full-time director with a background in governance, marketing, communications and general management. She is a facilitator on the five-day Institute of Directors in New Zealand course.

General disclosure of interests:
Director, Ngāi Tahu Property; Director, Marsden Maritime Holdings Ltd; Director and Shareholder, Huria Anders Ltd; Director and Shareholder, Susan Huria Associates (2003) Ltd; Director and Shareholder, Te Ara Tika Properties Ltd; Director, Vermilion Design Ltd; Director, Airways Corporation of New Zealand Ltd; Chair, Veterinary Enterprises Group Ltd; Trustee, First Foundation; Member, Māori Governance Centre, University of Waikato Advisory Board

Tony Lanigan
MNZM, BE (Hons), PhD, FIPENZ, MICE
Chair of the Capital Projects Working Group

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 Ltd; Director and Chair, NZ Housing Foundation; Director, NZ Transport Agency; Director and Shareholder, A G Lanigan & Associates (2007) Ltd; Director, Tāmaki Makaurau Community Housing Ltd; Director and Shareholder, Lanigan Trustee Ltd; Director and Shareholder, Lanison and Associates Ltd; Shareholder, Fletcher Building

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

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

General disclosure of interests:
Director, AWF Group Ltd; Director, New Zealand Post Ltd; Director, The a2 Milk Company Ltd

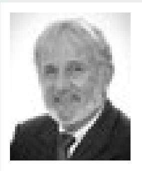
Nicola Crauford
BSc (Hons), PhD, CPEng, FIPENZ, AMInstD, FAICD

Dr Nicki Crauford has over 25 years' experience in the oil, electricity and gas sectors in the United Kingdom and New Zealand including many years with national grid owner Transpower, where she was a member of the executive team. Nicki was also chief executive of the Institute of Directors in New Zealand and deputy chief executive of the Institution of Professional Engineers in New Zealand (IPENZ). She chairs the Wellington Rural Fire Authority. Formerly Nicki was a director of Genesis Energy, the Centre of Advanced Engineering and Wellington Cable Car Limited. Nicki is an accredited member of the Institute of Directors of New Zealand and a fellow of the Australian Institute of Company Directors. She holds a bachelor's degree in chemical engineering, a PhD in fluid dynamics and combustion, and is a chartered professional engineer and a fellow of IPENZ.

General disclosure of interests:
Chair, Wellington Rural Fire Authority; Director, Environmental Protection Authority; Member of Electoral Authority, Cooperative Bank Ltd; Senior Consultant, WorleyParsons New Zealand Ltd; Director and shareholder, Riposte Consulting Ltd; Director and shareholder, Crauford Robertson Consulting; Director and shareholder, Martin Crauford Ltd; Director, Capacity Infrastructure Services Ltd; Director, Orion New Zealand Ltd

Note: Board members Jeff Todd and Ross Keenan retired in October 2013.

EXECUTIVES' PROFILES



Mark Ford
CNZM, BA
Chief Executive

Mark Ford is an experienced chief executive, director and chairman who has worked in the water, forestry, transport and petroleum industries. He has been Chief Executive of Watercare since 1994, except for a 20-month period from July 2009 when he was Executive Chairman of Auckland Transition Agency. As Executive Chairman, Mark was responsible for planning and managing the transition to Auckland's new governance structure. He currently serves as Independent Chair of the Christchurch Client Governance Group for the Infrastructure Rebuild. Mark is also a member of the Better Public Services Advisory Group.

All fees received from his association with companies or organisations outside Watercare are paid to Watercare.

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

Raveen Jaduram has been the acting chief executive of Watercare since February 2014. He rejoined Watercare in 2013 as General Manager of the Maintenance Services business unit that provides operations and maintenance support within Watercare. Prior to that, he was the managing director and chief executive of an Australian private water company, Murrumbidgee Irrigation Limited. He was chief operating officer at Watercare during the 2010 amalgamation of the local councils. Raveen is also an independent director of Capacity Infrastructure Services Limited.

All fees received from his association with companies or organisations outside Watercare are paid to Watercare.

Brian Monk
BCom, CA
Chief Financial Officer

Brian Monk is a chartered accountant with over 40 years' experience in corporate financial management. He was appointed to the role of Chief Financial Officer in November 2010, and holds responsibility for Watercare's financial management, treasury and strategic planning functions, as well as the company's laboratory. Brian has previously held senior financial management roles with Auckland Regional Council, Fletcher Energy, Air New Zealand and the United States' multinational S.C. Johnson. Brian is also the Deputy Chairman of Manukau Institute of Technology.

All fees received from his association with companies or organisations outside Watercare are paid to Watercare.

David Worsnop
BE (Hons)
Chief Operations Officer

David Worsnop has over 35 years' experience working in a range of infrastructure, power generation and primary industries. He is responsible for Watercare's operational, networks and compliance teams. David was Group General Manager (Service Delivery) at Vector from 2008 to 2012, and prior to this held a number of senior roles including New Zealand CEO of Hastie Group; Executive General Manager at Transfield Services Electrical Mechanical and Power, covering New Zealand and Australia; and management roles at industrial group SGS.

Graham Wood
MIM, BA (Hons), FIE (Aust), MCIWEM, CPEng (Aust), C.WEM (UK)
Chief Infrastructure Officer

Graham Wood is a chartered mechanical engineer with 25 years' experience in the water industry across four continents. He has been the managing director of water-related businesses in Australia, Singapore and in the United States. Graham joined Watercare in 2007 and now manages the company's capital programme, new developments, energy and control systems, and asset information group.

Trish Langridge
MBA, RGON
Chief Services Officer

Trish Langridge is an experienced general manager who has worked in both the health and local government sectors. Her responsibilities include customer services, human resources, sustainability, information services and property. Trish developed and implemented the customer services function of Auckland Council prior to joining Watercare in 2011.

Rob Fisher
ONZM, LLB, Dip TP
General Counsel

Rob Fisher is a barrister who has specialised in resource management, public law and local government law. He holds responsibility for statutory and environmental planning, resource consents and policy. As a litigator, Rob appeared frequently before the Environment Court, the High Court and the Court of Appeal. In a 40-year legal career, he has provided strategic advice and expertise to both private and public bodies, especially in the consenting of large infrastructure projects. Rob was the 2010 Barrister of the Year 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.

David Hawkins
MPP, TTC, JP
Corporate Relations Manager

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.

David Sellars
BCA, CA
Risk and Assurance Manager

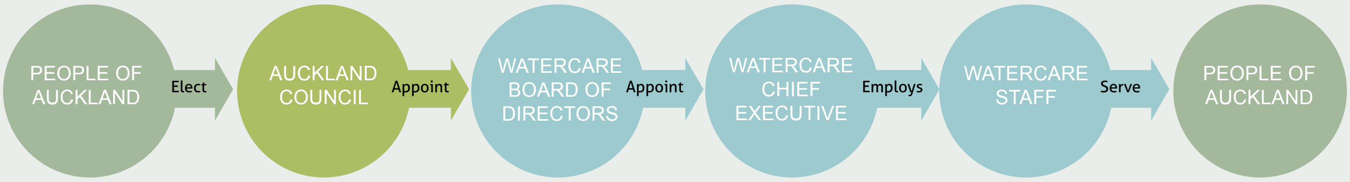
David Sellars is a chartered accountant with experience in banking and audit functions. He is responsible for the risk management function and assurance procedures including reporting on the internal control environment and governance of major projects. David is also responsible for the health and safety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

John Redwood
BA, GradDipJourn
Communications Manager

John Redwood joined Watercare in 2013. Prior to this, he worked as a communications consultant in both the private and public sectors, providing advice on media relations and corporate communications strategy to clients involved in agriculture, international shipping, tourism, telecommunications, market research, and financial and legal services. John's responsibilities at Watercare include media relations and stakeholder communications.

GOVERNANCE

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



Operational responsibility is delegated to the Chief Executive by way of a formal delegated authority framework. The Board comprises eight independent, non-executive directors. They, including the chair, are appointed by the shareholder. Their profiles and disclosures of interests are published on page 14.

Legislative framework

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

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

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

The company's obligations to deliver water and wastewater services for Auckland are established under Part 5, section 57(1), of the Local Government (Auckland Council) Act 2009 which stipulates that an Auckland water organisation:

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

The Auditor-General is the auditor of the company's financial statements. The Auditor-General has appointed Andrew Burgess, using the staff and resources of Deloitte, to undertake the external audit work on behalf of the Auditor-General, in accordance with the Auditor-General's Audit Standards, which incorporate New Zealand Auditing Standards. Deloitte has no relationship with Watercare outside of the audit. This satisfies the independence requirements of the Auditor-General and External Reporting Board.

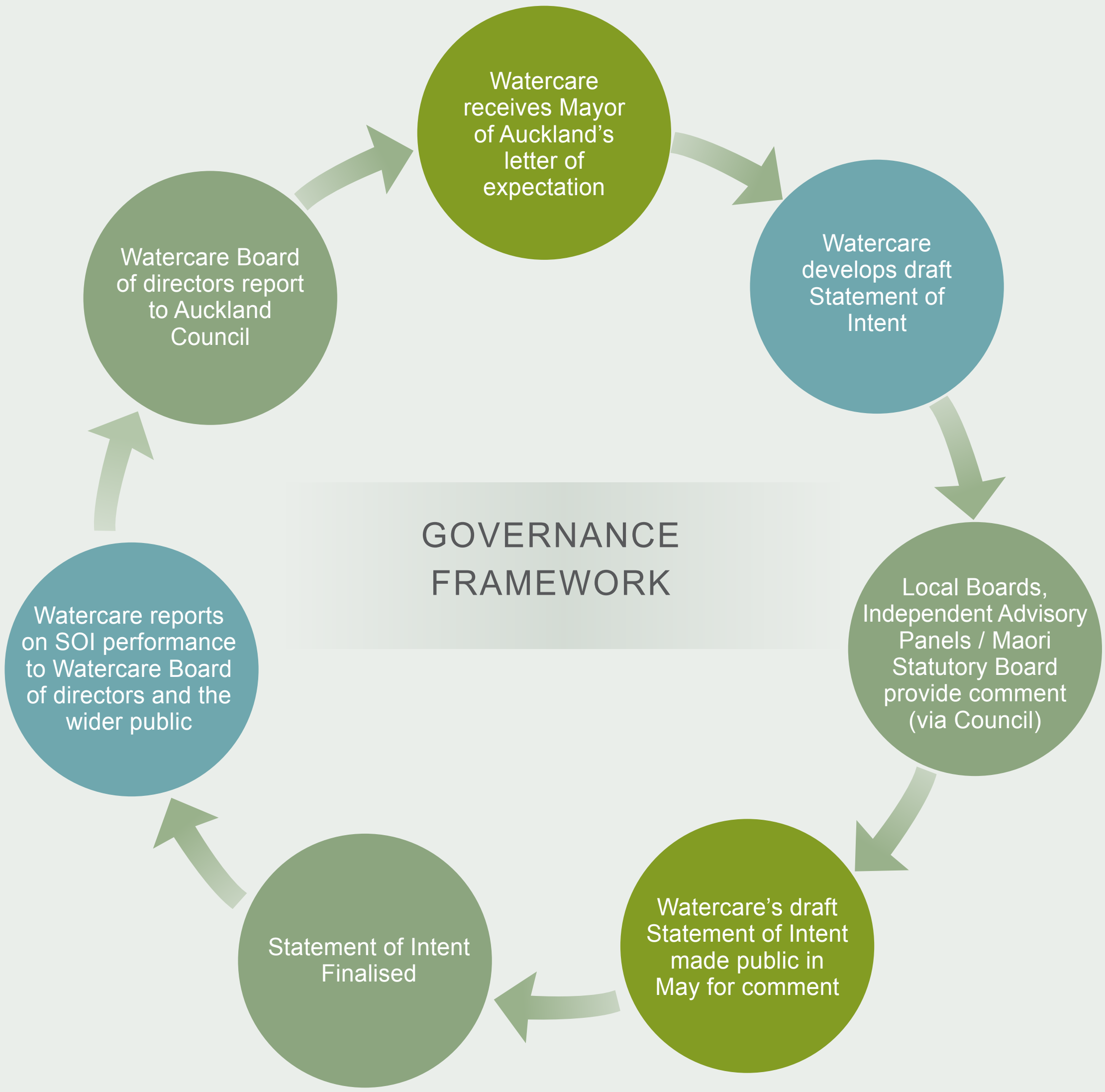
For Watercare, sustainability entails an ongoing commitment to understanding the potential its activities have to affect the community and the natural environment, and to managing its operations accordingly.

Also under the legislative framework:

- The company became a council-controlled organisation (CCO) on 1 July 2012, and must remain as such until at least 30 June 2015
- The company must give effect to council's Long-Term Council Community Plan (LTCCP) and act consistently with other specified plans and strategies of the council
- At least two board meetings a year are required to be held in public: one before 30 June to consider the council's comments on the draft statement of intent (SOI) for the upcoming financial year, and one after 1 July to consider the company's performance under the SOI for the previous financial year. In practice, all board meetings are held in public
- The company's financial statements, the SOI and specified long-term plans must be audited by the Auditor-General, or by an auditor acting on behalf of the Auditor-General.

Company goals and strategies

The goals and strategies for Watercare are set as part of the process of developing the SOI, in association with the shareholder and as approved by the Board. The process follows the receipt of the Mayor of Auckland's letter of expectation, which includes the vision and objectives for Auckland and the outcomes sought by the Auckland Plan. A draft SOI is then prepared by Watercare as the basis of consultation with the shareholder. This identifies the relationship between Watercare's activity and the delivery of those outcomes sought by the Mayor and those specified within the Auckland Plan. Prior to final adoption by the Board, comment on the final draft SOI is invited from Local Boards, the Independent Māori Statutory Board and the general public. Watercare delivered the 2013/14 SOI to the shareholder on 28 June 2013; this document is available on the company website www.watercare.co.nz.



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

For Watercare, sustainability entails an ongoing commitment to understanding the potential its activities have to affect the community and the natural environment, and to managing its operations accordingly. Watercare's Environmental Advisory Group comprises experts who advise on how the company's activities affect the environment. Watercare's Māori advisory group, the Mana Whenua Kaitiaki Forum, advises the company on how its plans and operations affect Māori and Māori's relationship with the natural environment. Reports from the Environmental Advisory Group and Mana Whenua Kaitiaki Forum can be found on pages 22 and 23 respectively.

Watercare's goal is to fully integrate sustainability into all aspects of its business. The company has established a dedicated sustainability function, supported by representatives from across the business. The company reports monthly to the Board, and quarterly to the shareholder, on performance against its sustainability targets.

Performance

The performance of the Board as a whole is reviewed by the shareholder annually. Board remuneration is determined by the shareholder. The Board oversees the performance of the Chief Executive, which is formally reviewed annually.

Watercare reports to the shareholder quarterly through the CCO Governance and Monitoring Committee. This annual report records the performance of the company against non-financial and financial performance measures included in the SOI.

The non-financial performance measures are set out in the Statement of Service Performance from page 120. A wider set of measures, including economic, social, environmental and selected SOI measures, has been grouped under eight headings and the performance of the company against these is reported on the upcoming pages.

BOARD STRUCTURE AND FUNCTIONS

Audit and Risk Committee

The Audit and Risk Committee helps the Board to fulfil its financial reporting responsibilities and provides assurance regarding compliance with internal controls, policies and procedures. Its responsibilities are established in the Audit and Risk Committee Charter, which is reviewed annually. The committee meets regularly with the internal and external auditors (both with and without management present) and the management of the company.

Membership must include at least three independent directors, at least one of whom must have accounting or financial management expertise. The committee has no delegated authority. The Board Chair may not chair the Audit and Risk Committee. All Watercare's directors receive the papers of the Audit and Risk Committee in advance, and all are invited to attend committee meetings.

The chair of the Audit and Risk Committee for 2013/14 was Julia Hoare.

Remuneration Committee

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

The committee provides advice to the Board on: organisational capability and design; human resource strategies; and remuneration policy, including the remuneration framework for the Chief Executive.

The chair of the Remuneration Committee for 2013/14 was Susan Huria.

Capital Projects Working Group

The Capital Projects Working Group is responsible for reviewing Watercare's capital planning and expenditure processes. Membership must include at least two Board members, the Board Chair, and the Chief Executive; the group must be chaired by a member of the Board. Papers that are reviewed by the group are circulated to all Board members, and all Board members can attend group meetings.

The group reviews the process and formulation of Watercare's Asset Management Plan (AMP), including a review of the business drivers and the prioritisation methodology included within the AMP framework; the project reporting framework; and the development of specific strategic projects. All major capital projects require approval of the full Board.

The Chair of the Capital Projects Working Group for 2013/14 was Dr Tony Lanigan.

Health and Safety Committee

The Health and Safety Committee helps the Board to fulfil its responsibilities to employees, contractors, the public and other stakeholders in respect of Watercare's health and safety practices. Membership must include at least two independent directors; at least one member will have an engineering qualification or similar. The Board Chair may not chair the committee.

The committee provides oversight in three areas: policy framework and specific health and safety policies; health and safety planning and reporting; reporting of serious harm incidents.

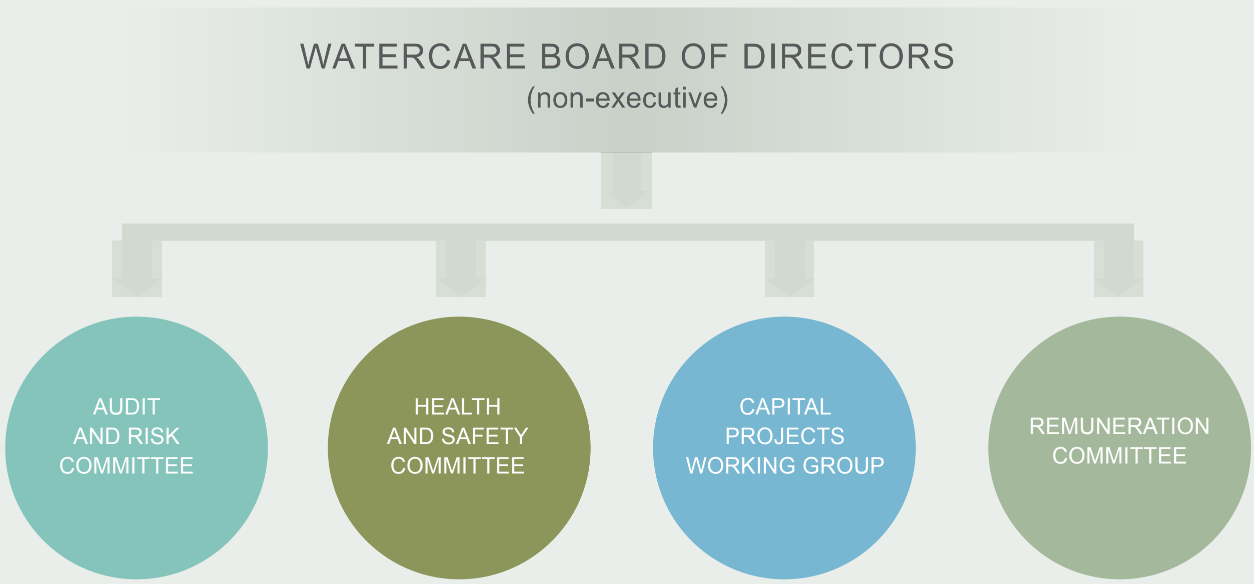
The chair of the Health and Safety Committee for 2013/14 was Mike Allen.

ACCOUNTABILITY

Reporting on performance

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

- An annual statement of intent (SOI)
- A long-term Asset Management Plan (AMP)
- An Annual Report that reports performance against the SOI and non-mandatory measures, and a supplementary report that follows the Global Reporting Initiative (GRI) G4 guidelines
- An annual Water Quality Report
- An overview of current water storage levels and other information (published weekly on the company website)
- Special reports and project newsletters for interested parties



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

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

Setting standards of conduct for staff

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

Regular independent reviews

Watercare subjects its planning, operations and reporting to review by independent consultants on a regular basis. This year, the Board and the Audit and Risk Committee received reports from specialist advisors on risk and control issues to inform the maintenance and development of good practice and procedures. The company is committed to a culture of continuous improvement and seeks independent feedback from specialist advisors as necessary to achieve this objective.

Risk management

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

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

INTEGRITY

Corporate governance charter

The charter defines the duties and obligations of the Board and board members covering fiduciary duty, duty of care, diligence, legal and statutory duties and conflicts of interest. It incorporates the principles of the New Zealand Institute of Directors' Code of Proper 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

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

Complaints disclosure

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

Disclosures of interest

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

BOARD PARTICIPATION

Board member attendance 2013/14	Date appointed / retired	Attendance at Board meetings	Attendance at Health and Safety Committee meetings	Attendance at Audit and Risk Committee meetings	Attendance at Capital Projects Working Group meetings	Attendance at Remuneration Committee meetings
Ross Keenan	Retired October 2013	3/4		1*	1*	2*
David Clarke		10/11	5*	3/5	4/4	3/3
Jeff Todd	Retired October 2013	4/4		2*		1*
Mike Allen		10/11	4/5	4/5	2/4	2*
Susan Huria		9/11	3/3	2*	1*	3/3
Peter Drummond		11/11		2*	4/4	2/3
Catherine Harland		10/11	3*	4/5	1*	2/3
Tony Lanigan		10/11	3/5	3*	4/4	1*
Julia Hoare	Appointed November 2013	7/7	5/5	5/5	3*	1*
Nicola Crauford	Appointed April 2014	3/3	3*			

* not a member of the committee

STAKEHOLDER ENGAGEMENT

Watercare's business activities directly and indirectly affect the quality of life of all Aucklanders, and by extension the economic, environmental and social well-being of New Zealand as a whole. Recognising this, the company engages with its stakeholders through a wide range of forums. This section identifies Watercare's stakeholders, outlines how the company interacts with them and highlights what was achieved during the 2013/14 financial year.

SHAREHOLDER (AUCKLAND COUNCIL)

Watercare engages by

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

What was achieved

- Delivered all reports and briefings on time
- Adhered to a two-way 'no surprises' policy
- Contributed to a whole-of-council submission on the Unitary Plan

ENVIRONMENTAL GROUPS

Watercare engages by

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

What was achieved

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

AUCKLAND COUNCIL AS SERVICE PROVIDER

Watercare engages by

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

What was achieved

- Contributed to key council outputs such as the development of the Special Housing Areas under the Auckland Housing Accord, the draft 2015–2025 Long Term Plan and the Unitary Plan
- Developed a Standard Operating Procedure for approvals related to Watercare activities in Auckland's parks and reserves

TANGATA WHENUA (MĀORI)

Watercare engages by

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

What was achieved

- MWKF is fulfilling the role and objectives it identified in a formal agreement with Watercare when this forum was established (see page 23)
- Presentations were made to MWKF by Auckland Council on various water matters including submissions from council to central government; by Watercare on its major infrastructure projects and wastewater disposal options review; by council and Watercare on water and wastewater facilities at marae; by the Department of Conservation on an iwi engagement framework; by Heritage New Zealand on the new legislation under which it operates; and by the forum itself on its submission to the proposed Auckland Unitary Plan

LOCAL BOARDS

Watercare engages by

- Ensuring Local Boards are aware of infrastructure projects, operations or business decisions that may impact constituents
- Negotiating landowner approvals needed for infrastructure works in local parks
- Providing input to Local Board plans that establish local board aspirations and focus areas
- Having a dedicated Local Boards advisor who implements an agreed engagement plan and contributes to Local Board workshops

What was achieved

- Maintained communications with Local Boards to ensure they were well informed of infrastructure projects, operations and business decisions
- Worked with Auckland Parks and Local Boards on landowner approvals for works in several parks including Mairangi Bay Park, Harold Moody Recreation Ground, Madills Farm Reserve and Sunnynook Park
- Participated in the Local Board expos in the Hibiscus and Bays, and Rodney Local Board areas in support of the Local Boards and local Watercare projects. Also attended Local Board planning workshops for southern areas
- Reviewed the Local Board engagement plan

REGULATORS

Watercare engages by

- Actively participating in the development of relevant legislation and policy initiatives

What was achieved

- Participated in the development of 29 different pieces of legislation and policy relating to water or wastewater, 18 of which concerned council regulation or policy, and 11 of which related to central government legislation or policy

CUSTOMERS

Watercare engages by

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

What was achieved

- Consulted with non-domestic customers on the standardisation of wastewater tariffs
- Developed the Be Waterwise sustainability booklet for domestic customers to help them reduce their water costs
- Redrafted the Customer Contract to make it easier to understand and communicated these changes to all existing customers
- Introduced a welcome letter for all new customers
- Improved the content and navigation on the company website to make it more accessible
- Improved processes for customers including the leak rebate and the special meter reading processes
- Continued to fund the Water Utility Consumer Assistance Trust, which assists residential customers who are unable to pay their water bills due to financial hardship

SUPPLIERS AND CONTRACTORS

Watercare engages by

- Managing supplier relationships through either the business units or the Procurement team

What was achieved

- Increased co-operation with key suppliers, particularly on the co-generation engine maintenance contract, resulting in the ongoing reduction of operating costs

WIDER PUBLIC

Watercare engages by

- Holding Watercare board meetings open to the public and inviting comment on the SOI measures annually
- Publishing official information in accordance with statutory obligations
- Running a free education programme to schools across Auckland to increase awareness about water and wastewater
- Continuing efforts to improve public amenities such as the Watercare Coastal Walkway
- Sponsoring the Watercare Harbour Clean-Up Trust, Trees for Survival programme and the Round the Bays fun-run as well as providing water stops at selected community events

What was achieved

- Responded to 22 requests for information made under the Local Government Official Information & Meetings Act (1987); average response time within five days
- More than 33 schools participated in 304 water lessons as part of Watercare's Education Programme
- A new section of the Watercare Coastal Walkway neighbouring the Mangere Wastewater Treatment Plant was opened to the public
- A total of 27.6 million pieces of litter have been removed from the harbours around Auckland since the establishment of the Watercare Harbour Clean-Up Trust

STAFF

Watercare engages by

- Surveying its employees annually
- Conducting annual performance reviews
- Providing opportunities for training and development
- Working with staff to ensure a safe workplace
- Providing life insurance and income continuity insurance

What was achieved

- The staff engagement score increased by four points to 63, compared to 59 last year
- Increased staff training hours from the previous year by 37.5 per cent

LOCAL RESIDENTS AND COMMUNITY GROUPS THAT NEIGHBOUR WATERCARE'S WORKSITES

Watercare engages by

- Providing information on Watercare projects to the public using a range of different channels including direct mail, door-to-door communication, advertisements, signage, community open days and the Watercare website
- Responding to public feedback and questions

What was achieved

- Watercare engaged with the public and community groups on numerous projects. Extensive public engagement was undertaken in preparation for and throughout the Panmure Wastewater Main replacement, and in the development of projects such as the Hunua No. 4 Watermain, and the Kohimarama, Mairangi Bay and Glen Eden storage tanks.

INFRASTRUCTURE PROVIDERS

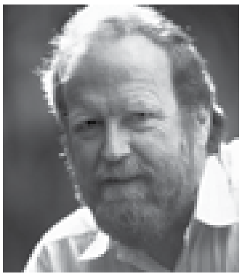
Watercare engages by

- Actively working with national agencies and council-controlled organisations like New Zealand Transport Agency (NZTA) and Auckland Transport (AT) to co-ordinate planned works in order to minimise disruption to the public

What was achieved

- Continued to update Watercare projects on the GIS utility viewer managed by AT
- Worked with NZTA and AT to co-ordinate the preliminary design of the North Harbour No. 2 Watermain with upgrades to Fred Taylor Drive and the SH18 Cycleway
- Worked with NZTA on the Hunua No. 4 Watermain project, sections of which pass under SH1 at Papatoetoe (tunnelled), over SH20 at Mangere (pipe bridge) and across SH20A at Kirkbride Road, where the state highway corridor is being upgraded to motorway standard
- Worked with Vector on strategic temporary service relocations and protection works on the Hunua No. 4 project and the long-term power supply resilience in the Mangere Wastewater Treatment Plant area

ENVIRONMENTAL ADVISORY GROUP



20 June 2014

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

During the year, we farewelled Anne Fenn as she moved from Auckland. Anne was a founding member of the Group and has provided valued analysis and perspective on the wide range of issues considered by us. Her expertise came from her lifelong commitment to environmental issues, in particular through Forest & Bird and the Manukau Harbour Coalition.

The Group continued to provide key feedback to Watercare's Demand Management Plan and community and network initiatives for water savings and explored the implications of the proposed amendments to the National Policy Statement on Freshwater Management, particularly in relation to water takes.

The Group also advised on Watercare's input to the proposed Auckland Unitary Plan; in particular, the topics of growth, biosolids, water takes/allocation and wastewater discharges. These critical issues have significant implications for Watercare's operational and maintenance activities as well as for Auckland's environment.

In addition, this year the Group advised on two of Watercare's major upcoming consent applications, providing feedback on environmental issues related to the route selection of both the North Harbour No. 2 Watermain and Northern Interceptor wastewater pipeline. The Group will continue to advise on these projects as the consent applications progress.

Other issues that the EAG has contributed to over the course of this year included:

- Emerging environmental contaminants in wastewater treatment
- Emerging technologies in wastewater treatment
- Planned upgrades to wastewater treatment plants.

These issues will continue to be critical for Watercare during the upcoming year.

We look forward to continuing to work with Watercare in the year ahead.

Paul Walbran
Chairman
Environmental Advisory Group

MEMBERS

Paul Walbran
Water quality, harbour health and heritage

Ken Catt
The water cycle

Anne Fenn
Environmental policy and implementation

Carol McSweeney
Air quality, ecosystems and botany

Judy Bischoff
Water and land use, and energy

Bob Tait
Biosolids

MANA WHENUA KAITIAKI FORUM

30 June 2014

Kaitiaki – kaitiakitanga mauri – pupiri i te Mauri Kaitiaki men aka tau te mauri I te taiao ka tau te orange o te ira tangata.
If the life force of the environment is in balance, the well-being of mankind is assured.
(Mission Statement, November 2012)

Over the past year, the Mana Whenua Kaitiaki Forum has met regularly and pursued the work programme it agreed with Watercare. For the period to the end of June 2014 the priorities of the work programme were to:

1. Maintain strong relationships amongst members and ensure difficult issues are canvassed openly
2. Further develop an understanding of Watercare's assets and their role in Auckland
3. Provide specialist advice and guidance on Watercare's infrastructure projects within each iwi/hapū area of mana whenua, and to adopt efficient engagement processes
4. Work with Auckland Council, Watercare and the Ministry of Health to assist marae in rural areas to have quality water and wastewater to national standards, including identification of funding
5. Continue developing expert knowledge on the state of Auckland's harbours, and to begin developing a view on their management.

This work programme has been taken forward by both the forum and its operational group of Kaitiaki managers from each mana whenua entity. There have been a number of consultations which have enabled the forum to better understand Watercare's assets and for Watercare to better understand kaitiakitanga. The forum has surveyed its members to identify rural marae of the respective mana whenua entities that need improvements to their water and wastewater systems. The survey results are now being addressed by council and public health officials to identify funding options. Forum members will also be visiting a number of wastewater management sites in July 2014 to gain a greater understanding of disposal options as a basis for their input to wastewater treatment systems across the greater Auckland Council area over the next 10 years.

The forum has had the foresight to agree with Watercare a set of sound processes to address projects that Watercare needs to implement. These processes have enabled mana whenua entities and Watercare to work through the consenting process of many projects, including two very large consents – the Central Interceptor and a Regional Wastewater Discharge consent.

Also, as the forum Chair, I met with the Watercare board and Chief Executive in October 2013 to present the forum's annual report. That report noted that the 2013/14 year would be focused on implementing the strategic direction the forum had previously agreed with Watercare. We are pleased to say that this is happening – the forum has established itself as a place where matters of significance can be addressed.

Tame Te Rangi
Chairman
Mana Whenua Kaitiaki Forum

MEMBERS

Mook Hohneck
Ngāti Wai Trust Board,
Ngāti Manuhiri Settlement Trust

Nicola MacDonald
Ngāti Rehua Ngātiwai Ki Aotea Trust

Deborah Harding
Te Uri o Hau Settlement Trust

Tame Te Rangi (Chair)
Te Rūnanga o Ngāti Whātua

Waata Richards
Ngāti Whātua o Kaipara

Grant Hawke
Ngāti Whātua o Ōrākei Māori Trust Board

Janice Roberts
Makaurau Marae Māori Committee

Karen Wilson
Te Akitai Waiohua Iwi Authority

Dennis Kirkwood and Warahi Paki
Ngāti Tamaoho Trust

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

Dave Beamish
Ngāi Tai Ki Tāmaki Tribal Trust

Hemi Rau
Waikato Tainui Te Kauhanganui Incorporated

Waati Ngamane
Ngāti Maru Rūnanga

David Williams
Te Patukirikiri Iwi Incorporated

Michael Barker
Ngāti Whanaunga Incorporated Society

Liane Ngamane
Ngāti Tamaterā Treaty Settlement Trust

Miria Andrews
Ngāti Paoa Trust

01

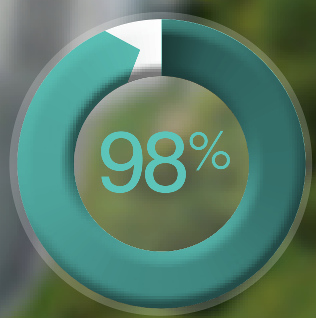
SAFE AND RELIABLE WATER

Managing water resources to provide a safe and reliable water supply

Aerial view of the Waikato Water Treatment Plant at Tuakau, which is undergoing a staged expansion.

Fresh water is a vital resource, essential for the health and well-being of everyone. Rain collected in the Waitakere and Hunua ranges is stored in Watercare's 10 water supply lakes before being treated and delivered to customers across the city. Auckland also draws water from the Waikato River and an underground supply in Onehunga. Smaller ground and river sources supply outlying rural communities.

OVERALL SCORE FOR FOCUS AREA



See the Customer section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

01

SAFE AND RELIABLE WATER

WATERCARE AT WORK *Franklin Local Board Chair Andy Baker with Mayor Len Brown at the inauguration of Pukekohe's new water supply.*

Connecting communities

The Pukekohe No. 1 Watermain is an example of Watercare's commitment to delivering outstanding water services to all Aucklanders.

In September 2013, the Pukekohe and Buckland communities were connected to Auckland's metropolitan water supply. With this, they became the first towns in Franklin to receive the same quality of water as the rest of Auckland.

This was achieved through significant investment to bring the Pukekohe and Franklin areas under Watercare's service network. These investments have been vital to address both water quality and capacity issues with the area's water supply infrastructure.

To cater for Franklin's growing population and address issues associated with the supply from Hickey's Dam, Watercare has invested $116 million in building 33 kilometres of new water pipelines. Replacing the Hickey's Dam supply with treated water drawn from the Waikato River has helped to resolve long-standing water discolouration issues.

"The connection of Pukekohe and wider communities to the Waikato water supply by Watercare is a significant improvement for all those who have benefited directly and indirectly in our communities. The change has put an end to long-running issues regarding quality and supply and has hopefully reduced the load on our aquifers for reticulated supply. We are extremely appreciative of Watercare's commitment to this area through this project," says Local Board Chair Andy Baker.

As well as the new pipeline, the project entailed upgrading four local reservoirs, constructing a pump station at Drury and doubling the capacity of Watercare's Waikato Water Treatment Plant to support future demand.

Patumahoe and Clarks Beach will be connected in early 2015.

Plans to invest a further $160 million in the Franklin area to develop and upgrade services over the next 20 years are well advanced.

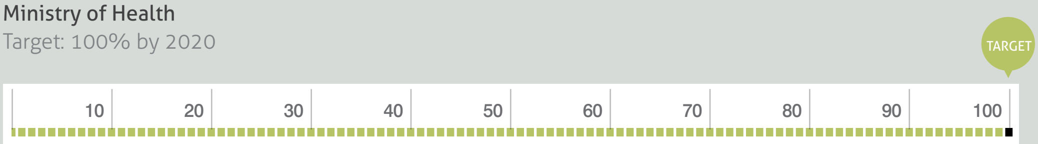
At the other end of the region, another team has recently completed a project inherited from Rodney District Council that will link people living in Kumeu–Huapai and Riverhead with the metropolitan water supply and wastewater networks.

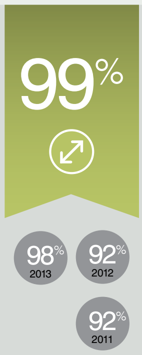
Project Manager Stephen Grace says the initiative supports development in what council sees as a growth area, and gives existing residents access to high-quality drinking water and environmentally-sustainable wastewater solutions. The Riverhead area was connected to the water services network in June 2014 and Kumeu–Huapai will be fully connected by August 2014.

KEY Target met | Good performance but could do better | Target not met | New or updated ruler

1a. Percentage of drinking water treated in Watercare plants that are graded 'A' by the Ministry of Health

Target: 100% by 2020



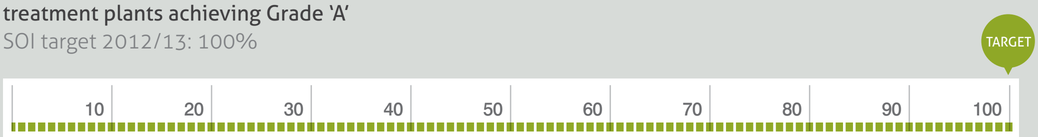


Water quality is based on the grading assessment carried out by the Auckland District Health Board on behalf of the Ministry of Health. All the metropolitan water treatment plants, which supply the bulk of drinking water to the people of Auckland, meet the 'A' grade.

The remaining 1% is supplied from non-metropolitan treatment plants. See Ruler 1c for further information.

1b. Percentage performance against statement of intent target: percentage of metropolitan water treatment plants achieving Grade 'A'

SOI target 2012/13: 100%

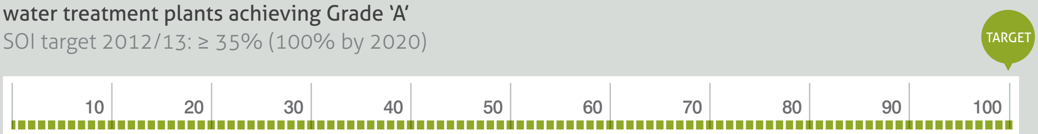


The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

All metropolitan water treatment plants were graded and each maintained an 'A' grade, meeting the target for 2012/13. The target for 2013/14 is 100%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

1c. Percentage performance against statement of intent target: percentage of non-metropolitan water treatment plants achieving Grade 'A'

SOI target 2012/13: ≥ 35% (100% by 2020)



The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

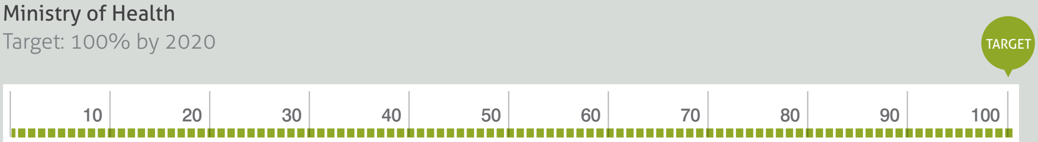
Out of the 16 non-metropolitan water treatment plants, six were graded and achieved an 'A' grade. Eight water treatment plants were not graded and two water treatment plants (in the Franklin area) were decommissioned in August 2013; four more will be decommissioned by September 2014 with the completion of the southern network upgrade project.

The southern network upgrade project will provide these Franklin-based communities with water from the metropolitan system. It forms a significant part of Watercare's $150 million programme of work to upgrade rural water and wastewater supplies.

The target for 2013/14 is 45%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

1d. Percentage of drinking water distributed through the Watercare network that is graded 'a' by the Ministry of Health

Target: 100% by 2020

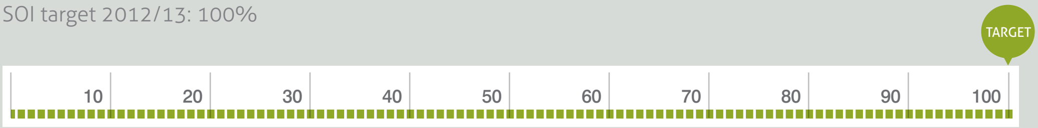


The same risk-based assessment used for water treatment plants also applies to the pipes, pump stations and service reservoirs that make up the water distribution networks. All graded zones met the 'a' grade. The portion of Watercare's network that is currently not graded covers the networks inherited from the former Franklin District Council. Most of Franklin's communities will be connected to the metropolitan system in the next financial year (see Ruler 1c).

KEY Target met | Good performance but could do better | Target not met | New or updated ruler

1e. Percentage performance against statement of intent target: percentage of metropolitan water supply reticulation achieving Grade 'a'

SOI target 2012/13: 100%

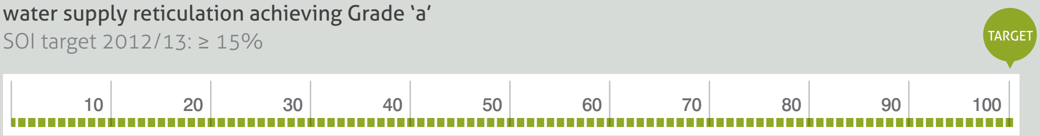


The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

All metropolitan distribution networks were graded and each maintained an 'a' grade, meeting the target for 2012/13. The target for 2013/14 is 100%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

1f. Percentage performance against statement of intent target: percentage of non-metropolitan water supply reticulation achieving Grade 'a'

SOI target 2012/13: ≥ 15%

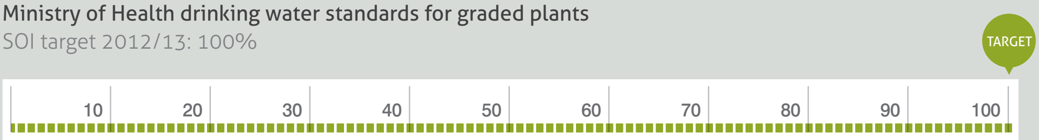


The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

Out of the 15 non-metropolitan grading zones, six have achieved an 'a' grade; these are the Huia Village and the five Rodney zones. The remaining nine Franklin zones were not graded. This exceeded the target of 15% set for 2012/13. The target for 2013/14 is 25%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

1g. Percentage performance against statement of intent target: percentage compliance with Ministry of Health drinking water standards for graded plants

SOI target 2012/13: 100%



The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

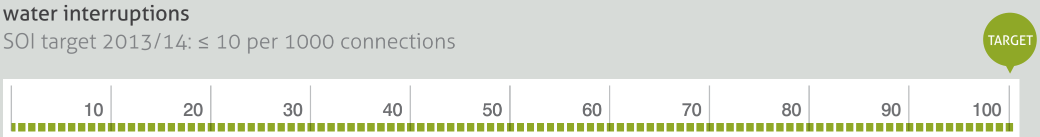
Watercare fully met the target in respect of compliance with the Ministry of Health's Drinking Water Standards for New Zealand (DWSNZ) at Ministry of Health-graded water treatment plants.

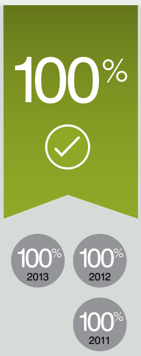
Compliance with the DWSNZ is verified through a combination of continuous online analysers at various stages of the water treatment process and an extensive sampling and analysis programme by Watercare Laboratory Services. The results from this programme are independently assessed by a Ministry of Health-appointed Drinking Water Assessor.

The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

1h. Percentage performance against statement of intent target: number of unplanned water interruptions

SOI target 2013/14: ≤ 10 per 1000 connections



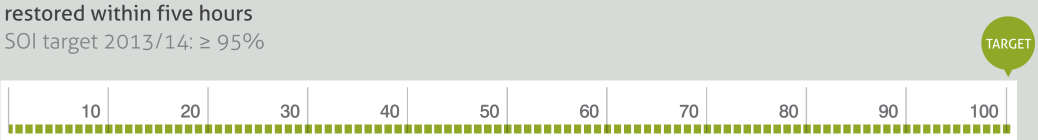


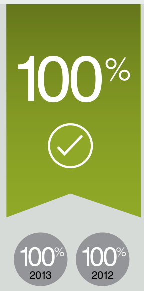
The Auckland region covers a total 416,000 water supply connections. As a measure of reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 8.1 for the Auckland region.

The reported result for 2013/2014 includes three regions: northern, southern and central. The 2012/2013 Annual Report included result for our northern and southern regions only. The performance was not reported for the central region as a new information process was being developed to enable reporting to commence for the year 2013/14.

1i. Percentage performance against statement of intent target: unplanned water shutdowns restored within five hours

SOI target 2013/14: ≥ 95%



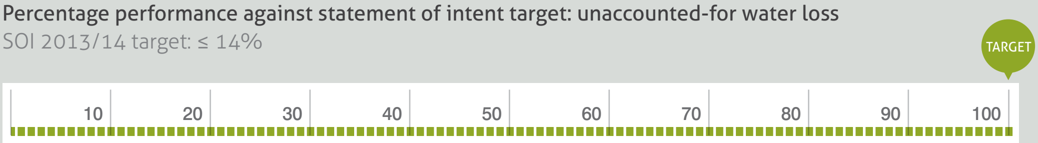


In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 97.4% for the Auckland region.

The reported result for 2013/2014 includes three regions: northern, southern and central. The 2012/2013 Annual Report included result for our northern and southern regions only. The performance was not reported for the central region as a new information process was being developed to enable reporting to commence for the year 2013/14.

1j. Percentage performance against statement of intent target: unaccounted-for water loss

SOI 2013/14 target: ≤ 14%



The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the 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 percentage figures as recommended by Water New Zealand.

The unauthorised usage assumption has been changed from 0.1% of water supplied in the 2013 Annual Report, to 0.45% in the current year. This change was made in light of the levels of actual detected unauthorised usage in the current year which indicated that the percentage should be higher. Also, benchmarking with Water Utilities in the UK gives reported unauthorised usage ranging between 0% and 1.37%, with an average of 0.45%. The nature of unauthorised usage means it is difficult to quantify, so Watercare has used the UK average of 0.45% for the 2014 Annual Report. This assumption change is made with the commitment to carry out additional research in the year ahead, to ascertain that this assumption is correct. As this assumption has an impact on the reported water loss measure, the following analysis is presented to allow the reader to compare the current year's performance against last year's reported performance; and also provides a range of other potential outcomes to aid the reader in understanding the sensitivity of the measure to the unauthorised usage percentage.

Sensitivity analysis of the assumed unauthorised usage percentage on water loss percentage							Target
	0.10%[1]	0.20%	0.30%	0.45%[2]	0.50%	0.60%	
2013	14.8%	14.7%	14.6%	14.5%	14.4%	14.3%	15.0%
2014	14.3%	14.2%	14.1%	13.9%	13.9%	13.8%	14.0%

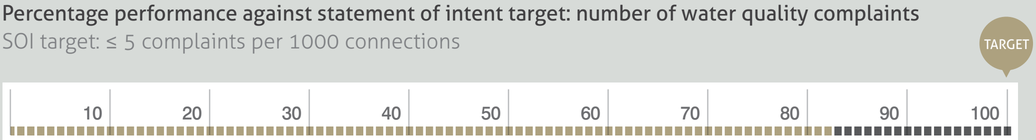
[1] previous assumed percentage of unauthorised usage

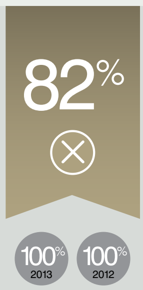
[2] current assumed percentage of unauthorised usage

The water loss measure was calculated to be 13.9% for the 2013/14 year against a target of 14% or less.

1k. Percentage performance against statement of intent target: number of water quality complaints

SOI target: ≤ 5 complaints per 1000 connections





In order to improve the level of service provided, Watercare monitors the number and type of water quality complaints received from its customers. The number of complaints relating to taste, odour or appearance of the drinking water was 5.9 per 1000 connections, which is above the target of five or fewer. The target was not met due to a high number of water quality complaints in January from the flushing of the Kumeu–Huapai transmission main and the algal bloom in the Waitakere water sources resulting in taste and odour complaints.

Securing supply

In 2013, Watercare lodged a resource consent application to increase its maximum allowable take from the Waikato River to 350 million litres per day. The additional 200 million litres is to meet the expected demand forecast for the Auckland region in the next 30 years and ensure security of supply. Watercare has been consulting with neighbouring local authorities, Waikato-Tainui, mana whenua, other users of the Waikato River such as power companies, agricultural and horticultural operators, and recreational and environmental groups. Watercare is committed to maintaining open dialogue with key stakeholders throughout the consenting process.

02

HEALTHY WATERWAYS

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

Jake and Toby Runting run across the newly designed boardwalk, which was one of the improvements made to the Coastal Walkway in 2013.

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

OVERALL SCORE FOR FOCUS AREA

100%

See the Environment section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

02

HEALTHY WATERWAYS

WATERCARE AT WORK

Newly designed public seating areas at Watercare's Coastal Walkway.

Continuing the transformation at Mangere

In 1993, Watercare began consulting with local people and other affected parties on its plans to upgrade the Mangere Wastewater Treatment Plant. During the following 12 years, the company invested $450 million in Project Manukau, New Zealand's biggest environmental restoration programme: four oxidation ponds covering 500 hectares were replaced by a land-based plant and allowed to revert to natural tidal harbour flats; tidal channels within and seaward of this area were reinstated, restoring tidal currents and creating a new marine habitat; and the Oruarangi Awa was freed to again flow into the estuary.

Project Manukau marked Watercare's continuing commitment to improve both the health of the Manukau Harbour and the amenity value of the surrounding areas. This included the restoration of some 13 kilometres of foreshore, as well as the creation of seven new beaches, and the commencement of work on developing a coastal walkway.

Last year, the walkway was realigned to make way for the new Biological Nutrient Removal (BNR) Plant. Built through the combined efforts of the Puketutu Island and Mangere BNR Major Projects teams and the Pond 2 Operations team, working alongside Auckland Parks, the new section of track has proven popular with local and visiting cyclists, joggers and a range of walking groups including the Manukau Tramping Club.

The decommissioned pump station and the surrounding area at the eastern end of the Puketutu Causeway have been transformed from bare industrial landscape into a rest area with seating and newly-planted native bushes housed in planting boxes constructed from recycled materials. Also, new and different bird roosts have been added to provide further temporary accommodation to a host of migratory wading birds.

Sven Harlos, Projects Manager at Watercare and part of the team responsible for these improvements, says the coastal walkway offers something for everyone.

"As well as the cyclists, joggers and walkers using the tracks, people come to see the historic Otuataua Stonefields, to visit Ambury Farm, to check out the huge variety of bird and plant life (including close to 300,000 natives planted by Watercare and community groups) or just to enjoy the stunning views of the harbour and the Manukau Heads," says Sven.

And he says there's more to come.

"The new BNR Plant will be surrounded by a landscaped embankment that will act both as a green screen between our neighbours and the new facility and as a link between the parklands and the Watercare Coastal Walkway. In addition, the Pond 2 area, currently the destination for biosolids from the treatment plant, is to be landscaped and transformed into further public recreation space by 2018."

KEY Target met | Good performance but could do better | Target not met | New or updated ruler

2a. Percentage of wastewater discharged compliant with consent conditions (excluding minor or technical)

Target: 100%

TARGET

10 20 30 40 50 60 70 80 90 100

99%

99% 2013 | 97% 2012 | 97% 2011

Watercare achieved a 99% level of overall compliance with consent requirements at its wastewater treatment plants on a volumetric basis, excluding minor and technical breaches. Minor and technical non-compliances are defined as transient, short-term transgressions from discharge consent standards that have no material long-term effect on the environment.

Compliance with consents at the metropolitan wastewater treatment plants was 100% against a target of 100%. The overall result was influenced by the poor performance of some of the rural wastewater treatment plants transferred to Watercare following integration. See Ruler 2c for more information.

2b. Percentage compliance with statement of intent target: percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for metropolitan areas

SOI target: 100%

TARGET

10 20 30 40 50 60 70 80 90 100

100%

100% 2013 | 99% 2012

Compliance with consents at the metropolitan wastewater treatment plants was 100% against a target of 100%. There was one transient period of 24 hours of minor non-compliance at the Mangere Wastewater Treatment Plant during the year and an upgrade programme has been implemented to address this.*

2c. Percentage compliance with statement of intent target: percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-metropolitan areas

SOI target: ≥ 35% (100% by 2020)

TARGET

10 20 30 40 50 60 70 80 90 100

100%

100% 2013 | 100% 2012

Work is being undertaken to improve the poor performance of some of the rural wastewater treatment plants inherited by Watercare from local councils during integration. This year the plants performed at 64% against a target of 35%. The company aims to achieve 100% compliance with this measure by 2020.*

2d. Percentage performance against statement of intent target: dry-weather sewer overflows

SOI target: ≤ 5 per 100 km of pipe length

TARGET

10 20 30 40 50 60 70 80 90 100

100%

100% 2013 | 100% 2012 | 100% 2011

Watercare reports on the number of wastewater overflows from its retail network during dry weather as a measure of the capability of the network to meet current demand. The result for the year was 1.83 overflows per 100 km of wastewater mains, which is well under the target of five or fewer.

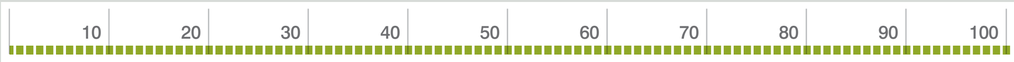
* 2b, 2c:
A minor or technical non-compliance is treated as a transient, short-term transgression from consent standards that has no material long-term effect on the environment.

KEY Target met · Good performance but could do better · Target not met · New or updated ruler

2e. Percentage performance against statement of intent target: wet-weather overflows

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

TARGET



Auckland-wide wastewater network discharge consent was granted on 19 June 2014. An implementation programme is currently being developed to ensure compliance.

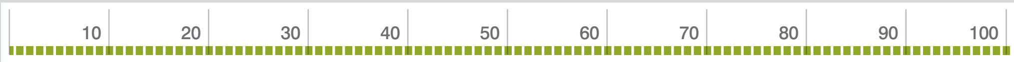
100%

100% 2013

2f. Percentage performance against statement of intent target: number of sewer bursts and chokes per 1000 properties

SOI target: ≤10 per 1000 properties

TARGET



The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. The target is to achieve fewer than 10; the result for the year was 8.8 for the Auckland region.

The reported result for 2013/2014 includes three regions: northern, southern and central. The 2012/2013 Annual Report included result for our northern and southern regions only. The performance was not reported for the central region as a new information process was being developed to enable reporting to commence for the year 2013/14.

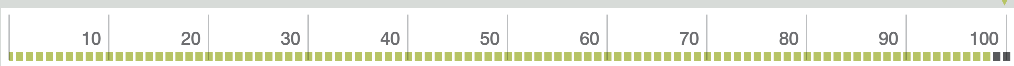
100%

100% 2013 · 100% 2012

2g. Response rate for urgent wastewater blockages

Target: 98% within agreed contracted timeframes

TARGET



Watercare requires network service providers to respond to all urgent wastewater blockages within specific contracted timeframes. A total of 96.2% of blockages (98.2% of target) in the Auckland region were addressed within the specified timeframe.

The reported result for 2013/2014 includes three regions: northern, southern and central. The 2012/2013 Annual Report included result for our northern and southern regions only. The performance was not reported for the central region as a new information process was being developed to enable reporting to commence for the year 2013/14.

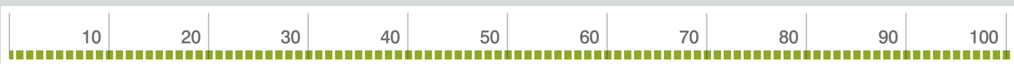
98%

98% 2013 · 100% 2012 · 94% 2011

2h. Percentage performance against statement of intent target: number of successful Resource Management Act (RMA) prosecutions against Watercare

SOI target: Zero successful prosecutions

TARGET



There were no RMA prosecutions during the year.

100%

100% 2013

Watercare's Wastewater Planning Manager Chris Allen at one of the Special Housing Area zones.

02

Catering for growth

The Special Housing Area (SHA) process was initiated by Auckland Council in late 2013 as part of the Auckland Plan, with the goal of consenting 39,000 new houses in Auckland over the succeeding three years. Watercare's Infrastructure Planning team has played a key advisory role throughout this process, assessing the impact of the new housing areas on existing water and wastewater infrastructure, as well as providing guidance on council's future spatial priorities and its alignment with Watercare's planned regional projects. Developing an integrated SHA strategy has involved detailed consultation with developers, council staff and the governing body, and Local Board members.

The SHA process will continue to strengthen the relationship between council and service providers, ensuring the optimisation of Watercare's existing network infrastructure and the alignment of future projects with projected growth in the Auckland region.

03

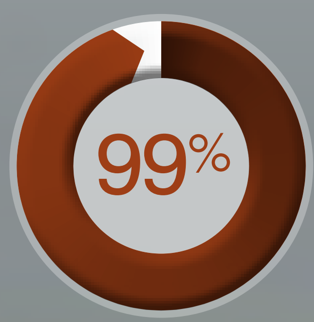
HEALTH, SAFETY AND WELL-BEING

Building an industry-best workplace

Watercare Reticulation Serviceperson Darren Tumai-Totorewa at the Domain Reservoir works site.

Recruiting, developing and retaining a highly capable and diverse workforce are major areas of focus for Watercare. The wide range of activities carried out by its staff requires a rigorous approach to health and safety, and a company culture of zero harm is well embedded.

OVERALL SCORE FOR FOCUS AREA



See the People section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

WATERCARE AT WORK

The new signage at the Mangere Wastewater Treatment Plant provides a comprehensive range of information on site-specific hazards including road safety, chemicals and moving machinery.

Improving signage to reduce risk at work

Commissioned in 1960, Watercare's Mangere wastewater treatment plant is the largest facility of its type in New Zealand.

The plant has been upgraded several times, most notably during the late 1990s and early 2000s, when Watercare moved to a land-based treatment system.

Like all wastewater treatment plants, Mangere contains numerous potential hazards: working in enclosed spaces, at heights, and with a range of chemicals and machinery are part of the day for plant operators. These features, combined with the size of the plant (38 hectares) and the number of staff employed there (up to 50 people are routinely in and around the operational area), made Mangere the logical choice for Watercare to roll out a pilot project to improve and update signage throughout the company's operations. With the amalgamation of the councils in 2010, Watercare had inherited a number of their assets, resulting in varied signage across the numerous plants and facilities.

Site signage is based on the hazards and risks associated with a site. So before the signage could be upgraded, all of the hazards had to be reviewed and assessed consistently across all sites.

This involved a full review of the site hazard registers and the development of a consistent model of hazard register across all sites, as well as the documentation of all hazards and risks into the new format.

Each hazard had to be individually assessed for risk before appropriate and consistent controls could be identified. This includes things like the kind of personal protection equipment (PPE) needed at each site. After the hazards and risk review and assessment was completed at Mangere, the project team had to develop audit tools that would act as a checklist so that the process could be replicated consistently at all of the other Watercare sites, including the remote and unmanned sites.

This body of work was eventually completed across all water, wastewater and network sites, after the pilot programme was trialled at the Mangere Wastewater Treatment Plant.

External specialists were engaged to audit the existing systems and review the changes planned, while Watercare staffers from the Risk & Assurance and Communications teams helped to ensure the signs included all the necessary information, were aligned with Watercare's Health and Safety management system, met all regulatory and other requirements, and would be highly visible and easy to read and understand.

"Clear and effective signage plays a vital role in reducing risk and ensuring the health and safety of staff and contractors onsite. What's really worth noting about this initiative is that we have worked on this from a broader health and safety perspective and realigned our systems and documentation to ensure consistency and clarity across all of Watercare's sites," says Wastewater Operations Special Projects Manager Allan Twinch.

The new signs include: a detailed map of the plant, information on site-specific hazards such as presence of chemicals and moving machinery/equipment, road safety information such as speed limits, and standard HAZCHEM visual prompts for relevant hazards. The signs have been customised to reflect context, location and site-specific hazards.

The programme has produced numerous positive outcomes, with improved hazard registers, risk assessments, audit tools, documentation systems, site inductions, training and constant reminders around the site of the training relating to those hazards and risks.

KEY Target met · Good performance but could do better · Target not met · New or updated ruler

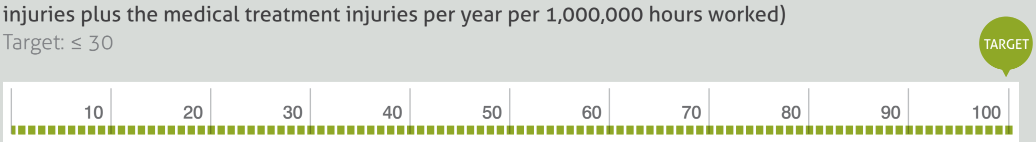
3a. Percentage performance against statement of intent target: lost-time injury frequency rate (LTIFR) (number of lost-time injuries per year per 1,000,000 hours worked)

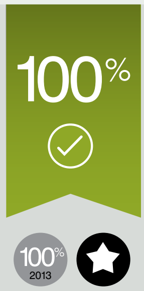
SOI target: ≤ 5

Watercare staff achieved a LTIFR of 2.53 per million hours worked, which is within the target range of five or fewer.

3b. Percentage performance: total recordable injury frequency rate (TRIFR) (number of lost time injuries plus the medical treatment injuries per year per 1,000,000 hours worked)

Target: ≤ 30

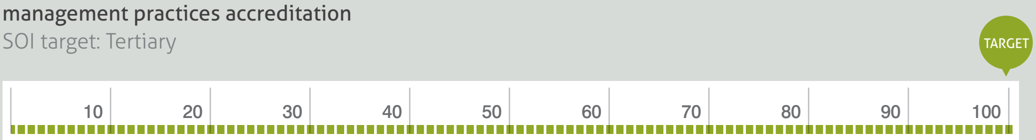


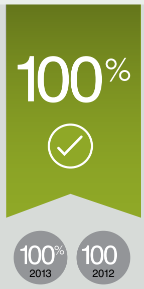


Watercare staff achieved a TRIFR of 11.40 per million hours worked, against the specified performance measure of no more than 30.

3c. Percentage performance against statement of intent: lost-time injury. Level of ACC workplace management practices accreditation

SOI target: Tertiary

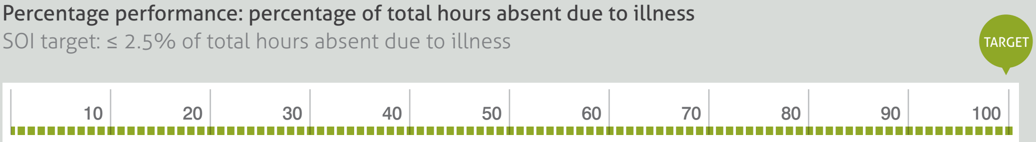


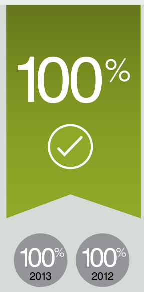


ACC tertiary-level accreditation was maintained. Audits are carried out every two years, with the last audit conducted in 2012. Watercare achieved Tertiary accreditation at the 2012 audit. The next audit has been scheduled for December 2014.

3d. Percentage performance: percentage of total hours absent due to illness

SOI target: ≤ 2.5% of total hours absent due to illness





Watercare achieved an unplanned absenteeism rate of 2.14%, which is under the target of 2.5% or less and slightly higher than last year's rate of 2.0%.

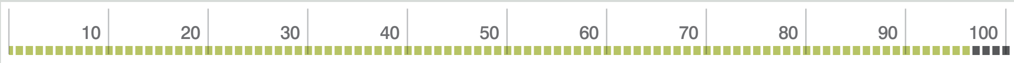
Watercare provides a comprehensive occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are available to all staff, either through the company or by self-referral.

KEY — Target met — Good performance but could do better — Target not met — New or updated ruler

3e. Percentage performance against statement of intent target: staff turnover

SOI target: ≤ 12%

TARGET



Voluntary staff turnover for the year was 12.5%, which is slightly above the target of ≤ 12%. During December 2013, the Watercare Customer Services Call Centre moved from East Tamaki to Newmarket which is a significant commuting distance for some employees who subsequently decided not to relocate.

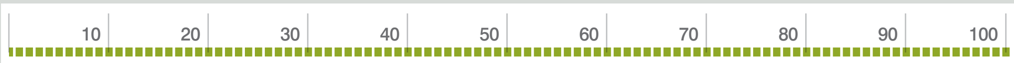
96%

100% 2013 | 100% 2012 | 50% 2010 | 100% 2011

3f. Percentage performance: staff training

Target: 20 hours training and study per employee

TARGET



Employees received an average of 22 hours of training in 2013/14, an increase from last year's average of 16 hours per employee.

100%

82% 2013 | 100% 2012 | 85% 2010 | 69% 2011

3g. Percentage performance: employment equity and diversity

Target: 100% of employment equity and diversity outcomes achieved

TARGET

Measure and monitor demographic indicators	Accredited employer with NZIS	Annual employee survey made available to all permanent staff*	Remuneration externally benchmarked	Targeted employee development programmes identified	Exit interviews are available for departing staff*	Salaries assessed on performance	Address demographic trends	Performance and development review PADR extended to all staff covered by Individual Employment Agreements	Targeted employee development programmes in place

* These replace former measures which were completed in previous years

Watercare strives to appoint the best people, to reflect the diversity of the communities in which we operate, to provide opportunities for staff to grow and develop, and to reward performance fairly and equitably.

95%

95% 2013 | 90% 2012 | 85% 2010 | 88% 2011


Watercare IT Support Analyst Sagar Chopra shows Senior Collections Clerk Rajesh Kumar how the BodyGuard app works.

03

Ensuring safety through technology

A small group of Watercare staff has been trialling a new technology developed to ensure the safety of employees working alone and/or in remote locations. The Bodyguard mobile phone app sets up a check-in call from monitoring company Alarmnz at a pre-set time; if they do not respond to calls, Alarmnz attempts to locate them through their phone's signal. Rajesh Kumar, senior collections clerk, says he finds the technology quite reassuring. "When I go out to visit a customer, I activate the app on my phone. It's good to know it's there should anything go wrong." The technology will soon be made available to others in the company.

04

CUSTOMER SATISFACTION

Providing customers with great service and great value

Watercare Water Quality Analyst Leanne McKenzie with customers Lauren and Holly Speer at their home. Leanne is administering a chlorine test to the drinking water to determine if the chlorine levels are compliant with Drinking Water Standards.

Watercare's vision is to provide outstanding and affordable services for all the people of Auckland. Responding to as many as 1500 phone calls, letters and emails every day, the contact centre is often a customer's first point of contact with Watercare. The company also offers its customers the opportunity to transact with Watercare online, through the website and e-billing service.

OVERALL SCORE FOR FOCUS AREA

See the Customer section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

WATERCARE AT WORK

Helen Nicholson, a Watercare customer, says she found the Be Waterwise booklet very useful for tips on conserving water

Helping customers use water wisely

In 2011, in the first Auckland Regional Water Demand Management Plan, Watercare set itself the goal of reducing water consumption per person across the Auckland region by 15 per cent by 2025. Reducing the amount of water the region uses also aligns with Watercare's commitment to provide outstanding services at an affordable cost. Efficient water use is critical to defer the need for additional water sources and the investment and increased operating costs associated with expanding water and wastewater treatment facilities.

"Using water wisely benefits everyone. For many families, it matters a lot: money saved on water is money that can be used for something else," says Penelope Webster, Customer Service Manager.

Watercare works with EcoMatters Environment Trust to assist customers who have observed high water usage in their homes. EcoMatters provides free consultation and water audits and assessments through the Waterwise advice line. This service has been well received by more than 200 customers who have used it to date.

To help people learn more about how they use water, the sustainability and customer service teams worked together last year to create a new water resource: Be Waterwise. Available as a booklet and online, Be Waterwise provides comprehensive information on water use and practical tips on how to save water at home.

Helen Nicholson is one Watercare customer who has reduced water consumption and water charges thanks to a Be Waterwise tip.

"According to our monthly bills, the two of us were using as much water as a six-person household," says Helen. "I checked our taps for pressure and flow against the flow rate table in Be Waterwise, and found that six of them had excessive flow rates. Since then, we've been using those taps at low flow and we're talking to the plumber about options for restricting flow."

This has made a big impact in Helen's water consumption, and encouraged her to look for other opportunities to be waterwise.

"Now I check the meter regularly, sometimes even at specific times of the day, to understand how much water I use and when I use the most. I've already shared the booklet with many of my friends so they are also aware of the little things they can do to waste less and save money."

Like Helen, many customers' first indication that they may be using more water than they think comes from the information on their monthly bill.

Each bill includes a consumption graph, which shows each customer's average daily use and how that compares to usage by the rest of the population. If water use is unusually high, customers receive a notice card and a letter advising them of this and suggesting they check for leaks, with instructions on how to do this and where their meter is located. Customers whose excessive water use is due to accidental or unintentional water loss can apply to Watercare for a 'leak rebate'.

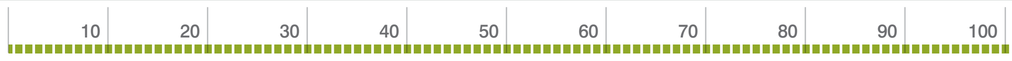
Penelope Webster says the Be Waterwise initiative has proved popular with Watercare's customers.

"We receive great feedback from customers when we help them understand how much water they use and the ways they can use it efficiently. Sometimes, it is the small changes that make the biggest difference: that's what we want to promote."

KEY Target met · Good performance but could do better · Target not met · New or updated ruler

4a. Percentage performance against statement of intent target: customer satisfaction with Watercare's delivery of water and wastewater services

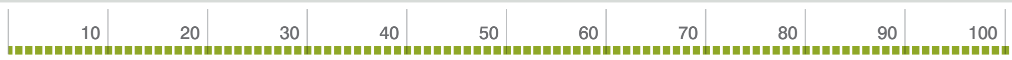
SOI target: ≥ 80% customer satisfaction

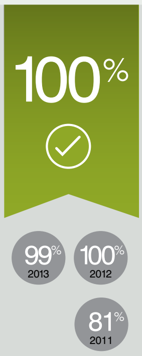


In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7.2 out of a possible 9.0. The overall average score for the year was 7.6 out of 9.0. This equates to a performance of 84.7%.

4b. Percentage performance against statement of intent target: grade of service

SOI target: ≥ 80% of calls answered within 20 seconds

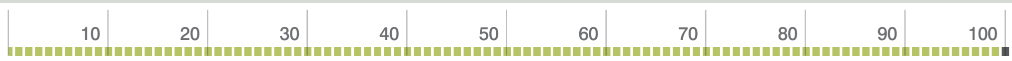


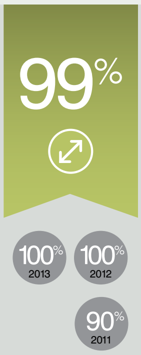


Grade of service is a call centre industry best-practice performance measure, aimed at ensuring calls are answered within 20 seconds. During the 2013/14 year, the grade of service target of 80% was met – 82.3% of telephone calls were answered within 20 seconds. The telephone calls received after hours are not included in this total. After-hours calls are answered by First Contact and their grade of service performance for the year was 88.7%.

4c. Percentage performance against statement of intent target: 'resolved' complaints

SOI target: ≥ 95% of complaints 'resolved' and 'closed' within 10 working days

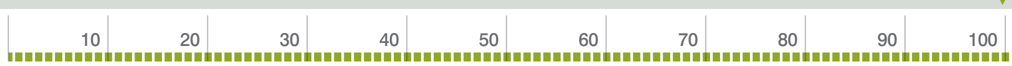


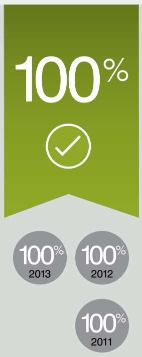


The target of 'resolved' complaints measures the total time taken for each issue to be resolved and for feedback to be given to the customer. A 10-day target is considered industry best practice. In the 2013/14 year, 2300 complaints were received out of a total of 406,567 customer interactions (phone, written and email) and of these complaints, 94.2% were resolved within 10 days; this did not meet the target of 95%. The target was not met due to an increased complexity in complaints, especially relating to the Non-Domestic Wastewater tariff, which was topical as it was widely consulted on throughout the year.

4d. Percentage performance against statement of intent target: household affordability

SOI target: water and wastewater bill ≤ 1.5% of the average Auckland household income





The average monthly household water and wastewater bill from Watercare was $67.55 for the period 1 July 2013 to 30 June 2014 inclusive. Statistics New Zealand's current (2012/13) average monthly household income in Auckland is $7523. This means that the average household bill represents 0.90% of the average household income. This compares to 0.86% for 2012/13.

04

Responding to change

Watercare's New Developments and Connections team is a critical service unit for the business. Driven by internal and external feedback, the team has worked hard to improve the customer experience and operational efficiency by: introducing a consolidated and streamlined application process; restructuring new service delivery teams; improving the customer's online experience; and using better internal reporting methods to identify further opportunities.

"Over the next three years housing development will accelerate significantly, and we need to be ready to meet this demand for supply to Auckland's growing population. We reviewed our processes, looked at the pain points for customers and devised a holistic approach to address these concerns. The improvement initiatives are well under way and we are already seeing a positive change in our work," says Simon Warren, Manager, New Developments.

Watercare's Asset Inspection Technician Steve Jessup inspects a new connection at East Tamaki

05

STAKEHOLDER RELATIONS

Engaging with and responding to stakeholders' needs

Watercare Operations Technician Chris Garton with pupils Kristin McIntyre and Alex Hickson from Room 22, Waterlea School, holding their creation – a newly decorated bird shelter for the Watercare Coastal Walkway at Mangere.

Watercare has valuable, long-standing relationships with the communities that neighbour the company's facilities. It engages with local people prior to undertaking work on the company's infrastructure, works closely with its shareholder and Local Boards, and consults directly with a wide range of groups including tangata whenua.

OVERALL SCORE FOR FOCUS AREA

96%

See the Community section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

WATERCARE AT WORK *Watercare advisors Brent Evans and Rochelle Gill with Orakei Local Board members Colin Davis and Kit Parkinson and Parks Advisor Pippa Sommerville at Madills Farm Reserve.*

Facilitating effective outcomes for communities

Auckland's growing population requires significant investment to further develop water and wastewater infrastructure if all Aucklanders are to continue to receive outstanding water and wastewater services.

In April 2014, Watercare began upgrading part of Kohimarama's wastewater network. The project involves installing a new underground storage tank and upgrading the wastewater pipelines in and around Madills Farm Reserve.

Infill housing and other development have strained the capacity of the existing Kohimarama Pump Station, located at the Southern Cross Road end of the reserve. During heavy rainfall, the pump station's capacity is often exceeded, resulting in diluted wastewater overflows to the local stream. Replacing the pipes and installing a larger storage tank will reduce the frequency and volume of these overflows, improving public health and the condition of local waterways and beaches. The extra capacity will also allow the system to cater for future population growth.

Given that the work is expected to take more than 18 months to complete, comprehensive communication with neighbours and others likely to be affected has been a high priority from the outset. Early consultation with the Ōrākei Local Board resulted in the project being included in the Master Plan for local parks and, following discussions with local sports groups including the yacht club and the East & Bays Football Club, Watercare revised the pipeline construction schedule to avoid conflict with the main sports season. Public open days and meetings with the local business association and residents' association have also played a role in facilitating engagement. More recently, newsletters have been distributed to the community and displayed around the fenced-off construction area, while the project team has also held regular briefings for Local Board members and Auckland Parks staff.

The company's Oasis facility, a water refilling station, was a feature of the annual Ports of Auckland Round the Bays fun-run event and provided a further opportunity for Watercare to talk to people about its plans for the area. Madills Farm Reserve is the traditional post-race gathering place for tens of thousands of participants, making event organisers a very interested party.

"The consultation with Watercare was very valuable for us ahead of planning the 2015 Ports of Auckland Round the Bays event. Much of the work will be in and around Madills Farm, where our post-event barbecues are hosted, which usually involves more than 445 barbecue sites and 97 marquees. Watercare has engaged with us well in advance and it's been useful for planning and co-ordinating around the construction sites and informing our stakeholders of the likely layout and so forth," says Nadia Isaacs, Event Manager, Fairfax Media.

KEY Target met · Good performance but could do better · Target not met · New or updated ruler

5a. Percentage performance against target: engaged shareholder

Target: 100% of shareholder engagement outcomes achieved

TARGET

Involvement in Auckland Council's long-term planning processes including the Auckland Plan and the Unitary Plan	Consultation with the shareholder and Local Boards during development of the Regional Strategies	Consultation with the shareholder during development of financial plans including the Long Term Plan (LTP)*	Consultation with the shareholder, and through them, Māori, and Local Boards during development of the statement of intent (SOI)	Quarterly performance and progress reports sent to council	Briefings presented to council on a quarterly basis or as requested	Co-operation with CCOs maintained e.g. joint initiatives undertaken to minimise public disruption	Local Board, ratepayers' association and community meetings attended	Local Board plans reviewed and engagement plan developed, agreed and implemented	Independent Māori Statutory Board and council advisory panels engaged on relevant projects

* These replace former measures which were completed in previous years

98%

98% 2013 · 95% 2012 · 85% 2011

Watercare worked closely with Auckland Council on the final stages of the proposed Auckland Unitary Plan which sets the planning framework for the future growth of Auckland and will continue to work with council through the hearings process. The company also worked closely on the joint Auckland Council and central government housing accord aimed at improving the pace of residential development through the creation of Special Housing Areas. Information on new developments has been shared with developers and others interested in growth and changes brought about by the Unitary Plan.

Watercare supports the delivery of the shareholder's outcomes through the development of a statement of intent, a document that sets out the governance arrangements and performance expectations between the company and the shareholder, and by aligning investment through its financial plans and Asset Management Plan. Watercare's board meetings were all advertised and open to the public, exceeding the statutory requirement for two public meetings.

Watercare's relationship with Local Boards remained open and constructive. The company worked closely with Auckland Parks and Local Boards regarding a variety of landowner approvals for works in local parks, provided feedback to Local Board staff on the development of Local Board plans, and attended a number of Local Board public engagements and expos. Watercare has shared project information with Local Board portfolio holders and attended portfolio meetings run by the Local Boards consistent with agreed service standards in the Local Board Engagement Plan.

Watercare engages with the Independent Maori Statutory Board through Auckland Council. For example, the Independent Maori Statutory Board is represented on the council and on council committees to which the company's quarterly performance reports and briefings are presented. Council advisory panels are consulted where appropriate, e.g. the development of the simplified non-domestic wastewater tariff structure was discussed with the business advisory panel.

Watercare continues to participate in the development of relevant legislation and policy initiatives and made submissions on the following during the year:

- Building Act Amendment Bill No. 4
- Heritage New Zealand Pohuere Taonga
- Land and Water Forum
- Freshwater Reform 2013 and Beyond
- Resource Management (restricted duration of certain discharge Coastal Permits) Bill
- Resource Management Act Reform Bill
- Tāmaki Collective Claim on Volcanic Cones
- Auckland Council Operative Plan Changes
- Auckland Regional Policy Statement: Plan Change 8 – Outstanding Natural Landscapes
- Auckland Council Unitary Plan
- Waikato Regional Policy Statement (RPS)
- Waikato Regional Pest Management Plan
- Waikato Healthy River Plan Change
- Hauraki Gulf Restoration Strategy

KEY Target met | Good performance but could do better | Target not met | New or updated ruler

5b. Percentage performance against target: engaged communities

Target: 100% of communities' engagement outcomes achieved

TARGET

98%

95% 2013 | 95% 2012 | 95% 2011

Project-related public communication undertaken	Project liaison groups established and communications updated	Watercare advisory group meetings undertaken	Access to Watercare's facilities*	Education initiatives undertaken – Adopt A Stream	Public meetings held to hear shareholder feedback on the SOI and to report performance	Watercare board agendas and minutes published on the website	Waterwise advertisements and water saving messages published	Percentage of Watercare projects on which the Mana Whenua Kaitiaki Forum has had the opportunity to engage*	Tangata whenua engaged and, where appropriate, relationship agreements developed

* These replace former measures which were completed in previous years

Watercare has more than 180 projects with a total cost of over $2.7 billion under way to upgrade and expand infrastructure across Auckland. Communication via direct mail, door knocking, advertisements, signage boards and community open days helps keep local communities informed. Watercare has also worked with various community groups to ensure projects are developed in a way that takes an area's particular needs into consideration (examples include the Mairangi Bay pump station and storage tank, and the storage tanks at the Harold Moody Recreation Ground and Madills Farm Reserve). Community engagement on the Central Interceptor has also been ongoing as part of the statutory approvals process.

Watercare's free education programme offers Auckland primary and intermediate school pupils the opportunity to take part in a range of exciting and hands-on lessons that teaches them about water, wastewater and their local environment. In 2013/14, pupils from 33 schools attended 304 water lessons and field trips covering topics such as water quality, freshwater macro invertebrates, water experiments, drinking water and wastewater treatment.

Watercare receives numerous activity requests from external parties wanting access to the company's property for sporting and recreational events, filming and tours of treatment plants. All requests are assessed and approved based on safety and feasibility criteria. In 2013/14, 16 such approvals were granted. Public access to the Upper Nihotupu Dam was previously available on the Rain Forest Express; however, the track was damaged by falling rocks in May 2013 and remains closed, pending a decision on its future viability.

Watercare continues to work with Auckland iwi through the Mana Whenua Kaitiaki Forum. The forum has helped to build strong relationships between Watercare and iwi and increase mutual understanding of each other's perpectives, as well as providing a mechanism for feedback on Watercare projects. The forum has also helped Watercare obtain landowner and statutory approvals from iwi. Watercare has always maintained a productive working relationship with iwi, based on mutual respect and integrity.

Watercare continued its sponsorship of the Watercare Harbour Clean-Up Trust. With help from community groups and the public, the Trust team has removed 3,450,340 litres of rubbish, or close to 28 million individual pieces of litter, from Auckland's harbours and waterways during the past 12 years.

5c. Percentage performance: legal compliance

Target: 100% of legal compliance requirements achieved

TARGET

95%

95% 2013 | 95% 2012 | 100% 2011

Compliance risk assessment	Compliance monitoring	Compliance comparative performance	Compliance management plan	Compliance assurance	No successful prosecutions against Watercare	All potential legal issues identified	All legal issues effectively managed	All legal issues managed and resolved	No known pending legal issues

Watercare has many statutory obligations under a number of Acts and invests considerable resources in complying with and monitoring statutory requirements. Technical non-compliance with resource consents relating to the inherited non-metropolitan wastewater treatment plants is reported under Ruler 2a.

Following careful consideration, Watercare decided to plead guilty to two health and safety charges brought against the company by the Department of Labour following the Onehunga explosion of June 2011: the first in regard to a charge of failure to take all practicable steps to ensure the safety of its employees and the second in respect of employees of a contractor. On 13 September 2013, Watercare was ordered to pay a fine of $81,000 and reparation payments totalling $315,000 to a number of employees and their families, and to several contractors.

In all other respects, the company achieved compliance with all statutory obligations specified in the relevant Acts during the past year.

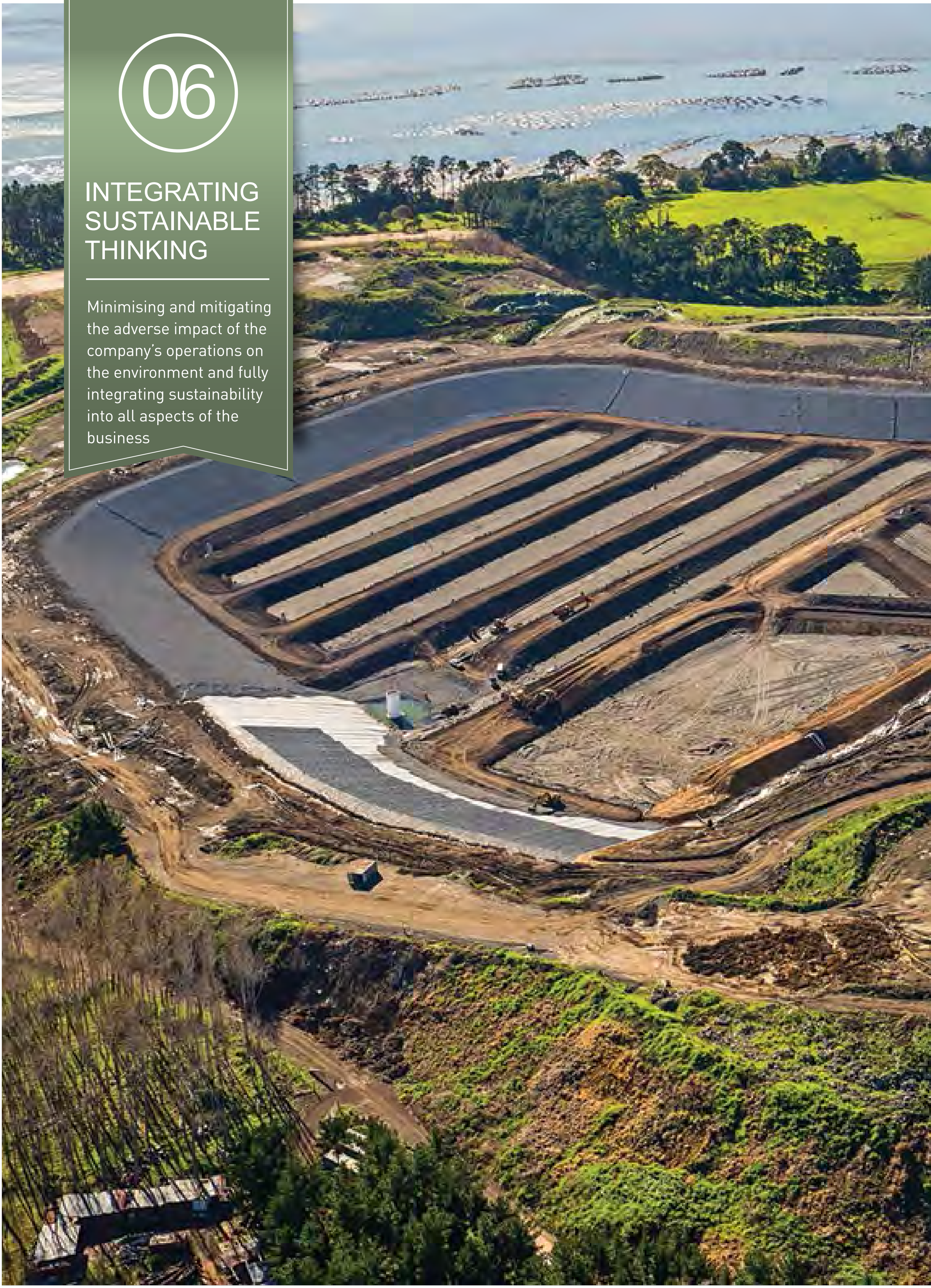
Watercare Education Coordinator Sally Smith delivers a hands-on field study to students of Northcross Intermediate as part of Watercare's free education programme.

05

Working with Local Boards

Local Boards are the voice of the community and provide input to council-controlled organisations on their plans and initiatives. Watercare has been working closely with the Hibiscus and Bays Local Board and Auckland Council's Parks and Recreation team on the development of a pump station upgrade and new wastewater storage tank at Mairangi Bay, which will increase storage capacity and reduce the frequency of wastewater overflows in wet weather. In conjunction with this project, the Hibiscus and Bays Local Board has advanced work on the preparation of the Mairangi Bay Reserve Management Plan.

The close working relationship between Watercare, the Board and Auckland Parks team is helping to ensure effective and integrated outcomes that serve recreational, public health and environmental needs of the local community.



06

INTEGRATING SUSTAINABLE THINKING

Minimising and mitigating the adverse impact of the company's operations on the environment and fully integrating sustainability into all aspects of the business

Aerial view of Puketutu Island, where Phase 1 of capital works has been completed and the facility is ready for placement of biosolids from Mangere Wastewater Treatment Plant.

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

OVERALL SCORE FOR FOCUS AREA

See the Environment section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

06

INTEGRATING SUSTAINABLE THINKING

WATERCARE AT WORK *At Mangere Wastewater Treatment Plant, a gas digester generates methane from sludge, which powers some of the plant's operations.*

Generating electricity from waste

Watercare's wastewater treatment processes not only ensure that our waterways remain healthy by treating wastewater to a high standard before releasing it to the environment, but they also supply around one third of the company's energy intake.

Co-generation engines at Watercare's Mangere and Rosedale wastewater treatment plants use sludge (solids removed from the wastewater stream in the early stages of the treatment process) as a feedstock. While the liquid component of the waste stream progresses to final filtration and disinfection prior to discharge, the sludge is pumped into an oxygen-free tank. Here, bacteria break down the organic matter, reducing the number of harmful micro-organisms and generating biogas with a high methane content, which in turn helps power the treatment processes. Mangere facility's four engines produce up to 57 per cent of the plant's energy demand, while at Rosedale one engine satisfies as much as 75 per cent of demand.

Watercare has implemented the co-generation technology at Mangere since the 1960s and at Rosedale since 2001. As well as the financial and environmental benefits, co-generation also improves operational flexibility and resilience.

The company's co-generation activities have even attracted international attention, with the Rosedale facility last year hosting a delegation of Chilean government officials visiting New Zealand to look at ways to develop policy and regulations relating to biogas and biomass.

Southern Wastewater Area Manager Paul Bickers says using biogas is a good fit with the company's objective to minimise the environmental impact of its activities, and with its statutory obligation to provide high-quality services at the lowest-possible cost.

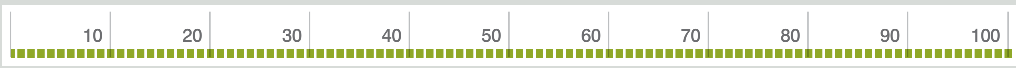
Not to be outdone, Watercare's water supply arm is also an electricity supplier, with turbines located in the four Hunua dams producing a combined total of 4.3 GWh over the past 12 months – enough to keep almost 600 Kiwi households operating for a year. About 11 per cent of this output was used on site, with the balance sold on the electricity market.

KEY Target met · Good performance but could do better · Target not met · New or updated ruler

6a. Percentage performance against target: greenhouse gas emissions

Target: ≥ 50% reduction based on 1990 levels by 2050

TARGET

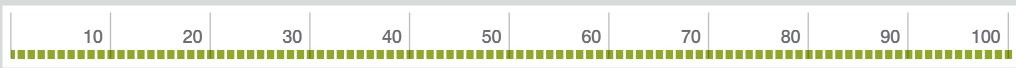


In the early 2000s, Watercare significantly upgraded the Mangere Wastewater Treatment Plant. The open-air oxidation ponds and sludge lagoons were replaced by land-based treatment, enabling the capture of methane and nitrous oxide emissions and making biogas generation possible. This resulted in a long-term decrease in greenhouse gas emissions. This year, Watercare had its greenhouse gas emissions externally reviewed and verified. (See GRI Report for more information.)

6b. Percentage performance against target: internally sourced energy

Target: 100% of annual forecast

TARGET

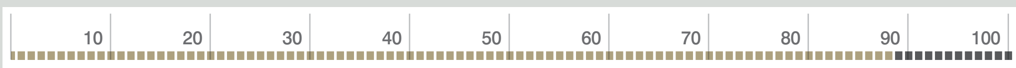


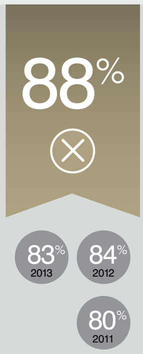
Watercare reviews the annual production forecasts each year and assesses how much electricity the company could potentially source internally. This is principally achieved by generators burning biogas at its two largest wastewater plants, Mangere and Rosedale, and from four hydro-electric generators within the water supply system. This year, Watercare produced 31% of its electricity needs against a forecast of 27%.

6c. Percentage performance against target: waste management. Treatment plant solid waste diverted from commercial landfills

Target: 95%

TARGET





Watercare aims to send no more than 5% of the solid waste produced in its water and wastewater treatment plants to commercial landfills. By using biosolids to rehabilitate a part of the former oxidation ponds at the Mangere Wastewater Treatment Plant and by maintaining dedicated placement sites for solids removed during water treatment, Watercare was able to reuse 84% of solid waste produced, or 88% of the targeted amount.

KEY: Target met | Good performance but could do better | Target not met | New or updated ruler

6d. Percentage performance against target: species preservation

Target: 100% of species preservation outcomes achieved

TARGET

Bird roost management plan	Bird populations monitored	Adequate bird roost capacity	Complete annual macro-invertebrate monitoring programme	Implement trout management plan	Flushing flow release – southern dams	Fish trap and haul – southern dams	Fish trap and haul – western dams	Carry out trial fish passage at Mangatangi Dam	Flushing flow release – western dams

100%

100% 2013 | 100% 2012 | 85% 2010 | 75% 2011

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

6e. Percentage performance against target: habitat improvement

Target: 100% of habitat improvement outcomes achieved

TARGET

Rural: Trees for Survival sponsorship	Freshwater: Downstream water quality monitoring – southern dams	Freshwater: Residual flows maintained – southern dams	Freshwater: Downstream water quality monitoring – western dams	Freshwater: Waikato RiverCare sponsorship	Freshwater: Adopt A Stream school programme	Freshwater: Implement-ation of Mangatawhiri riparian planting programme*	Coastal: Harbour Clean-Up Trust sponsorship	Freshwater: Residual flows implemented – western dams	Urban: Restoration projects Puketutu Island

* These replace former measures which were completed in previous years

100%

91% 2013 | 90% 2012 | 90% 2010 | 90% 2011

Watercare continues to be the principal sponsor for the Watercare Harbour Clean-Up Trust, which focuses on removing litter from Auckland's harbours and waterways (see also ruler 5b). Preparations for the rehabilitation of Puketutu Island are well under way with stage one of the capital works completed as planned in June 2014, and operations set to commence in August 2014. Watercare staff continue to participate in planting days for the Trees for Survival programme, while the freshwater component of Watercare's Education Programme continues to be heavily subscribed (see also ruler 5b).

6f. Percentage performance against target: midge complaints at wastewater treatment plants. Number of midge complaints

Target: Zero complaints

TARGET

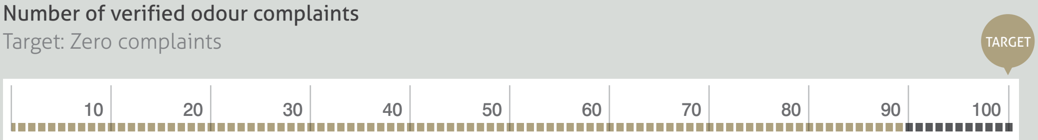
10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100

94%

100% 2013 | 90% 2012 | 100% 2010 | 70% 2011

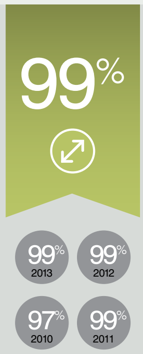
Watercare operates a year-round monitoring and management programme that focuses on controlling midge breeding grounds around its wastewater treatment plants and on reducing midge breeding grounds in the community, largely through public awareness initiatives. Effective responses continue to be required, particularly when warm, wet weather creates conditions in which midges thrive. Watercare received 13 complaints relating to midge levels at wastewater treatment plants this year and worked with the Mangere Midge Forum to investigate and resolve issues.

6g. Percentage performance against target: odour complaints at wastewater treatment plants.
Number of verified odour complaints
Target: Zero complaints



Odour control measures continue to be an important focus at the wastewater treatment plants (WWTPs). These include the use of covers and odour filter beds as well as stationary and mobile deodoriser spraying units. Watercare undertakes periodic plant boundary odour surveys that involve an independent 'odour scout' to investigate and report any odour detected. During the year, the company received 22 verified odour complaints at Mangere, one at Beachlands and one at Waiwera WWTPs. All complaints were responded to in a timely manner, and improved odour-management techniques, including odour-masking devices and increased inspections, were implemented.

6h. Percentage performance against target: compliance of trade waste customer
Target: 100%



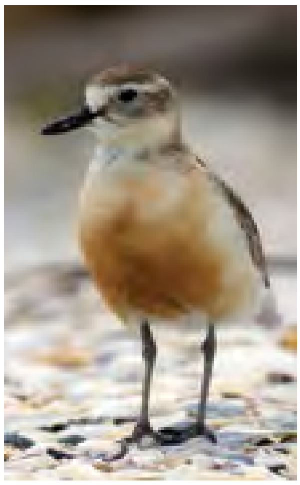
Watercare aims to work with its customers to improve their compliance with trade waste by-laws. A comprehensive monitoring and sampling programme, targeted education and a good level of environmental awareness by customers have all been key factors in maintaining a high level of compliance.

06

Establishing the Green Team

In 2013, Watercare established the Green Team, a group of 20 staff members who volunteer their time and knowledge to facilitate sustainable outcomes for the company. The team is made up of people from a range of professional backgrounds who combine diverse individual skills with a shared passion for sustainability.

The Green Team has worked on four areas: biodiversity at sites, waste management, and sustainable practices in the office and in designing and constructing infrastructure projects. Extensive research was undertaken this year to better understand current practices and opportunities for improvement, and the team is now looking to implement their findings in the following areas: assessing the sustainability of two of Watercare's infrastructure works, incorporating living roofs in the design of some upcoming projects, energy conservation systems for computers, and improving recycling efforts by educating staff on the benefits of waste separation.



A dotterel rests on the Watercare Coastal Walkway, which hosts thousands of birds that come to feed in the Manukau Harbour during the year.

07

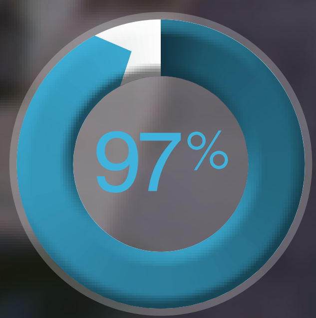
EFFECTIVE ASSET MANAGEMENT

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

This recently-completed Whenuapai pump station will cater for growth and development in Northwest Auckland.

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

OVERALL SCORE FOR FOCUS AREA



See the Economy section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

WATERCARE AT WORK *Ongoing construction works at Mangere Wastewater Treatment Plant, in preparation for the Biological Nutrient Removal (BNR) upgrades.*

Planning for growth

Knowing where and how the Auckland region is going to change is critical to the effective management of infrastructure and community assets.

The number of people connected to Auckland's metropolitan wastewater system is forecast to increase by approximately one third by 2031; the population in some rural areas is expected to grow even more quickly.

Effective asset management is vital if Watercare is to continue to meet the needs of all Aucklanders as efficiently as possible. Effective investment decisions consider both local needs and the overall balance of the network as a whole; they will cater for the medium term, and provide flexibility for the future.

These principles are evidenced in the construction of an additional Biological Nutrient Removal (BNR) facility, currently under way at Watercare's Mangere Wastewater Treatment Plant. The new facility is the centrepiece of a five-year, $136-million plant upgrade which, together with other planned major projects such as the construction of the Central and Northern Interceptors and an upgrade to the Rosedale plant, will ensure that Auckland's wastewater system is able to cater for expected increases in the region's population and businesses over the coming decades.

The new facility will increase BNR treatment capacity by more than 20 per cent, and is designed to allow for further expansion should future growth require it.

As well as its connection to other upgrades at the Mangere plant and elsewhere in the wastewater network, the construction of the BNR facility links with the work Watercare is carrying out to transform Puketutu Island into a new regional park for the enjoyment of all Aucklanders.

With the new facility extending the Mangere plant's footprint across to the south side of Island Road, health and

Biological Nutrient Removal (BNR) is a process to remove nitrogen and phosphorus from wastewater. High levels of these compounds promote the growth of algae, the presence of which reduces the nutrients available for other plants and animals. When algae decompose, oxygen is removed from the water, threatening fish and shellfish. Biological Oxygen Demand (BOD) levels are a proxy for water quality, and the resource consent conditions governing Watercare's Mangere plant specify strict BOD target levels.

safety and operating considerations mandated the construction of a new road providing access to Puketutu Island.

BNR Project Manager Sven Harlos says the new road is about aesthetics as well as efficiency.

"Like the bunds around the construction site, it serves a practical purpose but it is also about enhancing the landscape," says Sven.

"So the bunds also provide a pathway between the Watercare Coastal Walkway and Greenwood Road Park, and the new road not only takes the public away from a working plant, it will also provide a scenic entrance to Puketutu Island."

Taking effective asset management beyond purely financial and operating measures is a theme picked up by Puketutu Island Project Manager Paul Gowans.

The area of biosolids placement on Puketutu Island will be constructed using modern engineering techniques that will avoid any potential adverse environmental effects. It will include a liner, a leachate collection system and cover. Due to the properties of biosolids, stringent management practices have been established to ensure that the final landform is stable and any potential environmental effects and nuisance conditions are managed. The objective is to progressively release the island to the public as various stages of the rehabilitation are completed.

"The restoration of Puketutu Island provides Watercare with an environmentally-sustainable way to dispose of biosolids from the wastewater treatment process at lower cost than other alternatives, rehabilitates the former quarry and restores the integrity of the landscape. Most importantly, it will also provide the people of Auckland with a superb recreational facility that recognises and preserves the unique history of the area."

The Puketutu Island Rehabilitation project follows negotiations between Waikato–Tainui, local iwi, Watercare and the Kelliher Charitable Trust. Paul says taking into account the upfront costs involved in purchasing the lease to the island and the capital works programme, which commenced in late 2012, Watercare expects to save up to $22 million in real terms over the 35-year life of the project.

KEY
- Target met
- Good performance but could do better
- Target not met
- New or updated ruler

7a. Percentage performance against statement of intent target: capital expenditure

SOI target: ≥ 85% of budget

TARGET

10	20	30	40	50	60	70	80	90	100

Watercare aims to ensure capital expenditure is greater than 85% of the approved financial budget. For 2013/14, the actual capital expenditure was 96%, which was above the target of 85%.

100%

100% 2013 | 100% 2012 | 100% 2011

7b. Percentage performance against statement of intent target: water conservation

Target: 100% of demand management outcomes achieved

TARGET

Implement demand management in everyday business at Watercare	Develop and publish updated regional demand management plan*	Future supply planning balances cost-beneficial efficiency options	Water loss strategies and management approaches implement-ed*	Understand customer water use patterns	Update the 'Waterwise' section of Watercare's website*	Promote water-efficient devices and communicate associated messages	Work with large water users to reduce demand	Work with Auckland Council to reduce water use	Advocate for improved water efficiency in legislation for new buildings*

* These replace former measures which were completed in previous years

The 2013/14 year was a very active one for water conservation at Watercare. The 2013–2016 Auckland Regional Water Demand Management Plan was developed and released, proposing a strong action plan to meet Auckland's water use targets. Actions delivered this year include the publication of '*Be Waterwise*' to help households save water and the creation of a Waterwise section on Watercare's website, featuring case studies of business and household water efficiency. Following pilot studies in May, a toolbox for business and institutional water efficiency will soon be released. More than 200 households have registered with the Waterwise Advice line since it was set up and the company's associated partnership with EcoMatters has been extended a further two years.

92%

82% 2013 | 78% 2012

7c. Percentage performance against statement of intent target: per capita consumption

SOI target: 280 ± 5%

TARGET RANGE

10	20	30	40	50	60	70	80	90	100

As part of the Auckland Demand Management Plan, Watercare is committed to reducing per-capita consumption to 15% below the 2004 level by 2025. The per-capita consumption this year was 270 litres per person per day, which is better than the 2013/14 target of 280 litres per person per day.

Watercare's demand management initiatives are targeted at making the Auckland region more water efficient. These include work on network efficiency and leakage as well as volumetric charging and helping Auckland's households and businesses to use water more wisely.

100%

100% 2013

7d. Percentage performance against target: maintenance development

Target: 100% of maintenance development outcomes

TARGET

Maintenance history recorded for wholesale assets	Failure Mode Effect and Criticality Analysis used to target wholesale asset operating expenditure and capital expenditure spend	Wholesale maintenance programme prioritised using Reliability Centred Maintenance	Review and update maintenance key performance indicators aligned to recognise international standards	Review network pump-station maintenance strategy	Develop and implement a company-wide control system alarm management strategy	Develop and implement smart maintenance reporting	Develop and implement online change management system	Develop and integrate electrical safety certificates into the asset register and document management system	Integrate computerised maintenance management system with electronic document management system

Watercare is focused on maximising returns on the investment made in its asset management system by establishing performance metrics based on recognised international standards and introducing smart systems that will accelerate efficiency gains. Success will enable the company to better support Failure Mode Effect and Criticality Analysis (FMECA), asset renewals, and maintenance activities.

82%

70% 2013

Watercare Treatment Planner Maria Dalouche trials a new treatment process at Huia Water Treatment Plant

07

Investing for the future

Located in Auckland's Waitakere Ranges, the Huia Water Treatment Plant can treat up to 126 million litres of water per day, drawn from four large dams. The plant was originally constructed in 1929 and has a conventional treatment process of coagulation, clarification, filtration and disinfection.

Watercare plans to replace the existing facility with a new plant to be constructed on an adjacent block of land. The new plant will be able to treat a further 14 million litres per day and will have an enhanced treatment process comprising dissolved air flotation clarification, ozone disinfection and biologically activated carbon filtration. The new plant is scheduled for completion in 2020.

08

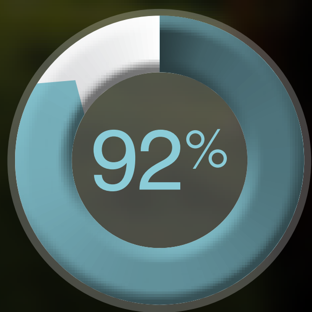
SOUND FINANCIAL MANAGEMENT

Delivering on business objectives at the lowest cost

The Hunua 4 pipe bridge is installed on SH20. The pipe bridge construction method has been used to minimise interference with the state highway network running beneath it.

By law, Watercare is required to manage its operations efficiently with a view to minimising the overall costs of water supply and wastewater services to its customers. The company receives no outside funding, and is prohibited by statute from paying a dividend to its shareholder, Auckland Council. For the 2013/14 year, Watercare maintained water and wastewater charges at the same level as the previous year, passing on savings generated by increased operating efficiency.

OVERALL SCORE FOR FOCUS AREA



See the Economy section of the GRI Report for further information on how this focus area impacts on Watercare's stakeholders and/or operations.

08

SOUND FINANCIAL MANAGEMENT

WATERCARE AT WORK

Managing borrowings prudently

As Auckland's population continues to grow, so does the demand for water and wastewater services. Over the next decade, Watercare expects to invest $4 billion* in capital projects to meet this new demand, and to maintain or improve levels of service to existing customers.

New infrastructure is funded by a combination of revenue from water and wastewater charges and infrastructure growth charges, and external borrowing. The long life of Watercare's assets means any new infrastructure is likely to serve several generations of Aucklanders. Balancing these funding sources ensures the cost of providing infrastructure is more fairly spread among the people who will benefit from it.

To ensure costs are minimised and risks mitigated effectively, Watercare's borrowing is managed by a dedicated treasury operation. The company's treasury functions according to corporate best practice; its policy parameters and risk limits are reviewed by the Board every two years, and risk-management strategies are formulated in conjunction with an external treasury advisor. The Audit and Risk Committee also closely monitors the treasury's activities.

Through carefully-managed medium and long-term borrowing, Watercare's treasury has helped to ensure that short term movements in interest rates do not unduly impact on the company's water and wastewater charges to customers.

Watercare's borrowings come from a variety of sources including committed bank funding, direct funding in its own name through commercial paper (short-term) and medium-term notes, and inter-company loans from its shareholder Auckland Council. In 2013/14 Watercare sourced all of its medium and long-term borrowing from Auckland Council, saving at least $250,000 in interest costs. The company will continue with this policy in 2014/15, while continuing to undertake short-term debt funding in its own name to achieve efficiencies around its cash-management activities.

* Real dollars, not including capitalised interest

Since 2010, Watercare has invested $1 billion in the development of new infrastructure, yet has extended borrowing by only $216 million.

Reducing aged receivables

In 2013/14, Watercare again significantly reduced the level of outstanding aged debt. The company's primary performance measure for management of debtors is the level of payments outstanding for 60 days and more. At the end of the 2013/14 financial year, the aged debt has been reduced by approximately $1.7 million from the level it was at the end of 2012/13, continuing a favourable trend that began two years ago. The collection of debt is managed by the Credit Services team, who interact with around 450,000 customers; the reduction in outstanding debt was achieved through improvements in processes and by adopting a customer-focused approach, which helped to resolve issues quickly and effectively.

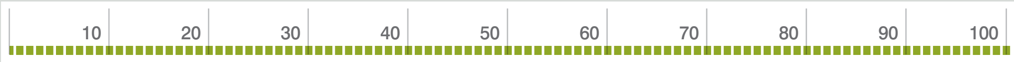
The Credit Services team discuss customer feedback at a weekly team meeting.

KEY — Target met — Good performance but could do better — Target not met — New or updated ruler

8a. Percentage performance against statement of intent target: minimum funds flow from operations (FFO) to interest cover before any price adjustment

SOI target: ≥ 2.5

TARGET



The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2014 was 3.30. 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.

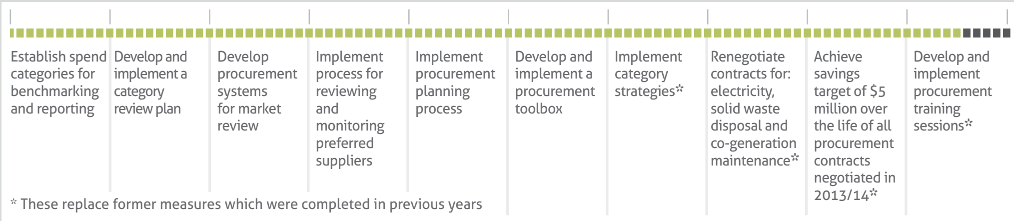
100%

100% 2013 · 100% 2012 · 100% 2010 · 100% 2011

8b. Percentage performance against target: procurement efficiency programme and savings

Target: 100%

TARGET



Major savings were realised for the supply of electricity through a collaborative procurement strategy with Auckland Council. Other savings were achieved through the award of the solid waste disposal tender and a renegotiation of co-generation maintenance agreement. In total, savings in excess of the $5 million target were achieved.

Training sessions have been designed to help staff follow best practice in their procurement and ensure compliance with policies and procedures. The training sessions will be implemented in the next financial year.

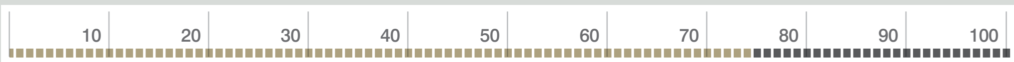
95%

95% 2013 · 98% 2012 · 95% 2010 · 95% 2011

8c. Percentage performance against target: interest rate percentage

Target: Treasury benchmark of 4.62%

TARGET



Watercare's weighted average interest rate, excluding credit margins and fees, was 4.86%, compared with the target rate of 4.62%. The target rate is derived from historical rates, with a 70% weighting currently being applied to the period between 2009 and 2013, when interest rates were either at, or very close to, historical lows. Watercare's approach to managing interest rate risk is to smooth out the peaks and troughs in interest costs across the business cycle. While this approach will tend to underperform against the benchmark in circumstances such as those prevailing during 2013/14, its benefits are demonstrated by Watercare's decreasing cost of funds in the recent environment of rising interest rates.

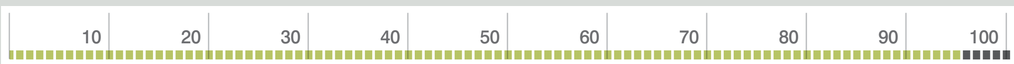
75%

100% 2013 · 99% 2012 · 50% 2010 · 100% 2011

8d. Percentage performance against target: actual operating expense

Target: Below budgeted operating expense

TARGET



Watercare is required to minimise operating costs and seeks to maintain actual operating expenses below budget. For 2013/14, the full-year company result shows an actual operating expense that was 0.6% above budget due to a higher level of unplanned maintenance, asset operating costs and labour costs. This was partially offset by lower professional services, overheads and planned maintenance.

92%

100% 2013 · 90% 2012 · 95% 2010 · 100% 2011

KPMG

Independent Limited Assurance Report to the Directors of Watercare Services Limited

We were engaged by the Board of Directors of Watercare Services Limited ("Watercare") to perform a limited assurance engagement in relation to Watercare's "Non-Financial Information" as defined below, and the self-declared GRI 'in accordance' assertion, included in the GRI Report and Annual Report for the period 1 July 2013 to 30 June 2014 (the "reporting period").

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

- The "Non-Financial Information", has not been prepared in all material respects in accordance with the Global Reporting Initiative ("GRI") G4 reporting principles and guidelines; and
- The self-declared GRI 'in accordance' assertion made on page 2 of the GRI Report does not comply in all material respects with the relevant GRI G4 requirements.

Non-financial information

The "Non-Financial Information" comprises:

- Significant claims and indicators included in the GRI Report.
- Selected non-financial information included in the Annual Report. This includes stakeholder engagement information on pages 20-21 and selected Annual Report rulers included on pages 24-69. The scope of our assurance specifically excludes any Annual Report rulers incorporating Statement of Intent targets.

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

Management responsibility

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

Our responsibility

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements ISAE (NZ) 3000: *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. That standard requires that we comply with the requirements of Professional and Ethical Standards issued by the External Reporting Board of New Zealand, and implement quality control procedures that are applicable to the engagement.

Assurance approach

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

Our procedures included:

- Enquiries of Watercare personnel to understand the process for deriving the "Non-Financial Information";
- Analytical review and other testing to assess the reasonableness of the information presented;
- Overall sense check of the GRI Report and Annual Report against our findings and understanding of Watercare.

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

Use of our report

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

Our report is released to 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.

Independence

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

Conclusion

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

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

Our assurance engagement was completed as at 12 September 2014 and our conclusion is expressed as at that date.

KPMG
Auckland

FINANCIAL REPORT 2014 CONTENTS

Upper Huia Dam in the Waitakere Ranges

FINANCIAL INFORMATION

For more detail, refer to the financial information, beginning on page 74.

$8.4 BILLION Total Assets

$471.7 MILLION Total Expenses

$316.4 MILLION Capital Expenditure

$500.5 MILLION Total Revenue

$8.4 MILLION Net deficit after tax

$1.5 BILLION Total Borrowings

$28.8 MILLION Operating Surplus from Trading

CASH FLOWS

For more detail, refer to the Statement of Cash Flows on page 86.

MONEY IN

- 81% Customers (water and wastewater services, infrastructure growth charges)
- 18% New Borrowing (Net)
- 1% Other

MONEY OUT

- 53% Capital Expenditure
- 32% Operating Expenses
- 15% Finance Costs

HISTORICAL FINANCIAL SUMMARY AND KEY STATISTICS

AS AT 30 JUNE 2014

	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
FINANCIAL PERFORMANCE										
Total revenue	156,628	168,509	172,773	168,773	184,888	199,227	373,107	441,950	482,620	**500,470**
Total expenses	137,713	144,070	159,196	165,763	170,427	189,002	361,273	436,998	448,519	**471,707**
Operating surplus before:	18,915	24,439	13,577	3,010	14,461	10,225	11,834	4,952	34,101	**28,763**
Loss on disposal, provision for redundant property, plant and equipment, and other restructuring costs	(3,254)	(1,026)	(7,719)	(4,793)	(11,589)	(6,140)	(6,162)	(8,517)	(10,210)	**(11,975)**
(Loss)/gain on revaluation of derivative financial instruments	(2,673)	2,561	3,021	(3,222)	(16,599)	(20,483)	(13,567)	(60,618)	39,628	**13,050**
Operating surplus/(deficit) before tax	12,988	25,974	8,879	(5,005)	(13,727)	(16,398)	(7,895)	(64,183)	63,519	**29,838**
Current tax	(25)	2,079	(28)	–	–	–	–	–	–	**–**
Deferred tax	4,303	7,909	3,639	(2,208)	(3,363)	11,311	4,438	(18,878)	23,173	**38,230**
Net surplus/(deficit) after tax	8,710	15,986	5,268	(2,797)	(10,364)	(27,709)	(12,333)	(45,305)	40,346	**(8,392)**
FINANCIAL POSITION										
Current assets	18,121	33,535	35,491	19,414	114,101	34,782	87,586	78,744	72,090	**77,107**
Non-current assets										
Inventories	1,821	2,378	2,797	2,640	2,599	3,237	3,040	2,637	3,338	**3,459**
Prepaid expenses	–	–	–	–	–	–	–	24,033	24,854	**24,208**
Derivative financial instruments	–	–	–	5,579	12,220	5,284	12,285	23,609	10,819	**5,698**
Investments	17,456	–	–	–	–	–	–	–	–	**–**
Intangible assets**	–	13,539	18,429	18,844	16,375	14,374	30,229	39,554	43,054	**39,784**
Property, plant and equipment	1,585,453	1,959,687	1,977,280	2,025,034	2,357,369	2,413,113	7,688,196	7,730,309	8,084,978	**8,235,338**
Total non-current assets	1,604,730	1,975,604	1,998,506	2,052,097	2,388,563	2,436,008	7,733,750	7,820,142	8,167,043	**8,308,487**
Total assets	1,622,851	2,009,139	2,033,997	2,071,511	2,502,664	2,470,790	7,821,336	7,898,886	8,239,133	**8,385,594**
Current liabilities										
Bank overdraft	44	148	132	111	–	446	558	–	42	**–**
Payables, provisions and accruals	29,760	23,149	25,102	40,754	46,311	47,580	88,880	92,559	102,696	**105,230**
Borrowings	175,713	161,505	174,174	207,349	204,560	109,225	241,295	232,156	438,025	**420,457**
Derivative financial instruments	–	–	1,077	465	1,485	1,026	3,174	362	990	**150**
Total current liabilities	205,517	184,802	200,485	248,679	252,356	158,277	333,907	325,077	541,753	**525,837**
Non-current liabilities										
Payables, provisions and accruals	972	926	1,194	880	966	1,053	10,492	10,304	9,751	**14,321**
Borrowings	200,000	200,000	200,000	200,000	350,000	416,500	987,604	1,063,910	909,917	**1,033,270**
Derivative financial instruments	–	–	–	4,460	27,725	40,298	59,110	133,336	83,909	**63,490**
Deferred tax liability	256,090	377,656	347,502	342,348	420,666	402,049	848,828	829,950	927,052	**965,231**
Total non-current liabilities	457,062	578,582	548,696	547,688	799,357	859,900	1,906,034	2,037,500	1,930,629	**2,076,312**
Total liabilities	662,579	763,384	749,181	796,367	1,051,713	1,018,177	2,239,941	2,362,577	2,472,382	**2,602,149**

HISTORICAL FINANCIAL SUMMARY AND KEY STATISTICS *(continued)*

AS AT 30 JUNE 2014

	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Equity										
Retained earnings	123,753	141,350	151,037	151,706	147,053	120,265	111,972	72,274	106,201	**76,887**
Revaluation reserves	575,826	843,712	873,086	862,745	1,043,205	1,071,655	1,429,619	1,424,231	1,620,746	**1,666,754**
Capital reserve	–	–	–	–	–	–	3,779,111	3,779,111	3,779,111	**3,779,111**
Issued capital	260,693	260,693	260,693	260,693	260,693	260,693	260,693	260,693	260,693	**260,693**
Total equity	960,272	1,245,755	1,284,816	1,275,144	1,450,951	1,452,613	5,581,395	5,536,309	5,766,751	**5,783,445**
Total liabilities and equity	1,622,851	2,009,139	2,033,997	2,071,511	2,502,664	2,470,790	7,821,336	7,898,886	8,239,133	**8,385,594**

CASH FLOW SUMMARY

	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net cash flows – operating	65,627	66,777	70,370	59,208	81,297	74,624	176,035	163,394	208,980	**222,570**
Net cash flows – investing	(69,972)	(52,673)	(83,023)	(92,362)	(138,387)	(126,245)	(192,231)	(229,173)	(261,639)	**(328,411)**
Net cash flows – financing	4,759	(14,208)	12,669	33,175	57,411	50,965	16,116	67,167	51,876	**106,025**
Net change in cash flows	414	(104)	16	21	321	(656)	(80)	1,388	(783)	**184**
Bank/(overdraft) at start of the year (net)	(458)	(44)	(148)	(132)	(111)	210	(446)	(526)	862	**79**
Bank/(overdraft) at end of the year (net)	(44)	(148)	(132)	(111)	210	(446)	(526)	862	79	**263**

KEY STATISTICS

	2005*	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt to capitalisation (book value)	27%	22%	23%	24%	28%	27%	18%	19%	19%	**20%**
Debt to capitalisation (historical cost)	48%	47%	48%	50%	58%	58%	23%	24%	25%	**26%**
Funds flow from operations to interest ratio	3.5	3.7	3.6	2.9	2.9	2.9	3.3	3.2	3.4	**3.3**
EBITDA interest expense ratio	3.8	3.8	3.7	3.4	3.9	3.5	3.5	3.5	3.8	**4.1**
Total liabilities to total assets	41%	38%	37%	38%	42%	41%	29%	30%	30%	**31%**
Capital expenditure ($000)	70,651	64,489	86,416	120,174	129,860	123,324	191,943	234,670	289,289	**316,414**
Number of employees	329	343	363	363	381	387	611	645	731	**772**

* The company adopted NZ IFRS with effect from 1 July 2005 and has restated the comparative information for the year ended 30 June 2005 in accordance with NZ IFRS.

** Intangible assets have been disclosed separately from the June 2006 financial year onwards.

FINANCIAL COMMENTARY

This financial commentary includes the budget for the 2014 year and notes on any significant variances. Comparisons are also provided to last year being the June 2013 financial year. The budget for the June 2015 year is shown for information purposes.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

Total comprehensive income

	2014	2014	2013	*2015*
	Group and Company			
	Actual	Budget	Actual	*Budget*
	$000	$000	$000	*$000*
Operating surplus/(deficit) from trading operations	**28,763**	(2,890)	34,101	*(8,649)*
Loss on disposal, provision for redundant property, plant and equipment	**(11,975)**	–	(10,210)	–
Gain on revaluation of derivative financial instruments	**13,050**	–	39,628	–
Operating surplus/(deficit) before tax	**29,838**	(2,890)	63,519	*(8,649)*
Deferred tax	**(38,230)**	810	(23,173)	*(10,949)*
Net (deficit)/surplus for the year	**(8,392)**	(2,080)	40,346	*(19,598)*
Gain on revaluation of property, plant and equipment	**25,086**	–	190,096	*405,755*
Total comprehensive income for the year, net of tax	**16,694**	(2,080)	230,442	*386,157*

Note: All of the figures in the above table reflect Watercare's accounting policy to capitalise interest. The Statement of Intent budgets for 2014 and 2015 differ from the figures in the table above as they reflect the Auckland Council Group accounting policy not to capitalise interest.

KEY POINTS

- The financial result for the year was highlighted by an operating surplus from trading operations of $28.8 million compared with a budgeted operating deficit of $2.9 million being a favourable variance of $31.7 million.
- Both business units are reporting an operating surplus from trading operations being $10.0 million for water and $18.8 million for wastewater.
- Water and wastewater sales volumes were down on budget resulting in lower water and wastewater revenue of $5.9 million compared to budget.
- Overall revenue was $33.0 million favourable to budget primarily due to (non-cash) vested asset income of $20.9 million being favourable to budget by $15.1 million and $15.4 million unbudgeted tax subvention receipts from Ports of Auckland and Auckland Council for tax losses. Additionally, infrastructure growth revenue (IGC) was $7.9 million favourable to budget.
- Cost savings were achieved in interest paid and payable of $0.6 million or 0.7% compared to budget and the net expense was further reduced by $5.4 million compared to budget due to an increase in interest capitalised to capital projects. These savings were offset by higher depreciation of $6.3 million or 3.1% above budget and higher operating expenses of $1.1 million or 0.6% above budget.
- The reported operating surplus from trading operations was prior to the adjustments for the (non-cash) revaluation of derivative financial instruments and the (non-cash) loss on disposal of property, plant and equipment.
- Under NZ IFRS, the company revalues its interest rate swaps and forward foreign exchange contracts to fair value. This revaluation resulted in an increase in current year net surplus by $13.1 million (2013: increase in net surplus by $39.6 million).
- The company has recorded a loss on disposal of property, plant and equipment of $12.0 million being primarily the write-down of assets that were replaced during the year.
- The company has recorded a deferred tax expense of $38.2 million which primarily reflects the reversal of the deferred tax asset resulting from the tax loss offset transactions during the year.
- The resulting net deficit after tax of $8.4 million was compared with a budgeted net deficit of $2.1 million. (2013: net surplus after tax of $40.3 million).
- The land and buildings asset classes were revalued in accordance with NZ IAS 16 requirements at 30 June 2014. The impact of the asset revaluation was an uplift of $25.1 million (net of tax) in the value of land and buildings.
- Total comprehensive income for the year ending 30 June 2014 was $16.7 million compared with the budget deficit of $2.1 million.

Revenue

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water	**133,340**	136,088	(2.0%)	134,978	*137,054*
Wastewater	**266,503**	269,702	(1.2%)	272,818	*285,678*
Trade waste	**13,509**	13,382	0.9%	13,161	*3,900*
Other	**87,118**	48,277	80.5%	61,663	*56,349*
Operating revenue	**500,470**	467,449	7.1%	482,620	*482,981*

Water revenue was $133.3 million for the year, 2.0% lower than the budget of $136.1 million due to lower sales volumes than budget and last year.

Wastewater revenue was $266.5 million for the year, 1.2% lower than the budget of $269.7 million. Trade waste revenue was $13.5 million for the year and was higher than the budget by 0.9%.

Other revenue was $87.1 million for the year and was 80.5% above budget primarily due to vested asset revenue of $20.9 million (non-cash) being favourable to budget by $15.1 million and unbudgeted subvention receipt income of $15.4 million from Ports of Auckland and Auckland Council for tax losses. Additionally, IGC revenue of $33.0 million was $7.9 million favourable to budget due to increased residential development activity and connections to several large commercial developments during the year.

Operating expenses

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water	**70,691**	77,274	8.5%	69,675	*79,383*
Wastewater	**125,920**	118,260	(6.5%)	122,232	*122,221*
Total expenses	**196,611**	195,534	(0.6%)	191,907	*201,604*

Operating expenses were $1.1 million or 0.6% higher than budget for the year primarily due to unfavourable variances in labour, unplanned maintenance and other asset operating costs. These unfavourable variances were partially offset by lower than budgeted expenditure in planned maintenance, energy costs, professional services and general overheads.

Operating expenses in the water business unit were $6.6 million or 8.5% lower than budget. The savings were primarily due to lower planned maintenance and professional services. Additionally, savings were achieved in general overheads including bad debts and staff training. The savings were partially offset by higher than budgeted contract labour which was managed internally instead of using professional services consultants.

Operating expenses in the wastewater business unit were $7.7 million or 6.5% higher than budget. The unfavourable variance was primarily due to higher than budgeted contract labour which was managed internally instead of using professional services consultants. Additionally, there was increased unplanned maintenance on wastewater equipment. The unfavourable variances were partially offset by savings achieved in professional services, energy costs and general overheads including bad debts and staff training.

Depreciation and amortisation

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water	**88,789**	86,096	(3.1%)	79,616	*96,633*
Wastewater	**117,158**	113,585	(3.1%)	105,364	*113,807*
	205,947	199,681	(3.1%)	184,980	*210,440*

Depreciation and amortisation for 2014 was 3.1% above budget primarily due to the acceleration of depreciation on assets which have been identified for replacement as part of new capital projects.

Finance costs

	2014	2014	2014	2013	2015
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water					
Paid and payable	**9,334**	11,730	20.4%	7,068	*15,787*
Capitalised on asset construction	**(7,447)**	(7,831)	(4.9%)	(6,194)	*(9,311)*
	1,887	3,899	51.6%	874	*6,476*
Wastewater					
Paid and payable	**76,495**	74,674	(2.4%)	73,030	*79,810*
Capitalised on asset construction	**(9,233)**	(3,449)	167.7%	(2,272)	*(6,700)*
	67,262	71,225	5.6%	70,758	*73,110*
Total					
Paid and payable	**85,829**	86,404	0.7%	80,098	*95,597*
Capitalised on asset construction	**(16,680)**	(11,280)	47.9%	(8,466)	*(16,011)*
	69,149	75,124	8.0%	71,632	*79,586*

Total interest paid or payable of $85.8 million was 0.7% under budget due to lower debt levels. The amount of interest being capitalised to capital projects of $16.7 million was 47.9% above budget. As a result, the reported finance costs of $69.1 million were 8.0% below budget.

Tax

	2014	2014	2014	2013	2015
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Current tax	**–**	–	–	–	*–*
Deferred tax	**(38,230)**	810	N/A	(23,173)	*(10,949)*
	(38,230)	810	N/A	(23,173)	*(10,949)*

No income tax was payable on the trading result for the year.

The company has recorded a deferred tax expense of $38.2 million which primarily reflects the reversal of the deferred tax asset resulting from the tax loss offset transactions during the year.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

The company was in a strong financial position with net equity of $5.8 billion at year-end. The net equity increased by $16.7 million from 30 June 2013 due to the asset revaluation of $25.1 million at 30 June 2014 partially offset by the net deficit after tax of $8.4 million.

Property, plant and equipment

	2014	2014	2014	2013	2015
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water	**3,425,153**	3,611,021	(5.1%)	3,392,587	*3,780,126*
Wastewater	**4,810,185**	4,777,857	0.7%	4,692,391	*5,123,201*
	8,235,338	8,388,878	(1.8%)	8,084,978	*8,903,327*

STATEMENT OF FINANCIAL POSITION (continued)

Movements in property, plant and equipment by business unit for 2014:

	Water	Wastewater	Total
	$000	$000	$000
Net additions and other movements	150,648	169,902	320,550
Asset revaluation (before tax)	11,231	13,804	25,035
Intra-unit asset transfer	(44,648)	44,648	–
Depreciation	(84,665)	(110,560)	(195,225)
	32,566	117,794	150,360

The increase for property, plant and equipment was a result of the upward asset revaluation at 30 June 2014 and the spend on capital projects during the financial year. Significant capital expenditure projects in the year included work on the new Hunua No. 4 watermain, expansion of the Waikato Water Treatment Plant, Puketutu Island biosolids rehabilitation project, Kumeu Huapai Riverhead water and wastewater services, Mangere digester project and the Mangere BNR capacity project.

The intra-unit asset transfer reflects the reapportionment of water meters between the water and wastewater units.

Intangible assets

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
Water	**14,789**	14,961	(1.1%)	17,121	*17,121*
Wastewater	**24,995**	26,599	(6.0%)	25,933	*25,933*
	39,784	41,560	(4.3%)	43,054	*43,054*

The decrease in intangible assets reflects the amortisation exceeding the value of new asset additions during the year.

Borrowings

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
	1,453,727	1,481,899	1.9%	1,347,942	*1,601,139*

Borrowings at year-end were $28.1 million or 1.9% lower than budget due to a combination of higher operating cashflows and the lower opening debt position at 1 July 2013 than was assumed in the budget. Borrowings include commercial paper of $133.8 million, $5.0 million drawn under a revolving credit facility, related party loans of $858.7 million, medium term notes of $306.2 million and a bank loan of $150.0 million.

Deferred tax liability

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual	Budget	Variance to Budget	Actual	*Budget*
	$000	$000		$000	*$000*
	965,231	948,887	1.7%	927,052	*1,105,366*

The deferred tax liability primarily comprises temporary differences between the revalued property, plant and equipment and the corresponding values recognised for tax purposes plus differences in the company's accounting depreciation rates and those permitted by the Inland Revenue. At 30 June 2014, deferred tax liability was higher than budget. This was principally due to the reversal of the deferred tax asset resulting from the unbudgeted tax loss offset transactions during the year.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

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.

Net cash flows from operating activities

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual $000	Budget $000	Variance to Budget	Actual $000	*Budget $000*
	222,570	208,071	7.0%	208,980	*201,792*

Net operating cash flows at $222.6 million were 7.0% higher than budget for 2014. This was due to the effect of higher operating revenue cash inflows and lower finance and operating costs payments.

Net cash flows from investing activities

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual $000	Budget $000	Variance to Budget	Actual $000	*Budget $000*
	(328,411)	(330,097)	0.5%	(261,639)	*(339,412)*

The net cash flow from investing activities was 0.5% lower than budget due to lower spend on capital expenditure projects.

Net cash flows from financing activities

	2014	2014	2014	2013	*2015*
	Group and Company				
	Actual $000	Budget $000	Variance to Budget	Actual $000	*Budget $000*
	106,025	122,026	13.1%	51,876	*137,620*

The net cash flow from financing activities shows a net increase in borrowings in 2014 from the prior year of $106.0 million.

The audited financial statements are set out on pages 84 to 118.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE

FINANCIAL STATEMENTS

We have ensured that the financial statements fairly reflect the financial position of the company as at 30 June 2014 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 accord with New Zealand Equivalents to International Financial Reporting Standards.

We believe proper accounting records have been kept, enabling the financial position of the company to be determined and that the financial statements fully comply with the Financial Reporting 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 2014.

We have pleasure in presenting the financial statements and the statement of service performance for Watercare Services Limited for the year ended 30 June 2014, which were approved and authorised for release on 21 August 2014.

For and on behalf of management:

R P Jaduram
Chief Executive (Acting)

B T Monk
Chief Financial Officer

For the board:

D J Clarke
Chairman

M N Allen
Deputy Chairman

P S Drummond
Director

C J Harland
Director

S M Huria
Director

A G Lanigan
Director

J C Hoare
Director

N L Crauford
Director

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF WATERCARE SERVICES LIMITED AND GROUP'S FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014

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

We have audited:

- the financial statements of the company and group on pages 84 to 118, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, 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 company and group on pages 120 to 122.

OPINION

Financial statements and statement of service performance

In our opinion,

- the financial statements of the company and group on pages 84 to 118:
  - comply with generally accepted accounting practice in New Zealand;
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on pages 120 to 122:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's service performance and outcomes for the year ended 30 June 2014, including its service performance compared against the performance targets and other measures by which performance can be judged in relation to the company and group's objectives.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 21 August 2014. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and statement of service performance. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and statement of service performance whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and statement of service performance that give a true and fair view of the matters to which they relate. We consider internal control 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 company and group's internal control.

An audit also involves evaluating:

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

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements and statement of service performance that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance and outcomes.

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

INDEPENDENCE

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

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

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 Group and Company $000	2013 Group and Company $000
Revenue	Note 1, page 95	500,470	482,620
Total revenue		500,470	482,620
Operating expenses			
Asset operating costs		(67,944)	(83,113)
Maintenance costs		(32,385)	(27,904)
Employee benefit expenses		(51,674)	(41,845)
Other expenses		(44,608)	(39,045)
Total operating expenses	Note 2, page 96	(196,611)	(191,907)
Depreciation and amortisation	Note 3, page 96	(205,947)	(184,980)
Finance costs	Note 4, page 96	(69,149)	(71,632)
Total expenses		(471,707)	(448,519)
Operating surplus from trading operations		28,763	34,101
Loss on disposal and provision for redundant property, plant and equipment		(11,975)	(10,210)
Gain on revaluation of derivative financial instruments	Note 5, page 97	13,050	39,628
Operating surplus before tax		29,838	63,519
Income tax expense			
Deferred tax	Note 7, page 98	(38,230)	(23,173)
Income tax expense		(38,230)	(23,173)
Net (deficit)/surplus for the year		(8,392)	40,346
Other comprehensive income net of tax			
Gain on revaluation of property, plant and equipment	Note 11, page 100	25,086	190,096
Other comprehensive income for the year, net of tax		25,086	190,096
Total comprehensive income for the year attributable to owners of the parent, net of tax		16,694	230,442

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	2014 Group and Company $000	2013 Group and Company $000
ASSETS			
Current			
Cash and cash equivalents	Note 21, page 110	263	121
Trade and other receivables	Note 15, page 107	67,639	60,097
Inventories	Note 14, page 106	4,500	4,005
Prepaid expenses	Note 16, page 107	4,149	4,222
Derivative financial instruments	Note 21, page 110	556	3,645
Total current assets		77,107	72,090
Non-current			
Inventories	Note 14, page 106	3,459	3,338
Prepaid expenses	Note 16, page 107	24,208	24,854
Derivative financial instruments	Note 21, page 110	5,698	10,819
Intangible assets	Note 13, page 105	39,784	43,054
Property, plant and equipment	Note 12, page 101	8,235,338	8,084,978
Total non-current assets		8,308,487	8,167,043
Total assets		8,385,594	8,239,133
EQUITY AND LIABILITIES			
Current			
Bank overdraft	Note 21, page 110	–	42
Trade and other payables	Note 17, page 107	28,320	28,123
Accrued expenses	Note 18, page 107	69,599	65,870
Provisions	Note 19, page 108	7,311	8,703
Borrowings	Note 20, page 108	420,457	438,025
Derivative financial instruments	Note 21, page 111	150	990
Total current liabilities		525,837	541,753
Non-current			
Accrued expenses	Note 18, page 107	13,120	8,580
Provisions	Note 19, page 108	1,201	1,171
Borrowings	Note 20, page 108	1,033,270	909,917
Derivative financial instruments	Note 21, page 111	63,490	83,909
Deferred tax liability	Note 8, page 98	965,231	927,052
Total non-current liabilities		2,076,312	1,930,629
Total liabilities		2,602,149	2,472,382
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Retained earnings		76,887	106,201
Revaluation reserves	Note 11, page 100	1,666,754	1,620,746
Capital reserve	Note 9, page 99	3,779,111	3,779,111
Issued capital	Note 9, page 99	260,693	260,693
Total equity		5,783,445	5,766,751
Total equity and liabilities		8,385,594	8,239,133

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 Group and Company $000	2013 Group and Company $000
OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		476,187	470,882
Dividends received		93	94
Interest received		302	156
Income tax refund		15	5
Subvention receipt	Note 8, page 99	5,363	3,501
		481,960	474,638
Cash was applied to:			
Employees and suppliers		(189,504)	(192,789)
Finance costs paid		(69,886)	(72,869)
		(259,390)	(265,658)
Net cash flows – operating activities	Note 6, page 97	222,570	208,980
INVESTING ACTIVITIES			
Cash was provided from:			
Sale of property, plant and equipment, and intangibles		175	6,230
		175	6,230
Cash was applied to:			
Purchase and construction of property, plant and equipment, and intangibles		(311,906)	(259,403)
Interest capitalised on construction of property, plant and equipment, and intangibles	Note 4, page 96	(16,680)	(8,466)
		(328,586)	(267,869)
Net cash flows – investing activities		(328,411)	(261,639)
FINANCING ACTIVITIES			
Cash was provided from:			
Commercial paper issued (net)		–	9,915
Revolving credit facility (net)		–	21,500
Proceeds from Auckland Council loans – related party	Note 22, page 116	390,000	60,000
		390,000	91,415
Cash was applied to:			
Repay commercial paper (net)		(5,221)	–
Repay revolving credit facility (net)		(30,000)	–
Repay medium-term notes issue		(220,000)	(227)
Repay loans from Auckland Council – related party	Note 22, page 116	(28,754)	(39,312)
		(283,975)	(39,539)
Net cash flows – financing activities		106,025	51,876
Net change in cash flows		184	(783)
Cash and cash equivalents at the beginning of the year		79	862
Cash and cash equivalents at the end of the year		263	79
Cash and cash equivalents comprises:			
Bank balances		263	121
Bank overdraft		–	(42)
		263	79

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

		2014				
		Group and Company				
		Issued capital	Revaluation reserves	Retained earnings	Capital reserve	Total
	Notes	$000	$000	$000	$000	$000
Balance at 1 July 2013		260,693	1,620,746	106,201	3,779,111	5,766,751
Comprehensive income						
Net deficit for the year		–	–	(8,392)	–	(8,392)
Other comprehensive income						
Gain on revaluation of property, plant and equipment	Note 11, page 100	–	25,086	–	–	25,086
Transfer to retained earnings on disposal of property, plant and equipment	Note 11, page 100	–	20,922	(20,922)	–	–
Total comprehensive income for the year, net of tax		–	46,008	(29,314)	–	16,694
Balance at 30 June 2014		260,693	1,666,754	76,887	3,779,111	5,783,445

		2013				
		Group and Company				
		Issued capital	Revaluation reserves	Retained earnings	Capital reserve	Total
	Notes	$000	$000	$000	$000	$000
Balance at 1 July 2012		260,693	1,424,231	72,274	3,779,111	5,536,309
Comprehensive income						
Net surplus for the year		–	–	40,346	–	40,346
Other comprehensive income						
Gain on revaluation of property, plant and equipment	Note 11, page 100	–	190,096	–	–	190,096
Transfer to retained earnings on disposal of property, plant and equipment	Note 11, page 100	–	6,419	(6,419)	–	–
Total comprehensive income for the year, net of tax		–	196,515	33,927	–	230,442
Balance at 30 June 2013		260,693	1,620,746	106,201	3,779,111	5,766,751

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF COMPREHENSIVE INCOME BY BUSINESS UNIT

FOR THE YEAR ENDED 30 JUNE 2014

	2014	2014	2014	2013	2013	2013
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Revenue						
Water and wastewater	133,340	266,503	399,843	134,978	272,818	407,796
Trade waste	–	13,509	13,509	–	13,161	13,161
Other revenue	38,041	49,077	87,118	29,248	32,415	61,663
Total revenue	171,381	329,089	500,470	164,226	318,394	482,620
Operating expenses						
Asset operating costs	(22,235)	(45,709)	(67,944)	(27,148)	(55,965)	(83,113)
Maintenance costs	(13,728)	(18,657)	(32,385)	(14,064)	(13,840)	(27,904)
Employee benefit expenses	(19,199)	(32,475)	(51,674)	(14,892)	(26,953)	(41,845)
Other expenses	(15,529)	(29,079)	(44,608)	(13,571)	(25,474)	(39,045)
Total operating expenses	(70,691)	(125,920)	(196,611)	(69,675)	(122,232)	(191,907)
Depreciation and amortisation	(88,789)	(117,158)	(205,947)	(79,616)	(105,364)	(184,980)
Finance costs	(1,887)	(67,262)	(69,149)	(874)	(70,758)	(71,632)
Total expenses	(161,367)	(310,340)	(471,707)	(150,165)	(298,354)	(448,519)
Operating surplus from trading operations	10,014	18,749	28,763	14,061	20,040	34,101
Loss on disposal and provision for redundant property, plant and equipment	(9,535)	(2,440)	(11,975)	(1,000)	(9,210)	(10,210)
Gain on revaluation of derivative financial instruments	1,419	11,631	13,050	3,497	36,131	39,628
Operating surplus before tax	1,898	27,940	29,838	16,558	46,961	63,519
Income tax expense						
Deferred tax	(10,199)	(28,031)	(38,230)	(6,041)	(17,132)	(23,173)
Income tax expense	(10,199)	(28,031)	(38,230)	(6,041)	(17,132)	(23,173)
Net (deficit)/surplus for the year	(8,301)	(91)	(8,392)	10,517	29,829	40,346
Other comprehensive income net of tax						
Gain on revaluation of property, plant and equipment	11,253	13,833	25,086	62,578	127,518	190,096
Other comprehensive income for the year, net of tax	11,253	13,833	25,086	62,578	127,518	190,096
Total comprehensive income for the year attributable to owners of the parent, net of tax	2,952	13,742	16,694	73,095	157,347	230,442

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF FINANCIAL POSITION BY BUSINESS UNIT

AS AT 30 JUNE 2014

	2014	2014	2014	2013	2013	2013
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
ASSETS						
Current						
Current assets	28,262	48,845	77,107	26,762	45,328	72,090
Total current assets	28,262	48,845	77,107	26,762	45,328	72,090
Non-current						
Inventories	85	3,374	3,459	56	3,282	3,338
Prepaid expenses	9	24,199	24,208	27	24,827	24,854
Derivative financial instruments	620	5,078	5,698	955	9,864	10,819
Intangible assets	14,789	24,995	39,784	17,121	25,933	43,054
Property, plant and equipment	3,425,153	4,810,185	8,235,338	3,392,587	4,692,391	8,084,978
Total non-current assets	3,440,656	4,867,831	8,308,487	3,410,746	4,756,297	8,167,043
Total assets	3,468,918	4,916,676	8,385,594	3,437,508	4,801,625	8,239,133
LIABILITIES						
Current						
Current liabilities	81,412	444,425	525,837	78,550	463,203	541,753
Total current liabilities	81,412	444,425	525,837	78,550	463,203	541,753
Non-current						
Accrued expenses	5,526	7,594	13,120	4,102	4,478	8,580
Provisions	387	814	1,201	375	796	1,171
Borrowings	112,369	920,901	1,033,270	80,290	829,627	909,917
Derivative financial instruments	6,905	56,585	63,490	7,404	76,505	83,909
Deferred tax liability	311,366	653,865	965,231	297,254	629,798	927,052
Total non-current liabilities	436,553	1,639,759	2,076,312	389,425	1,541,204	1,930,629
Total liabilities	517,965	2,084,184	2,602,149	467,975	2,004,407	2,472,382
Equity attributable to owners of the parent	2,950,953	2,832,492	5,783,445	2,969,533	2,797,218	5,766,751
Total equity and liabilities	3,468,918	4,916,676	8,385,594	3,437,508	4,801,625	8,239,133

STATEMENT OF CASH FLOWS BY BUSINESS UNIT

FOR THE YEAR ENDED 30 JUNE 2014

	2014	2014	2014	2013	2013	2013
	Group and Company			Group and Company		
	Water	Wastewater	Total	Water	Wastewater	Total
	$000	$000	$000	$000	$000	$000
Net cash flows – operating activities	95,439	127,131	222,570	83,908	125,072	208,980
Net cash flows – investing activities	(134,603)	(193,808)	(328,411)	(138,012)	(123,627)	(261,639)
Net cash flows – financing activities	39,186	66,839	106,025	53,300	(1,424)	51,876
Net change in cash flows	22	162	184	(804)	21	(783)

The financial statements should be read in conjunction with the accounting policies and notes on pages 90 to 118 inclusive.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2014

REPORTING ENTITY

The financial statements are for Watercare Services Limited (Watercare), a council-controlled organisation (CCO) wholly owned by Auckland Council, as defined in the Local Government Act 2002 incorporated and domiciled in New Zealand. The consolidated financial statements of the group are for the economic entity of Watercare and its subsidiaries. Separate financial statements of the parent are not presented in these financial statements as the subsidiary financial statements are immaterial to the consolidated group, as detailed in note 10, page 99.

Watercare provides water and wastewater services to the Auckland region (except Papakura), and bulk wastewater services to parts of Waikato region. The group's registered office and principal place of business is at 73 Remuera Road, Remuera, Auckland 1050, New Zealand.

STATEMENT OF COMPLIANCE

Watercare is a public benefit entity (PBE) as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). The financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of NZ IFRS in relation to PBEs and New Zealand Generally Accepted Accounting Practice.

STATUTORY BASE

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

MEASUREMENT BASE

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, certain infrastructural assets and derivative financial instruments as described in specific accounting policies below.

FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are prepared in New Zealand dollars and all values are rounded to the nearest thousand, unless otherwise stated.

KEY MANAGEMENT DECISIONS

The key areas where management has exercised its judgment in the preparation of these financial statements are as follows:

There are a number of assumptions and estimates used when performing depreciated replacement cost valuations of infrastructure assets. For example, estimates are made determining the remaining useful life over which an asset will be depreciated, replacement costs for assets and capitalised interest. In respect of estimated useful lives, if the estimated useful lives are not accurate this would lead to the annual depreciation charge being either higher or lower in the statement of comprehensive income. To minimise the estimation risk of asset useful lives, the group continually assesses the condition of infrastructural assets and their remaining useful lives. Physical inspections and condition assessments are used by the group to ensure that the condition of major assets is understood and the carrying value of an asset reflects its actual condition. See note 12, page 104, for additional information.

SIGNIFICANT ACCOUNTING POLICIES

The following specific accounting policies that materially affect the measurement of comprehensive income, financial position and cash flows have been applied consistently to all periods presented in these financial statements.

1. BUSINESS UNIT REPORTING

Business unit comprehensive income, financial position and cash flows are presented in the financial statements for water and wastewater services, reflecting the group's legislative requirements. Revenues and expenses 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. At balance date, new water meter assets were reapportioned between the business units to better reflect the returns expected from each unit and the incremental cost of capital. This reapportionment has resulted in an increase as at balance date of $44.6 million in the property, plant and equipment, $12.9 million in current borrowings and $31.7 million in non-current borrowings for the Wastewater business unit with a respective equal and opposite impact for the Water unit. Accordingly, costs directly attributable to debt such as finance costs and 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.

All operations are carried out within New Zealand. There are no material transactions between the two business units.

2. BASIS OF CONSOLIDATION

The purchase method is used to prepare the consolidated financial statements; this involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intra-group balances, transactions, revenues and expenses are eliminated on consolidation.

3. GOODS AND SERVICES TAX (GST)

The statement of comprehensive income and the statement of financial position are stated excluding GST, with the exception of 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.

4. OPERATING REVENUE

The group measures revenue at the fair value of the amounts received or receivable, net of returns, trade allowances, duties and taxes paid. It accounts for revenue for the major activities as follows:

Water and wastewater revenue

Water revenue comprises the amounts received and receivable, including estimated amounts of unread meters at balance date for water supplied to customers in the ordinary course of business. Wastewater revenue is a combination of fixed charge and a percentage of water used. Both are shown net of leak remissions.

Provision of services

Sales of services are recognised at fair value of the amounts received or receivable as the services are rendered, or to reflect the percentage completion of the related services where rendered over time.

SIGNIFICANT ACCOUNTING POLICIES (continued)

4. OPERATING REVENUE (continued)

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.

Development contributions, financial contributions and infrastructure growth charge

Development contributions, financial contributions and infrastructure growth charges received towards the construction of property, plant and equipment are recognised when payment is received for approved connections.

Vested assets revenue

Vested assets revenue is recognised when control over the assets is obtained.

5. GRANT EXPENDITURE

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

6. FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to become ready for its intended use or sale are capitalised as part of the cost of that asset. All other finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

7. LEASES

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 terms of these leases are recognised as expenses spread evenly over the term of the leases.

8. RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development expenditure on individual projects is capitalised and recognised as an asset when it meets the definition and criteria for capitalisation as an asset and it is probable that the group will receive future economic benefits from the asset. Assets which have finite lives are stated at cost less accumulated amortisation and are amortised on a straight-line basis over their useful lives.

9. PROPERTY, PLANT AND EQUIPMENT

Classes of assets

Property, plant and equipment is allocated to classes, being:

- Land (including improvements)
- Buildings
- Pipelines
- Tanks, tunnels, roads and reservoirs
- Dams
- Machinery
- Motor vehicles
- Office equipment
- Work in progress.

Rights-to-franchise assets

Rights-to-franchise assets are the water and wastewater infrastructure assets owned by Watercare and operated by the franchise holder Veolia Water Services (ANZ) Pty Limited (previously United Water International Pty Limited) for the provision of water and wastewater services in the Papakura district.

Under the franchise agreement, 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 with a 20-year right of renewal), the network shall be in a better overall condition than the condition at the time the contract was commenced. Refer also to note 12, page 102, and note 18, page 107.

Initial recognition

The cost of purchased property, plant and equipment is the initial purchase price plus directly attributable costs of bringing the assets to the location and condition necessary for their intended use.

Constructed assets are initially recorded as work in progress at the cost of construction (including materials and direct labour), finance costs and other direct costs until the assets are ready for productive use. Finance costs incurred during the course of construction that are attributable to a project are capitalised, using the finance rate applicable to the funding. When the assets are ready for productive use, the ongoing operating and finance costs are recorded as expenses.

Subsequent recognition

Land and buildings are carried at fair values that reflect current market values, which is the amount that would be expected from an orderly sale, determined by an independent registered valuer at least every three years. Forestry assets owned by Watercare are presented within the land asset class. Changes in fair value less costs to sell relating to forestry assets are included in the statement of comprehensive income for the period in which they arise.

Pipelines, tanks, tunnels, roads, reservoirs, dams and machinery are also carried at fair value, which is deemed to be depreciated replacement cost because the assets are of a specialised nature. The depreciated replacement costs are determined on the basis of an independent valuation prepared by external valuers at least every three years.

The revaluation process involves assessing the current replacement cost and remaining useful lives of the specialised property, plant and equipment.

SIGNIFICANT ACCOUNTING POLICIES (continued)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Subsequent recognition (continued)

Any property, plant and equipment that has been acquired after the most recent valuation is carried at cost less accumulated depreciation and impairment until the next revaluation.

Motor vehicles and office equipment are carried at cost less accumulated depreciation. Work in progress is carried at cost less any impairment.

The changes in the value of each class of property, plant and equipment as a result of the revaluations are recorded in other comprehensive income and accumulated in a revaluation reserve. The group maintains a revaluation reserve for each class of assets. Where cumulative decreases exceed cumulative increases in the value of a class of assets, the net amount is recognised as an expense in determining the surplus or deficit for the year. 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.

Impairment

Asset carrying values are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised if the estimated recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For revalued assets, value in use is the depreciated replacement cost for an asset, where the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows, and where the entity would, if deprived of the asset, replace its remaining future economic benefits. The value in use for cash-generating assets is the present value of expected future cash flows. If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount.

For revalued assets, the impairment loss is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same class of asset. The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss on the same class of asset was previously recognised within the surplus or deficit, a reversal of that impairment loss is also recognised within the surplus or deficit. For assets not carried at a revalued amount, the total impairment loss and the reversal of an impairment loss (for assets other than goodwill) is recognised in the surplus or deficit.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than for freehold land and work in progress, at rates calculated to allocate their cost or revalued amounts over their estimated useful lives. Assets are depreciated to a nil residual value.

Asset class	for 2014 Range of useful lives in years			2014 Average useful life in years	2013 Average useful life in years
Buildings	1	to	117	76	61
Pipelines	1	to	364	107	115
Tanks, tunnels, roads and reservoirs	1	to	219	84	82
Dams	1	to	204	189	179
Machinery	1	to	200	54	57
Motor vehicles	1	to	15	7	8
Office equipment	1	to	20	7	8

10. INTANGIBLE ASSETS

Computer software assets and network models are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over the assets' estimated useful lives.

Easements are recognised at cost, being the costs directly attributable in bringing the asset to its intended use. Easements have an indefinite useful life and are not amortised, but are instead tested for impairment annually.

Resource Management Act consents are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis, over the term of the consent.

Intangible assets' carrying values are reviewed at the end of each year to determine whether there is any indication that those assets have suffered an impairment loss. If any impairment loss has occurred, the carrying value of the asset is adjusted and the loss recognised in determining the surplus or deficit for the year.

Asset class	for 2014 Range of useful lives in years			2014 Average useful life in years	2013 Average useful life in years
Network models	1	to	5	5	5
Computer software	1	to	12	6	5
Resource consents	1	to	38	32	28

11. INCOME TAX

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 tax for current and prior years is recognised as a liability (or asset) to the extent it is unpaid (or refundable).

SIGNIFICANT ACCOUNTING POLICIES (continued)

11. INCOME TAX (continued)

Deferred tax

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.

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

12. INVENTORIES

Inventories comprise consumables, spare parts, project stock and treated water.

Consumables are recorded at the lower of cost (determined on a weighted average basis) 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.

Treated water in the network and reservoirs is recorded at the lower of cost and net realisable value.

13. PROVISIONS

The group provides for the cost of employees' entitlements to annual leave, sick leave and gratuities under the terms of their employment contracts. These amounts are expected to be settled within one year and are therefore recorded in current provisions.

The group provides for the liability for employees' long-service leave 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 term of service with the group. Long-service leave is recorded in current and non-current provisions. The amount recorded in non-current provisions represents the portion which is due for payment beyond one year from the reporting date.

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

The amount recorded as a provision is the best estimate of the consideration required to settle the obligation at the end of each year.

14. CONTRACT RETENTIONS

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.

15. FOREIGN CURRENCIES

The cost of assets purchased with foreign currencies is calculated using the exchange rate on the date of purchase. Any difference between this cost and the amount later required to settle the transaction is recognised as a foreign exchange gain or loss.

Operating expenses in foreign currencies are converted at the rate of exchange on the date of each transaction.

16. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another. As such, the group recognises all its financial instruments as soon as it becomes a party to the contractual provisions of the financial instrument.

At each reporting date, the group includes in its statement of financial position a range of financial assets that include cash and short-term deposits, trade and other receivables, and derivative financial instruments. Similarly, it also reflects in its statement of financial position a number of financial liabilities that include bank overdrafts, trade and other payables, borrowings and derivative financial instruments.

A derivative is a financial instrument or other contract that satisfies all of the following characteristics: its value changes in response to the change in a specified variable such as an interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index; it requires no initial investment or an initial investment that is smaller than would be required for other types of similar contracts and it will be settled at some future date.

Sourcing fair values

For financial instruments that are traded in active markets, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market-accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing at balance date.

Recognition and measurement of financial assets

Financial assets are initially measured at fair value and, for the purpose of subsequent measurement, the group has categorised financial assets into the following categories. Each category determines the process of subsequent measurement and how the resulting surplus or deficit should be reflected in the statement of comprehensive income. The group does not have financial assets in the held-to-maturity and available-for-sale categories.

Loans and receivables

The group's cash and cash equivalents and trade and other receivables fall into this category of financial instruments. These are initially recorded at their fair value plus transaction costs because they have fixed or determinable payments that are not quoted in an active market. Fair value is estimated as the present value of future cash flows.

After initial recognition, they are recorded at amortised cost using the effective interest method, less provision for impairment. The amount of impairment loss is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the impairment loss is recognised in determining the surplus or deficit for the year.

The collection of trade receivables is reviewed on an ongoing basis and debts known to be uncollectible are written off. When there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables, a provision is made for doubtful receivables to recognise impairment in the carrying value of receivables at balance date. This amount provided is recorded in determining surplus or deficit.

SIGNIFICANT ACCOUNTING POLICIES (continued)

16. FINANCIAL INSTRUMENTS (continued)

Financial assets at fair value through profit or loss

All derivative financial instruments fall into this category, except for those designated as, and effective as, hedging instruments, for which the hedge accounting requirements apply. The group does not apply hedge accounting.

Financial assets carried at fair value through profit or loss are initially recorded at fair value.

Financial assets can be classified as at fair value through profit or loss only if they are either classified as held for trading or upon initial recognition they are designated as at fair value through profit or loss. The group does not have any financial assets in the categories of held for trading or designated upon initial recognition as at fair value through profit or loss.

Recognition and measurement of financial liabilities

Financial liabilities are initially recorded at their fair value plus transaction costs.

Financial liabilities are recorded subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss. Those liabilities are recorded subsequently at fair value with gains or losses recognised in the surplus or deficit.

Trade and other payables represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within thirty days of recognition.

The group does not have any financial liabilities in the categories of held for trading or designated at fair value through profit or loss.

Borrowings

Borrowings are recorded at fair value, net of transaction costs.

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

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

Derivative financial instruments

Derivative financial instruments are used by the group to manage its exposures to interest rate and foreign currency risks.

Derivative financial instruments are recorded at fair value in the statement of financial position and fair value changes are accounted for through the surplus or deficit.

Derecognition of financial instruments

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset have expired, or when the financial asset and all substantial risks and rewards associated with it have been transferred.

Financial liabilities are derecognised when they have been either extinguished, discharged, cancelled or have expired.

17. STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand net of outstanding bank overdrafts. The following terms are used in the statement of cash flows:

- 'Operating activities' are amounts received for the supply of services by the group, and payments made to employees and suppliers necessary to support those services, including finance costs. Operating activities also include any transactions or events that are not investing or financing activities
- 'Investing activities' are amounts paid or received for the acquisition and disposal of property, plant and equipment and intangibles and other investments not included in cash equivalents
- 'Financing activities' are the receipt and repayment of the principal on borrowings, and contributions from, and distributions to the shareholder.

18. INSURANCE

Any uninsured loss is recorded in determining the surplus or deficit for the year in which the loss is incurred. Insurance recoveries are recorded only when there is virtual certainty of receipt.

19. GOING CONCERN

After three years of operation with the existing CCOs the Auckland Council Governing Body resolved to undertake a review of CCOs. The CCO review will evaluate the current model and determine whether there is a need to change the scope of activities and functions within any CCO, the structures that the CCOs operate within or any of the accountability mechanisms. The CCO review is scheduled for completion by June 2015 and no decisions were made during the year ended 30 June 2014.

20. ACCOUNTING STANDARDS AND INTERPRETATIONS

The External Reporting Board (XRB) has introduced a revised accounting standards framework. The revised framework introduces Public Benefit Entity (PBE) accounting standards based largely on International Public Sector Accounting Standards, modified as appropriate for New Zealand circumstances. These standards will apply for years beginning on or after 1 July 2014. Watercare will transition to the new PBE standards in preparing its 30 June 2015 financial statements. Watercare is currently assessing the full implication of the new accounting standards. Watercare does not expect the recognition and measurement of transactions to differ significantly to those prescribed in NZ IFRS other than certain changes to disclosure requirements.

Financial reporting requirements for PBEs are frozen in the short term. All new and amended NZ IFRS with a mandatory effective date for annual reporting periods commencing on or after 1 January 2012 are not applicable to PBEs. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude PBEs from their scope.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year.

1. REVENUE

The water and wastewater revenue represents the amounts invoiced to customers and the accrual of unbilled water and wastewater revenue.

	Note	2014 Group and Company $000	2013 Group and Company $000
Revenue from sale of goods			
Retail and bulk water revenue		133,340	134,978
Revenue from rendering of services			
Wastewater revenue		266,503	272,818
Trade waste revenue		13,509	13,161
Total water and wastewater revenue		413,352	420,957
Water and wastewater revenue is shown net of leak remissions.			
Below is a breakdown of leak remission:			
Water and wastewater revenue		403,993	412,182
Leak remission – water		(1,305)	(1,580)
Leak remission – wastewater		(2,845)	(2,806)
Water and wastewater revenue net of remissions		399,843	407,796
Trade waste revenue		13,509	13,161
Total water and wastewater revenue		413,352	420,957
Other revenue			
Infrastructure growth charge		32,990	20,691
Developer and financial contributions		250	1,978
New meters and service connections		5,496	5,462
Vested assets revenue		20,887	18,972
Dividend income		100	101
Subvention receipt	Note 8, page 99	15,443	3,501
Laboratory revenue		5,567	5,629
Interest income		302	170
Other revenue		6,083	5,159
Total other revenue		87,118	61,663
Total revenue		500,470	482,620

2. OPERATING EXPENSES

		Notes	2014 Group and Company $000	2013 Group and Company $000
Operating expenses include:				
Auditor's remuneration	– annual audit and review of the financial statements		556	627
	– audit of financial statements – Office of the Auditor-General (OAG) contribution		35	34
	– OAG review of service performance		60	–
	– other services		6	13
Directors' fees		Note 26, page 118	477	505
Environmentally significant costs	– chemicals		10,878	11,469
	– energy		16,999	17,899
Cost of consumables and spare parts consumed			5,397	2,891
Decrease in provision for obsolescence of inventory			–	(400)
Operating leases and rent			5,691	4,618
Increase in provision for doubtful debts		Note 21, page 114	570	771
Bad debts written off		Note 21, page 114	807	1,592
Salaries and wages	– paid to employees		64,067	59,621
	– capitalised on construction of property, plant and equipment or recorded within asset operating costs and maintenance costs		(15,216)	(19,861)
	– included in employee benefit expenses		48,851	39,760

Auditor's remuneration for other services relates to negative pledge reporting and assistance with asset data analytics. Fees for other services provided by the auditors in the prior year relate to negative pledge reporting and for conducting a workshop for staff delivering customer services.

3. DEPRECIATION AND AMORTISATION

	2014 Group and Company $000	2013 Group and Company $000
Buildings	3,789	4,009
Pipelines	124,271	113,610
Tanks, tunnels, roads and reservoirs	11,513	9,569
Dams	1,983	1,832
Machinery	48,369	43,038
Motor vehicles	821	523
Office equipment	4,479	1,860
Network models	1,206	1,005
Computer software	8,490	8,369
Resource consents	1,026	1,165
Total depreciation and amortisation	205,947	184,980

4. FINANCE COSTS

	2014 Group and Company $000	2013 Group and Company $000
Interest on bank overdraft and borrowings, paid and payable	85,829	80,098
Capitalised interest on construction of property, plant and equipment (2014: 5.42%; 2013: 6.45%)	(16,680)	(8,466)
Net finance costs	69,149	71,632

5. REVALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS

	2014	2013
	Group and Company	Group and Company
	$000	$000
Interest rate swaps contracts loss/(gain)	(13,182)	(39,603)
Forward foreign exchange contracts loss/(gain)	132	(25)
Net revaluation gain	(13,050)	(39,628)

6. OPERATING CASH FLOWS

	2014	2013
	Group and Company	Group and Company
	$000	$000
Reconciliation of net deficit after tax to net cash flows from operating activities		
Net (deficit)/surplus for the year	(8,392)	40,346
Non-cash and non-operating items:		
Depreciation and amortisation	205,947	184,980
Loss on disposal and provision for redundant property, plant and equipment	11,975	10,118
Vested assets revenue	(20,887)	(18,972)
Developer and financial contributions	(250)	(1,978)
Gain on revaluation of derivative financial instruments (net)	(13,050)	(39,628)
Fair value gain forestry assets	(1,342)	–
Medium-term notes premium amortisation	(239)	–
Deferred tax	38,230	23,173
Movements in working capital:		
(Increase)/decrease in assets:		
Inventories	(616)	(1,913)
Trade and other receivables	(10,202)	11,492
Prepaid expenses	719	(1,570)
Increase/(decrease) in liabilities:		
Trade and other payables and accruals	20,216	2,292
Provisions	461	640
Net cash flows from operating activities	222,570	208,980

7. INCOME TAX EXPENSE

	2014 Group and Company $000	2013 Group and Company $000
Operating surplus before tax	29,838	63,519
Income tax calculated at current tax rate of 28%	8,355	17,785
Dividend and other income exempt from taxation	(9)	(1,211)
Non-deductible expenses	25	114
Imputation credits on dividends received	(38)	(39)
Prior year and other adjustments	(96)	(276)
Losses offset with Ports of Auckland Limited	29,993	6,800
Tax effect of non-deductible items and prior period adjustments	29,875	5,388
Income tax expense	38,230	23,173
Represented by:		
Deferred tax	38,230	23,173
Income tax expense	38,230	23,173

IMPUTATION CREDITS

	2014 Group and Company $000	2013 Group and Company $000
Total imputation credits	30,211	30,173

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

8. DEFERRED TAX LIABILITY

	2014 Group and Company $000	2013 Group and Company $000
Balance at the beginning of the year	927,052	829,950
Deferred tax recognised in other comprehensive income, resulting from the revaluation of property, plant and equipment	(51)	73,929
Deferred tax recognised in other comprehensive income, resulting from transfer to retained earnings relating to disposal of property, plant and equipment	(8,136)	(2,496)
Deferred tax recognised in other comprehensive income, resulting from transfer from revaluation reserve relating to disposal of property, plant and equipment	8,136	2,496
Deferred tax recognised in the surplus for the year	38,230	23,173
Balance at the end of the year	965,231	927,052
The balance relates to:		
Depreciation temporary differences	1,161,117	1,119,281
Provisions and accrued expenses temporary differences	(9,448)	(17,880)
Tax losses	(186,438)	(174,349)
Total deferred tax liability	965,231	927,052

8. DEFERRED TAX LIABILITY (continued)

The group's subsidiary, Watercare Harbour Clean-Up Trust, was exempt from tax and the group's other subsidiary, Auckland City Water Limited, was a non-trading entity.

During the year, tax losses of $42.6 million (2013: $27.8 million) were sold to Ports of Auckland Limited (POAL), a related party. Based on an agreement between the parties, Watercare received a subvention payment of $5.4 million (2013: $3.5 million) from POAL which equates to 45 cents per dollar of the tax impact of the losses sold. The balance of $37.2 million (2013: $24.3 million) was recorded by Watercare as a loss offset with POAL.

Further, Watercare entered into an agreement with Auckland Council tax group for sale of tax losses of $80.0 million. A subvention payment receivable of $10.1 million was recorded and the balance of $69.9 million recorded as loss offset with Auckland Council tax group. The subvention income from the sale of tax losses equates to 45 cents per dollar of the tax impact of the losses sold.

The depreciation temporary differences for property, plant and equipment arose because the carrying value of property, plant and equipment was higher for accounting purposes than 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.

9. EQUITY ATTRIBUTABLE TO OWNERS

The total number of authorised and issued shares at balance date was 260,693,164 (2013: 260,693,164) ordinary shares of $1 each. All ordinary issued shares were fully paid and carry 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 21, page 115.

On 1 November 2010, the retail water and wastewater businesses in the Auckland region were integrated into the company. As a result, net assets of $3.8 billion were transferred to the company with the contribution value being recorded separately in the capital reserve.

10. SUBSIDIARIES

The group disclosures in these financial statements represent the consolidated numbers of Watercare Services Limited (company) and its subsidiaries. The net assets at balance date of each of the company's subsidiaries are immaterial to the consolidated financial position of the group. As at the balance date, the details of the company's subsidiaries, net assets, revenue and net surplus or deficit for each subsidiary, after inter-entity eliminations, are as follows:

Water Utility Consumer Assistance Trust

Water Utility Consumer Assistance Trust was formed in October 2011 and is a charitable trust. Its principal activity is to assist eligible residential customers of the company who are unable to pay their water and wastewater charges by approving a payment arrangement which may include recommending to Watercare a write-off of part or the entire amount owed. Watercare has the power to appoint two out of five of the Trustees on the Trust board. The Trust is fully funded by Watercare. The net assets of the Water Utility Consumer Assistance Trust at balance date comprise a cash and cash equivalent and prepayments balance of $12,449 (2013: $10,299) and accrued expenses of $12,439 (2013: $10,289). The Trust recorded revenue of $281 (2013: $228) and with nil surplus/deficit for the year (2013: $4,534 deficit).

Watercare Harbour Clean-Up Trust

Watercare Harbour Clean-Up Trust was set up in December 2002 by several local authorities as the Waitemata Harbour Clean-Up Trust and is a charitable trust. Its principal activity is to promote and monitor the cleaning up of Auckland's Waitemata Harbour with a view to preserving its natural beauty for the benefit and enjoyment of the public. During 2010/11, Watercare became the primary funder of this Trust and, at 30 June 2014, three of the five Trustees on the board were current Watercare employees. The chairman of the Trust is a director of Watercare. The net assets of the Trust at balance date comprise of cash and cash equivalents, GST receivable, prepayments and property, plant and equipment of $365,925 (2013: $332,872) and accrued expenses of $28,055 (2013: $22,883). The Trust recorded revenue of $3,032 (2013: $12,870) and a net surplus of $27,882 (2013: $39,725).

Auckland City Water Limited

Auckland City Water Limited is 100 per cent owned by Watercare and it is a non-trading company. The net assets of Auckland City Water Limited at balance date comprise $nil (2013: $nil).

The total net assets of all the above subsidiaries included in the consolidated financial position of the group are $337,880 (2013: $309,999), comprising cash and cash equivalents, GST receivable, prepayments and property, plant and equipment of $378,374 (2013: $343,171) and accrued expenses of $40,494 (2013: $33,172).

11. REVALUATION RESERVES

	2014	2013
	Group and Company	Group and Company
	$000	$000
Balances at beginning of the year	1,620,746	1,424,231
Revaluation, net of deferred tax	25,086	190,096
Transferred to retained earnings on disposal of property, plant and equipment, net of tax	20,922	6,419
Total revaluation reserves	1,666,754	1,620,746
Comprising:		
Land	72,413	47,196
Buildings	19,449	31,086
Pipelines	1,008,667	978,345
Tanks, tunnels, roads and reservoirs	300,902	307,722
Dams	88,150	88,150
Machinery	177,173	168,247
Total revaluation reserves	1,666,754	1,620,746
Analysis:		
Land		
Balances at beginning of the year	47,196	48,517
Revaluation	25,217	–
Transferred to retained earnings on disposal of property, plant and equipment	–	(1,321)
Total land revaluation reserves	72,413	47,196
Buildings		
Balances at beginning of the year	31,086	31,953
Revaluation	(131)	–
Reclassification	(11,281)	–
Transferred to retained earnings on disposal of property, plant and equipment, net of tax	(225)	(867)
Total buildings revaluation reserves	19,449	31,086
Pipelines		
Balances at beginning of the year	978,345	837,391
Revaluation	–	131,339
Reclassification	5	–
Transferred to retained earnings on disposal of property, plant and equipment, net of tax	30,317	9,615
Total pipelines revaluation reserves	1,008,667	978,345
Tanks, tunnels, roads and reservoirs		
Balances at beginning of the year	307,722	281,782
Revaluation	–	26,230
Reclassification	(3)	–
Transferred to retained earnings on disposal of property, plant and equipment, net of tax	(6,817)	(290)
Total tanks, tunnels, roads and reservoirs revaluation reserves	300,902	307,722
Dams		
Balances at beginning of the year	88,150	79,171
Revaluation	–	8,979
Total dams revaluation reserves	88,150	88,150
Machinery		
Balances at beginning of the year	168,247	145,417
Revaluation	–	23,548
Reclassification	11,279	–
Transferred to retained earnings on disposal of property, plant and equipment, net of tax	(2,353)	(718)
Total machinery revaluation reserves	177,173	168,247

12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – movement in gross carrying value

	2013	2014						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Land	124,557	5,786	–	–	–	25,217	478	**156,038**
Buildings	116,979	5,870	(375)	–	–	(8,251)	(39,192)	**75,031**
Pipelines	5,614,540	188,930	(8,512)	–	–	–	428	**5,795,386**
Tanks, tunnels, roads and reservoirs	670,479	15,864	(3,237)	–	–	–	23	**683,129**
Dams	212,000	4,251	–	–	–	–	–	**216,251**
Machinery	919,879	84,094	(5,070)	–	–	–	27,318	**1,026,221**
Motor vehicles	6,979	2,789	(496)	–	–	–	2	**9,274**
Office equipment	14,156	6,865	(3,229)	–	–	–	10,943	**28,735**
	7,679,569	314,449	(20,919)	–	–	16,966	–	**7,990,065**
Work in progress	438,805	17,783	–	–	–	–	–	**456,588**
Gross carrying value	8,118,374	332,232	(20,919)	–	–	16,966	–	**8,446,653**

Property, plant and equipment – movement in accumulated depreciation

	2013	2014						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Buildings	(7,591)	–	289	(3,789)	–	8,069	3,022	**–**
Pipelines	(6,942)	–	3,524	(124,271)	–	–	(8)	**(127,697)**
Tanks, tunnels, roads and reservoirs	(186)	–	152	(11,513)	–	–	(1)	**(11,548)**
Dams	–	–	–	(1,983)	–	–	–	**(1,983)**
Machinery	(4,533)	–	1,657	(48,369)	–	–	(979)	**(52,224)**
Motor vehicles	(3,823)	–	488	(821)	–	–	–	**(4,156)**
Office equipment	(10,321)	–	3,127	(4,479)	–	–	(2,034)	**(13,707)**
Accumulated depreciation	(33,396)	–	9,237	(195,225)	–	8,069	–	**(211,315)**

Property, plant and equipment – movement in net book values including revaluation

	2013	2014						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Land	124,557	5,786	–	–	–	25,217	478	**156,038**
Buildings	109,388	5,870	(86)	(3,789)	–	(182)	(36,170)	**75,031**
Pipelines	5,607,598	188,930	(4,988)	(124,271)	–	–	420	**5,667,689**
Tanks, tunnels, roads and reservoirs	670,293	15,864	(3,085)	(11,513)	–	–	22	**671,581**
Dams	212,000	4,251	–	(1,983)	–	–	–	**214,268**
Machinery	915,346	84,094	(3,413)	(48,369)	–	–	26,339	**973,997**
Motor vehicles	3,156	2,789	(8)	(821)	–	–	2	**5,118**
Office equipment	3,835	6,865	(102)	(4,479)	–	–	8,909	**15,028**
	7,646,173	314,449	(11,682)	(195,225)	–	25,035	–	**7,778,750**
Work in progress	438,805	17,783	–	–	–	–	–	**456,588**
Net book value	8,084,978	332,232	(11,682)	(195,225)	–	25,035	–	**8,235,338**

The additions to property, plant and equipment include non-cash items being primarily vested assets which are not classified by the company as capital expenditure.

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.

12. PROPERTY, PLANT AND EQUIPMENT (continued)

Rights-to-franchise assets – included in the above; refer to accounting policy 9, page 91, and note 18, page 107

	2013	2014						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Gross carrying value								
Machinery	7,438	–	–	–	–	–	(513)	**6,925**
Pipelines	98,045	1,191	(115)	–	–	–	(3,025)	**96,096**
	105,483	1,191	(115)	–	–	–	(3,538)	**103,021**
Accumulated depreciation								
Machinery	(16)	–	–	(128)	–	–	–	**(144)**
Pipelines	(22)	–	1	(2,179)	–	–	–	**(2,200)**
	(38)	–	1	(2,307)	–	–	–	**(2,344)**
Net book value								
Machinery	7,422	–	–	(128)	–	–	(513)	**6,781**
Pipelines	98,023	1,191	(114)	(2,179)	–	–	(3,025)	**93,896**
Net book value	105,445	1,191	(114)	(2,307)	–	–	(3,538)	**100,677**

PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES

Property, plant and equipment – movement in gross carrying value

	2012	2013						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Land	124,247	2,393	(2,083)	–	–	–	–	124,557
Buildings	116,558	1,472	(1,051)	–	–	–	–	116,979
Pipelines	5,579,928	79,646	(3,519)	–	(7,479)	(34,036)	–	5,614,540
Tanks, tunnels, roads and reservoirs	653,676	312	(254)	–	–	16,745	–	670,479
Dams	205,832	105	–	–	–	8,746	(2,683)	212,000
Machinery	882,473	86,818	(5,519)	–	–	(46,576)	2,683	919,879
Motor vehicles	4,899	2,546	(466)	–	–	–	–	6,979
Office equipment	13,317	868	(29)	–	–	–	–	14,156
	7,580,930	174,160	(12,921)	–	(7,479)	(55,121)	–	7,679,569
Work in progress	332,230	106,575	–	–	–	–	–	438,805
Gross carrying value	7,913,160	280,735	(12,921)	–	(7,479)	(55,121)	–	8,118,374

12. PROPERTY, PLANT AND EQUIPMENT (continued)

PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES (continued)

Property, plant and equipment – movement in accumulated depreciation

	2012	2013						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Buildings	(3,720)	–	138	(4,009)	–	–	–	(7,591)
Pipelines	(111,467)	–	1,249	(113,610)	437	216,449	–	(6,942)
Tanks, tunnels, roads and reservoirs	(10,389)	–	87	(9,569)	–	19,685	–	(186)
Dams	(1,894)	–	–	(1,832)	–	3,726	–	–
Machinery	(43,150)	–	2,369	(43,038)	–	79,286	–	(4,533)
Motor vehicles	(3,741)	–	441	(523)	–	–	–	(3,823)
Office equipment	(8,490)	–	29	(1,860)	–	–	–	(10,321)
Accumulated depreciation	(182,851)	–	4,313	(174,441)	437	319,146	–	(33,396)

Property, plant and equipment – movement in net book values including revaluation

	2012	2013						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Land	124,247	2,393	(2,083)	–	–	–	–	124,557
Buildings	112,838	1,472	(913)	(4,009)	–	–	–	109,388
Pipelines	5,468,461	79,646	(2,270)	(113,610)	(7,042)	182,413	–	5,607,598
Tanks, tunnels, roads and reservoirs	643,287	312	(167)	(9,569)	–	36,430	–	670,293
Dams	203,938	105	–	(1,832)	–	12,472	(2,683)	212,000
Machinery	839,323	86,818	(3,150)	(43,038)	–	32,710	2,683	915,346
Motor vehicles	1,158	2,546	(25)	(523)	–	–	–	3,156
Office equipment	4,827	868	–	(1,860)	–	–	–	3,835
	7,398,079	174,160	(8,608)	(174,441)	(7,042)	264,025	–	7,646,173
Work in progress	332,230	106,575	–	–	–	–	–	438,805
Net book value	7,730,309	280,735	(8,608)	(174,441)	(7,042)	264,025	–	8,084,978

12. PROPERTY, PLANT AND EQUIPMENT (continued)

PROPERTY, PLANT AND EQUIPMENT – COMPARATIVES (continued)

Rights-to-franchise assets – included in the above; refer to accounting policy 9, page 91, and note 18, page 107

	2012	2013						
	Group and Company							
	Opening value	Additions	Disposals	Depreciation	Impairment	Revaluation	Reclassification	Closing value
	$000	$000	$000	$000	$000	$000	$000	$000
Gross carrying value								
Machinery	6,078	1,030	–	–	–	330	–	7,438
Pipelines	83,682	2,091	–	–	–	12,272	–	98,045
	89,760	3,121	–	–	–	12,602	–	105,483
Accumulated depreciation								
Machinery	(256)	–	–	(272)	–	512	–	(16)
Pipelines	(1,504)	–	–	(1,526)	–	3,008	–	(22)
	(1,760)	–	–	(1,798)	–	3,520	–	(38)
Net book value								
Machinery	5,822	1,030	–	(272)	–	842	–	7,422
Pipelines	82,178	2,091	–	(1,526)	–	15,280	–	98,023
Net book value	88,000	3,121	–	(1,798)	–	16,122	–	105,445

All assets subject to valuation are independently valued at least every three years. The most recent valuation for land and buildings was completed by Beca Valuations Limited (Beca) as at 30 June 2014. The land valuation was based on relevant market prices and buildings were valued using the depreciated replacement cost. The most recent valuation for all infrastructure assets included in pipelines; tanks, tunnels, roads and reservoirs; dams; and machinery asset classes was completed at 30 June 2013. ANA Group completed the valuation in association with Beca which undertook a peer review of the work.
The assumptions used in determining the depreciated replacement cost of pipelines, tanks, roads, tunnels, reservoirs, dams and machinery were that:

- Construction costs based on recent contract-based construction work and the unit rates reflect the costs of replacing assets
- The useful lives of assets are calculated as the lesser of their physical lives or at the point where the assets are to be replaced for economic reasons
- The capital goods price index (CGPI) was used where indexation is appropriate. At the time of valuation, the CGPI was available to the March 2013 quarter and an estimate was made for the June 2013 quarter
- Capitalised interest was applied to qualifying asset types in accordance with the estimated construction period and applicable cost of debt.

The Local Government Acts 1974 and 2002 restrict the business activities of the group and effectively prevent selling of key assets. Many of the assets are specialised in nature, reflecting the activities of the group. As there is no active market for such assets and the income from them is not determined by the market, property, plant and equipment (other than land, motor vehicles and office equipment) are revalued to depreciated replacement cost, which reflects their deemed fair values.

Each year, other than in the years in which the assets are revalued, the group assesses whether there was any material change in the value of property, plant and equipment. The movement in infrastructure asset values between June 2013 and June 2014 was assessed using indices deemed suitable by management. The decrease in asset value of 2.5 per cent was not considered material by management and accordingly the infrastructure assets were not revalued at 30 June 2014.

	2014	2013
	Group and Company	Group and Company
	$000	$000
Work in progress relates to the following projects:		
Water treatment plants	**20,212**	25,604
Wastewater treatment plants	**93,547**	47,129
Wastewater pump stations and sewers	**123,834**	166,129
Watermains, pump stations and reservoirs	**200,969**	165,903
Dams and raw water transmission pipelines	**6,516**	11,748
Other	**11,510**	22,292
Total work in progress	**456,588**	438,805

Work in progress additions of $17.8 million (2013: $106.6 million) in note 12 for property, plant and equipment, and intangibles was made up of total capital expenditure of $316.4 million (2013: $289.3 million) less assets transferred from work in progress of $298.6 million (2013: $182.7 million).

13. INTANGIBLE ASSETS

Intangibles – movement in gross carrying value

	2013	2014					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	6,952	833	(405)	–	–	–	**7,380**
Computer software	52,522	3,380	(5,079)	–	(1,031)	–	**49,792**
Resource consents	25,253	3,769	–	–	(1,113)	–	**27,909**
Easements	498	–	–	–	–	–	**498**
Gross carrying value	85,225	7,982	(5,484)	–	(2,144)	–	**85,579**

Intangibles – movement in accumulated amortisation

	2013	2014					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	(4,721)	–	405	(1,206)	–	–	**(5,522)**
Computer software	(30,665)	–	5,079	(8,490)	1,021	–	**(33,055)**
Resource consents	(6,785)	–	–	(1,026)	593	–	**(7,218)**
Accumulated amortisation	(42,171)	–	5,484	(10,722)	1,614	–	**(45,795)**

Intangibles – movement in net book values

	2013	2014					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	2,231	833	–	(1,206)	–	–	**1,858**
Computer software	21,857	3,380	–	(8,490)	(10)	–	**16,737**
Resource consents	18,468	3,769	–	(1,026)	(520)	–	**20,691**
Easements	498	–	–	–	–	–	**498**
Net book value	43,054	7,982	–	(10,722)	(530)	–	**39,784**

13. INTANGIBLE ASSETS (continued)

INTANGIBLE ASSETS – COMPARATIVES

Intangibles – movement in gross carrying value

	2012	2013					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	5,680	1,272	–	–	–	–	6,952
Computer software	42,097	12,362	–	–	(1,937)	–	52,522
Resource consents	24,474	779	–	–	–	–	25,253
Easements	498	–	–	–	–	–	498
Gross carrying value	72,749	14,413	–	–	(1,937)	–	85,225

Intangibles – movement in accumulated amortisation

	2012	2013					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	(3,716)	–	–	(1,005)	–	–	(4,721)
Computer software	(23,859)	–	–	(8,369)	1,563	–	(30,665)
Resource consents	(5,620)	–	–	(1,165)	–	–	(6,785)
Accumulated amortisation	(33,195)	–	–	(10,539)	1,563	–	(42,171)

Intangibles – movement in net book values

	2012	2013					
	Group and Company						
	Opening value	Additions	Disposals	Amortisation	Impairment	Reclassifications	Closing value
	$000	$000	$000	$000	$000	$000	$000
Network models	1,964	1,272	–	(1,005)	–	–	2,231
Computer software	18,238	12,362	–	(8,369)	(374)	–	21,857
Resource consents	18,854	779	–	(1,165)	–	–	18,468
Easements	498	–	–	–	–	–	498
Net book value	39,554	14,413	–	(10,539)	(374)	–	43,054

14. INVENTORIES

	2014	2013
	Group and Company	Group and Company
	$000	$000
Spare parts at cost	4,127	4,293
Consumables at cost	3,303	2,752
Treated water at cost	800	687
Project stock	632	514
Provision for obsolescence	(903)	(903)
Total inventory	7,959	7,343
Represented as:		
Current inventory	4,500	4,005
Non-current inventory	3,459	3,338
Total inventory	7,959	7,343

15. TRADE AND OTHER RECEIVABLES

	2014 Group and Company $000	2013 Group and Company $000
Current		
Trade receivables – related parties	760	875
Trade receivables – other	36,352	36,843
Provision for doubtful debts	(2,109)	(2,384)
	35,003	35,334
Other receivables – related parties	10,431	1,233
Other receivables	2,753	2,698
Unbilled revenue accrual	19,452	20,832
Total trade and other receivables	67,639	60,097

16. PREPAID EXPENSES

Prepayments include an amount of $23.9 million (2013: $23.9 million) paid to Kelliher Charitable Trust towards lease of land at Puketutu Island for disposal of biosolids by Watercare. The lease is for a period of 55 years with one right of renewal of 15 years. At balance date, the unamortised amount was $23.1 million (2013: $23.5 million) of which $0.4 million was included within current prepaid expenses (2013: $0.4 million) and $22.7 million within non-current prepaid expenses (2013: $23.1 million).

17. TRADE AND OTHER PAYABLES

	2014 Group and Company $000	2013 Group and Company $000
Current		
Contract retentions	10,939	9,251
Trade creditors – other	16,577	18,094
Trade creditors – related parties	194	354
Other payables	610	424
Total trade and other payables	28,320	28,123

18. ACCRUED EXPENSES

	2014 Group and Company $000	2013 Group and Company $000
Current		
Capital work in progress accruals	21,975	30,226
Interest payable	12,681	10,641
Income received in advance	14,095	6,249
Operating costs accruals	20,848	18,754
Total current accrued expenses	69,599	65,870
Non-current		
Income received in advance	13,120	8,580
Total non-current accrued expenses	13,120	8,580
Total accrued expenses	82,719	74,450

Income received in advance includes $8.6 million (2013: $8.8 million) relating to the amount received in accordance with the franchise fee agreement between the network operator Veolia Water Services (ANZ) Pty Limited (previously United Water International Pty Limited) and Papakura District Council (integrated into Watercare on 1 November 2010). The franchise agreement grants the operator the right to use the water and wastewater infrastructure assets owned by the group for the provision of water and wastewater services within the Papakura district. Under the franchise agreement, Veolia is responsible for upgrading and maintaining the network so that, at the end of the contract period, the network shall be in a better overall condition than that which existed at the time the contract commenced. The $13.0 million fee received at the commencement of the agreement covers the right to use the assets for a 50-year period and is recognised as revenue evenly over the term of the agreement. Refer also to accounting policy 9, page 91.

Accrued expenses above include inter-entity accruals. Refer to note 22, page 116 for a breakdown of inter-entity accruals.

19. PROVISIONS

	2014 Group and Company $000	2013 Group and Company $000
Current		
Employee entitlements	6,383	5,720
Decommissioning costs	928	2,751
Other provisions	–	232
Total current provisions	7,311	8,703
Non-current		
Employee entitlements	1,201	1,171
Total non-current provisions	1,201	1,171
Total provisions	8,512	9,874

	Employee entitlements $000	Decommissioning costs $000	Other provisions $000	Total $000
Balance at 1 July 2013	6,891	2,751	232	9,874
Additions during the year	6,724	–	–	6,724
Reductions resulting from payments	(5,521)	(1,411)	(3)	(6,935)
Unused provisions reversed during the year	(510)	(412)	(229)	(1,151)
Balance at 30 June 2014	7,584	928	–	8,512

20. BORROWINGS

	2014 Group and Company $000	2013 Group and Company $000
Current		
Related party term loan (unsecured)	136,395	78,754
Medium-term notes (unsecured)	150,251	220,239
Commercial paper (unsecured)	133,811	139,032
Total current borrowings	420,457	438,025
Non-current		
Related party term loan (unsecured)	722,339	418,734
Medium-term notes (unsecured)	155,931	306,183
Term loan (unsecured)	150,000	150,000
Bank loan (unsecured)	5,000	35,000
Total non-current borrowings	1,033,270	909,917

20. BORROWINGS (continued)

	2014 Group and Company $000	2013 Group and Company $000
Repayment schedule:		
Related party term loan		
Less than one year	136,395	78,754
One to two years	18,918	136,395
Two to three years	81,606	18,918
Three to four years	80,839	81,606
Beyond four years	540,976	181,815
Medium-term notes		
Less than one year	150,251	220,239
One to two years	30,264	150,251
Two to three years	278	30,264
Three to four years	292	278
Beyond four years	125,097	125,390
Term loan		
Two to three years	150,000	–
Three to four years	–	150,000
Bank loan		
One to two years	5,000	–
Two to three years	–	35,000
Commercial paper		
Less than one year	133,811	139,032
Total borrowings	1,453,727	1,347,942

Interest rates at balance date:	2014 Group and Company %	2013 Group and Company %
Related party term loan		
Average	5.22	5.48
Average including interest rate swaps	6.31	7.87
Medium-term notes		
Average	5.77	5.99
Average including interest rate swaps	4.77	4.39
Term loan		
Average	4.77	4.04
Average including interest rate swaps	6.87	7.56
Bank loan		
Average	4.32	3.57
Average including interest rate swaps	4.32	3.57
Commercial paper		
Average	3.56	2.79
Average including interest rate swaps	5.03	5.64
Total debt		
Average	5.13	5.19
Average including interest rate swaps	5.92	6.13

20. BORROWINGS (continued)

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

– Total liabilities do not exceed 60 per cent of total tangible assets
– Total liabilities plus total contingent liabilities do not exceed 65 per cent of total tangible assets
– Shareholders' funds are not less than $500 million
– Earnings before interest, tax, depreciation and amortisation is greater than 1.75 times interest expense
– Total tangible assets of the group are to be greater than 90 per cent of total tangible assets of the borrowing group.

The group complied with these financial covenant ratios during the years ended 30 June 2014 and 30 June 2013.

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.

The group had the following undrawn committed facilities available:

	2014	2013
	Group and Company	Group and Company
	$000	$000
Bank overdraft facility; expires on cancellation	2,000	1,958
Revolving advances; expires November 2015 (2013: expires November 2015)	55,000	25,000
Commercial paper stand-by facility; $100 million expires July 2015 and $100 million expires in July 2017 (2013: $100 million expires July 2015 and $100 million expires in July 2017)	200,000	200,000
Total undrawn committed facilities	257,000	226,958

Commercial paper held by the group is represented by multiple issues that spread funding risk. As each issue matures, the group replaces it with a new issue, if required. The providers of the commercial paper stand-by facilities act as lenders of last resort, should the group be unable to issue new commercial paper when it matures. The group's treasury risk-management policy requires that sufficient stand-by facilities be maintained to meet fifty per cent of outstanding commercial paper and other uncommitted short-term debt repayable within sixty days. The group complied with its treasury risk-management policy during the years ended 30 June 2014 and 30 June 2013.

21. FINANCIAL ASSETS AND LIABILITIES

Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	2014		2013	
	Group and Company		Group and Company	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
FINANCIAL ASSETS – CURRENT				
Loans and receivables				
Cash and cash equivalents	263	263	121	121
Trade and other receivables	67,639	67,639	60,097	60,097
Fair value through profit or loss				
Derivative financial instruments	556	556	3,645	3,645
FINANCIAL ASSETS – NON-CURRENT				
Fair value through profit or loss				
Derivative financial instruments	5,698	5,698	10,819	10,819
	74,156	74,156	74,682	74,682

21. FINANCIAL ASSETS AND LIABILITIES (continued)

	2014		2013	
	Group and Company		Group and Company	
	Carrying amount	Fair value	Carrying amount	Fair value
	$000	$000	$000	$000
FINANCIAL LIABILITIES – CURRENT				
Amortised cost				
Trade and other payables	28,320	28,320	28,123	28,123
Accrued expenses*	55,504	55,504	59,621	59,621
Bank overdraft (unsecured)	–	–	42	42
Medium-term notes (unsecured)	150,251	155,036	220,239	227,701
Related party term loan (unsecured)	136,395	138,053	78,754	80,042
Commercial paper (unsecured)	133,811	134,219	139,032	139,427
Fair value through profit or loss				
Derivative financial instruments	150	150	990	990
FINANCIAL LIABILITIES – NON-CURRENT				
Amortised cost				
Medium-term notes (unsecured)	155,931	162,069	306,183	323,381
Term loan (unsecured)	150,000	150,929	150,000	150,802
Related party term loan (unsecured)	722,339	726,559	418,734	421,709
Bank loan (unsecured)	5,000	5,010	35,000	35,010
Fair value through profit or loss				
Derivative financial instruments	63,490	63,490	83,909	83,909
	1,601,191	1,619,339	1,520,627	1,550,757

* Excludes current and non-current income received in advance of $27.2 million (2013: $14.8 million) as it was not categorised as a financial liability; refer note 18 page 107.

The calculation of fair value for each category of financial assets and liabilities is explained below. The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to that used in the previous reporting period. No reclassification of financial assets was made during the years ended 30 June 2014 or 30 June 2013.

Loans and receivables

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

Amortised cost

Due to their relatively short-term nature, the carrying amount of trade payables was 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 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.

Fair value hierarchy

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

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

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

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

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

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

Fair values at balance date were assessed using a range of market interest rates between 3.64 per cent and 5.10 per cent (2013: 2.66 per cent and 4.74 per cent), derived from the interest rate swap curve.

There were no transfers between levels 1, 2 and 3 during the year ended 30 June 2014.

21. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial instrument risks

Risk management objectives and policies

The group's management monitors and manages the 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 risks are market risk, credit risk and liquidity risk.

The group seeks to manage the effects of these risks by using derivative financial instruments to minimise these risk exposures. The use of financial derivatives is governed by the group's policies approved by the board of directors, which provide written principles on interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the board of directors on a regular basis.

Market risk

The group was exposed to market risk such as interest rate risk, foreign exchange risk and certain other price risks. The group managed 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 fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group is exposed to interest rate risk when it borrows funds at floating interest rates. The risk is managed by the group through monitoring market interest rates and reviewing the impact of these on interest rate exposures.

The group's borrowings comprise both fixed rates and floating rates of interest. It is group policy to ensure that a proportion of interest rate exposure is maintained on a fixed-rate basis. To achieve this, the group enters into contracts that allow some of its floating interest rate exposure to be swapped from floating to fixed, and vice versa.

The group's exposure to market interest rates relates primarily to the group's debt obligations, which are disclosed in note 20, page 109.

The notional principal, contract amounts of agreements and fixed interest rates in place, at balance date, to manage interest rate risk were as follows:

	2014		2013	
	Group and Company		Group and Company	
	Fixed interest rate	Notional amount	Fixed interest rate	Notional amount
Interest rate swaps	%	$000	%	$000
Receivable maturities (fixed to floating):				
Within one year	5.74	150,000	5.40	195,000
One to two years	5.10	30,000	5.74	150,000
Two to three years	–	–	5.10	30,000
Four to five years	5.69	125,000	–	–
Beyond five years	6.24	60,000	5.84	135,000
Payable maturities (floating to fixed):				
Within one year	–	–	5.43	80,000
One to two years	4.33	130,000	–	–
Two to three years	4.56	105,000	4.33	130,000
Three to four years	5.20	55,000	4.56	105,000
Four to five years	5.85	200,000	5.77	100,000
Beyond five years	5.61	970,000	5.80	845,000

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.

21. FINANCIAL ASSETS AND LIABILITIES (continued)

Interest rate sensitivity

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

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

	2014		2013	
	Group and Company		Group and Company	
	Post-tax deficit (Higher)/lower	Equity Higher/(lower)	Post-tax surplus Higher/(lower)	Equity Higher/(lower)
Judgments of reasonably possible movements:	$000	$000	$000	$000
Interest paid				
1% (100 basis points) higher for the year	(3,060)	(3,060)	(2,376)	(2,376)
1% (100 basis points) lower for the year	3,060	3,060	2,376	2,376
Revaluation of derivative financial instruments				
1% (100 basis points) higher at year-end	46,762	46,762	37,137	37,137
1% (100 basis points) lower at year-end	(51,670)	(51,670)	(41,500)	(41,500)

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$0.3 million (2013: NZ$0.3 million) the group manages this risk with forward foreign exchange contracts or options.

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

	2014			
	Group and Company			
	Average exchange rate	Foreign currency	Contract value	Carrying amount and fair value
		FC 000	NZ$000	NZ$000
USD				
Less than three months	0.834	300	360	(14)
Three months and beyond	0.821	2,122	2,586	(84)
AUD				
Less than three months	0.804	79	99	(13)
Three months and beyond	0.807	275	341	(44)
Total forward foreign exchange contracts			3,386	(155)

	2013			
	Group and Company			
	Average exchange rate	Foreign currency	Contract value	Carrying amount and fair value
		FC 000	NZ$000	NZ$000
USD				
Less than three months	0.760	178	233	(5)
AUD				
Three months and beyond	0.807	693	858	(35)
EUR				
Three months and beyond	0.610	296	481	17
Total forward foreign exchange contracts			1,572	(23)

21. FINANCIAL ASSETS AND LIABILITIES (continued)

Foreign exchange sensitivity

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

	2014		2013	
	Post-tax deficit (Higher)/lower	Equity Higher/(lower)	Post-tax surplus Higher/(lower)	Equity Higher/(lower)
Sensitivity to reasonable movements:	$000	$000	$000	$000
Change in United States dollar exchange rate				
10% increase	(186)	(186)	(15)	(15)
10% decrease	228	228	18	18
Change in Australian dollar exchange rate				
10% increase	(25)	(25)	(54)	(54)
10% decrease	31	31	66	66
Change in Euro exchange rate				
10% increase	–	–	(33)	(33)
10% decrease	–	–	40	40

Credit risk

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

The group's cash and cash equivalents 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 at balance date was as follows:

	2014			2013		
	Group and Company			Group and Company		
	Carrying amount	Provision for doubtful debts	Net carrying amount	Carrying amount	Provision for doubtful debts	Net carrying amount
	$000	$000	$000	$000	$000	$000
Not past due	28,481	(98)	28,383	27,332	(319)	27,013
Past due 1 to 30 days	3,169	(233)	2,936	3,157	(269)	2,888
Past due 30 to 60 days	938	(140)	798	1,426	(194)	1,232
Past due more than 60 days	4,524	(1,638)	2,886	5,803	(1,602)	4,201
Total	37,112	(2,109)	35,003	37,718	(2,384)	35,334

	2014	2013
	Group and Company	Group and Company
Movement in the provision for doubtful debts	$000	$000
Balance at 1 July 2013	2,384	3,205
Additions during the year	570	771
Bad debts written off	(807)	(1,592)
Unused provisions reversed during the year	(38)	–
Balance at 30 June 2014	2,109	2,384

21. FINANCIAL ASSETS AND LIABILITIES (continued)

Liquidity risk

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

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

The group's objective is to maintain a balance between continuity of funding through long-term borrowings, sourced mainly through Auckland Council but also comprising medium-term notes and term loans, and the flexibility provided by a bank overdraft, revolving credit facility and commercial paper. The liquidity risk associated with the commercial paper is mitigated by a stand-by facility of $200 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				
	Group and Company						
	0-6 months	7-12 months	1-2 years	2-3 years	Over 3 years	Gross nominal cash outflow	Carrying amount
2014	$000	$000	$000	$000	$000	$000	$000
Financial liabilities							
Trade and other payables	28,320	–	–	–	–	28,320	28,320
Accrued expenses*	55,504	–	–	–	–	55,504	55,504
Forward exchange contracts	100	50	5	–	–	155	155
Interest rate swaps	7,705	6,064	7,654	6,125	25,294	52,842	63,485
Borrowings	217,401	268,184	115,917	282,545	1,040,117	1,924,164	1,453,727
Total	309,030	274,298	123,576	288,670	1,065,411	2,060,985	1,601,191

	CURRENT		NON-CURRENT				
	Group and Company						
	0-6 months	7-12 months	1-2 years	2-3 years	Over 3 years	Gross nominal cash outflow	Carrying amount
2013	$000	$000	$000	$000	$000	$000	$000
Financial liabilities							
Bank overdraft	42	–	–	–	–	42	42
Trade and other payables	28,123	–	–	–	–	28,123	28,123
Accrued expenses*	59,621	–	–	–	–	59,621	59,621
Forward exchange contracts	12	31	14	–	–	57	57
Interest rate swaps	11,609	10,119	12,068	9,836	55,022	98,654	84,842
Borrowings	180,516	320,276	329,411	117,629	584,172	1,532,004	1,347,942
Total	279,923	330,426	341,493	127,465	639,194	1,718,501	1,520,627

* Excludes current and non-current income received in advance of $27.2 million (2013: $14.8 million) as it was not categorised as a financial liability; refer note 18, page 107.

The group monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At balance date the group had $257 million of unused credit facilities (commercial paper stand-by facility, overdraft facility and revolving credit facility) available for immediate use (2013: $227 million).

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 85, and debt including borrowings and covenants compliance as disclosed in note 20 on pages 108 to 110.

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

The group continues to focus on the maintenance of the long-term integrity of its assets whilst keeping the overall costs to its customers at minimum levels. There has been no change in the group's overall strategy for capital management during the years ended 30 June 2014 and 30 June 2013.

22. RELATED PARTIES

Shareholder	2014 %	2014 Shares	2013 %	2013 Shares
Auckland Council	100	260,693,164	100	260,693,164

Transactions with related parties

Watercare entered into borrowing arrangements with Auckland Council on the terms set out in note 20, page 110. Watercare also entered into interest rate swap arrangements with Auckland Council (with a notional value of $35.0 million, 2013: $120.0 million) with a fair value of $0.1 million (2013: $1.3 million) as at balance date, as included in note 21, page 112. The balances outstanding and transactions relating to the borrowings from Auckland Council during the year were as follows:

	2014	2013
	Group and Company	Group and Company
	$000	$000
Loans from Auckland Council, balance at 30 June	858,734	497,488
Interest payable on loans from Auckland Council	5,481	4,526
Interest expense on loans from Auckland Council	30,273	25,441
Loans borrowed from Auckland Council during the year	390,000	60,000
Loans repaid to Auckland Council during the year	28,754	39,312
Interest receivable (net) on interest rate swaps with Auckland Council	237	362
Interest expense on swaps (net) with Auckland Council	1,123	2,409
Debt guarantee fee payable to Auckland Council	240	140
Debt guarantee expense with Auckland Council	993	559

During the year, the group provided funding to its subsidiaries listed in note 10, page 99. Also, in the normal course of business, Watercare received monies and incurred expenses on behalf of Te Motu A Hiaroa (Puketutu Island) Governance Trust and, at balance date, $446,288 (2013: $512,153) was payable to the Trust by the group. The group sold $42.6 million (2013: $27.8 million) of tax losses to POAL, an Auckland Council group entity, and agreed to sell a further $80.0 million (2013: $nil) of tax losses to Auckland Council tax group, as detailed in note 8, page 99.

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

	2014	2013
	Group and Company	Group and Company
	$000	$000
Sales to related parties	24,658	13,483
Trade receivables – related parties	760	875
Purchases from related parties	4,774	5,619
Trade payables – related parties	194	354
Receivables accruals – related parties	10,431	1,253
Payables accruals – related parties	1,474	962

23. COMMITMENTS

	2014 Group and Company $000	2013 Group and Company $000
Capital expenditure		
The capital expenditure committed to, but not recognised in, these financial statements at balance date was:		
Buildings	348	490
Pipelines	153,418	195,076
Tanks, tunnels, roads and reservoirs	16,073	2,680
Intangibles	601	706
Other	37,863	53,354
Total capital expenditure commitments	208,303	252,306
Anticipated payment schedule:		
Less than one year	137,910	149,303
One to two years	66,122	72,248
Two to five years	4,271	30,755
Total capital expenditure commitments	208,303	252,306
The commitments relate to the following projects:		
Albany Second Reservoir	3,694	–
Biosolids Puketutu Island Rehabilitation	2,126	–
Eastern Interceptor Pipe Bridge No. 1 Replacement	2,021	–
Expansion of the Waikato Water Treatment Plant	2,888	4,792
Hunua No. 4 Watermain	82,976	140,105
KHR Water Transmission	285	6,755
Kohimarama Storage Tank and Branch Sewer	9,658	–
Mangere WWTP BNR Capacity	8,529	–
Manukau Water Mains	2,286	–
North Franklin Rural Communities	684	2,632
North Franklin Rural Communities – Water Transmission	689	5,165
North Harbour Watermain Duplication	3,703	–
North Shore PS09 Rising Main	5,104	–
Northern Interceptor – Stage 1	2,695	–
Northern Trunk Sewer TS30	788	1,998
Northern Waitakere Wastewater – Stage 1	477	3,503
Orewa West Wastewater Network	9,668	–
Pakuranga Rising Main DPS028	5,208	–
Reconstruction of Eastern Interceptor	990	2,976
Rosedale WWTP Co-generation Upgrade	4,045	–
Southwestern Interceptor	221	251
Wairau (HSPS05) Rising Main Replacement	5,724	–
Wastewater Treatment Plants	8,755	37,907
Water Treatment Plants	4,298	4,869
Other projects	40,791	41,353
Total capital expenditure commitments	208,303	252,306
Operating leases		
Anticipated payments under non-cancellable operating leases:		
Less than one year	5,369	4,695
One to two years	5,137	5,049
Two to five years	15,273	14,735
Beyond five years	78,585	81,497
Total lease commitments	104,364	105,976

23. COMMITMENTS (continued)

The major lease commitments relate to the long-term lease of the office premises in Newmarket, which expire in November 2025, and the long-term lease from Auckland Council of the land forming the water catchment areas, which expire in July 2092. The annual rental of $0.6 million (2013: $0.6 million) for the water catchment areas was included in these commitments at face value. Other leases include parks, reservoirs, office equipment and motor vehicles.

24. CONTINGENCIES

The Bank of New Zealand has performance bonds of $0.04 million for 2014 (2013: $0.4 million). The performance bonds are to support the group's obligations to New Zealand Transport Agency for any potential defects or additional maintenance work resulting from the construction work being undertaken to the State Highway.

During the year, a contamination occurred from an industrial property in the catchment that flows into the Oruarangi estuary owned by Watercare. The industrial property owner has insurance cover of $3.0 million which at the time of the incident was estimated to be insufficient to meet the full cost of the clean-up. The levels of contamination are being monitored for appropriate remedial actions. Pending further tests and analysis, Watercare's estimated maximum share of the remedial costs is $1.0 million.

In the normal course of its business, the group was exposed to claims, legal proceedings and arbitrations that may in some cases result in costs to the group. The directors believe that these were adequately provided for by the group within note 19, page 108, of these financial statements and no additional material contingent liabilities requiring disclosure have been identified.

25. RETIREMENT BENEFIT PLANS

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

The total defined contribution expense recognised in the surplus or deficit for 2014 was $1.5 million (2013: $1.0 million).

26. REMUNERATION

The directors and key management personnel are included in this compensation.

	2014	2013
	Group and Company	Group and Company
	$000	$000
Employees' salaries and wages and directors' fees	4,097	3,617
Post-employment benefits	105	68
Total compensation for directors and key management personnel	4,202	3,685

Directors' remuneration	Appointed	2014 Group and Company $000	2013 Group and Company $000
David Clarke (Chairman – appointed November 2013)	July 2008	93	66
Peter Drummond	January 2010	53	53
Susan Huria	July 2008	53	53
Ross Keenan (Chairman – retired October 2013)	March 2010	36	106
Jeff Todd (retired October 2013)	May 2007	21	65
Tony Lanigan	April 2011	53	53
Catherine Harland	April 2011	53	56
Mike Allen	December 2011	61	53
Julia Hoare	November 2013	40	–
Nicola Crauford	April 2014	14	–
Total		477	505

27. EVENTS OCCURRING AFTER BALANCE DATE

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

STATUTORY INFORMATION

FOR THE YEAR ENDED 30 JUNE 2014

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	2014 Group and Company Number of employees
$100,000 – $110,000	37
$110,001 – $120,000	36
$120,001 – $130,000	20
$130,001 – $140,000	17
$140,001 – $150,000	17
$150,001 – $160,000	7
$170,001 – $180,000	5
$180,001 – $190,000	3
$210,001 – $220,000	6
$220,001 – $230,000	2
$240,001 – $250,000	3
$250,001 – $260,000	1
$280,001 – $290,000	1
$290,001 – $300,000	1
$300,001 – $310,000	1
$360,001 – $370,000	1
$380,001 – $390,000	3
$450,000 – $460,000	1
$840,000 – $850,000	1

There were no redundancy and restructuring payments made to employees in the above remuneration ranges.

All fees received from the chief executive's (and other executives) association with entities outside Watercare are paid directly to Watercare and are retained by Watercare. In addition, receipts under Watercare's income protection insurance policy relating to the chief executive's absence due to illness have been paid directly to Watercare and are retained by Watercare.

2014 STATEMENT OF SERVICE PERFORMANCE

(NON-FINANCIAL PERFORMANCE MEASURES)

SAFE AND RELIABLE WATER

(a) Potable Water Quality

(i) Percentage compliance with the Ministry of Health's drinking water standards for graded plants (excluding minor or technical non-compliance) (Target 2012/13: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

Watercare fully met the target in respect of compliance with the Ministry of Health's Drinking Water Standards for New Zealand (DWSNZ) at Ministry of Health-graded water treatment plants.

Compliance with the 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 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

(ii) Percentage of metropolitan water treatment plants achieving Grade 'A'[1] (Target 2012/13: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

All metropolitan water treatment plants were graded and each maintained an 'A' grade, meeting the target for 2012/13. The target for 2013/14 is 100%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

(iii) Percentage of metropolitan water supply reticulation achieving Grade 'a'[2] (Target 2012/13: 100% – Achieved: 100% – Previous year 100%)

The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

All metropolitan distribution networks were graded and each maintained an 'a' grade, meeting the target for 2012/13. The target for 2013/14 is 100%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

(iv) Percentage of non-metropolitan water treatment plants achieving Grade 'A'[1] (Target 2012/13: ≥ 35% (100% by 2020) – Achieved: 37.5% – Previous year 37.5%)

The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

Out of the 16 non-metropolitan water treatment plants, six were graded and achieved an 'A' grade. Eight water treatment plants were not graded and two water treatment plants (in the Franklin region) were decommissioned in August 2013; four more will be decommissioned by September 2014 with the completion of the southern network upgrade project.

The southern network upgrade project will provide these Franklin-based communities with water from the metropolitan system. It forms a significant part of Watercare's $150 million programme of work to upgrade rural water and wastewater supplies.

The target for 2013/14 is 45%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

(v) Percentage of non-metropolitan water supply reticulation achieving Grade 'a'[2] (Target 2012/13: ≥ 15% (100% by 2020) – Achieved: 40% – Previous year 33.3%)

The reported result is based on the grading achieved in November 2013, for the year beginning 1 July 2012 and ending 30 June 2013.

Out of the 15 non-metropolitan grading zones, six have achieved an 'a' grade; these are the Huia Village and the five Rodney zones. The remaining nine Franklin zones were not graded. This exceeded the target of 15% set for 2012/13.

The target for 2013/14 is 25%. The 2013/14 result will be available after the grading in November 2014 for the year beginning 1 July 2013 and ending 30 June 2014.

(b) Continuity of Supply

(i) Percentage of unplanned water shutdowns restored within five hours (Target: ≥95% – Achieved: 97.4% – Previous year: 96.7%)[3]

In order to minimise the impact on its customers, Watercare has set a target of ensuring at least 95% of all unplanned water shutdowns are restored within five hours. The result for the year was 97.4% for the Auckland region.

(ii) Number of unplanned water interruptions per 1000 connected properties (Target: ≤10 – Achieved: 8.1 – Previous year: 7.7)[3]

The Auckland region covers a total 416,000 water supply connections. As a measure of reliability of service, Watercare monitors the number of times the water supply to its customers is interrupted. The target is to ensure that there are 10 or fewer interruptions per 1000 connections during the year. The result for the year was 8.1 for the Auckland region.

(C) Water Conservation

(i) Per capita consumption (litres/person/day) (Target: 280 ±5% l/p/d – Achieved: 270 l/p/d – Previous year 274 l/p/d)

As part of the Auckland Demand Management Plan, Watercare is committed to reducing per-capita consumption to 15% below the 2004 level by 2025. The per-capita consumption this year was 270 litres per person per day, which exceeds the 2013/14 target of 280 litres per person per day.

Watercare's demand management initiatives are targeted at making the Auckland region more water efficient. These include work on network efficiency and leakage as well as volumetric charging and helping Auckland's households and businesses to use water more wisely.

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

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

[3] The reported result for 2013/2014 includes three regions: northern, southern and central. The 2012/2013 Annual Report included result for our northern and southern regions only. The performance was not reported for the central region as a new information process was being developed to enable reporting to commence for the year 2013/14.

(NON-FINANCIAL PERFORMANCE MEASURES)

(d) Water Losses

(i) **Percentage of annual potable water network losses measured as total network volume (losses is defined as 'real' losses, from the wholesale and retail distribution systems)**
(Target: ≤14% – Achieved:13.9%)

Result:
2013/14 Result (achieved target): 13.9%
2012/13 Revised Result (achieved target): 14.5%

Result prior to Sensitivity analysis:
2013/14 Original Result (not achieved): 14.3%
2012/13 Original Result (achieved target): 14.8%

The water losses in this measure are calculated by deducting water sales volumes and allowable unbilled water usage from the 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 percentage figures as recommended by Water New Zealand.

The unauthorised usage assumption has been changed from 0.1% of water supplied in the 2013 Annual Report, to 0.45% in the current year. This change was made in light of the levels of actual detected unauthorised usage in the current year which indicated that the percentage should be higher. Also, benchmarking with Water Utilities in the UK gives reported unauthorised usage ranging between 0% and 1.37%, with an average of 0.45%. The nature of unauthorised usage means it is difficult to quantify, so Watercare has used the UK average of 0.45% for the 2014 Annual Report. This assumption change is made with the commitment to carry out additional research in the year ahead, to ascertain that this assumption is correct. As this assumption has an impact on the reported Water Loss measure, the following analysis is presented to allow the reader to compare the current year's performance against last year's reported performance; and also provides a range of other potential outcomes to aid the reader in understanding the sensitivity of the measure to the unauthorised usage percentage.

	Sensitivity analysis of the assumed unauthorised usage percentage on water loss percentage						Target
	0.1% [4]	0.20%	0.30%	0.45%[5]	0.50%	0.6%	
2013	14.8%	14.7%	14.6%	14.5%	14.4%	14.3%	**15%**
2014	14.3%	14.2%	14.1%	13.9%	13.9%	13.8%	14%

[4] previous assumed percentage of unauthorised usage
[5] current assumed percentage of unauthorised usage

The water loss measure was calculated to be 13.9% for the 2013/14 year against a target of 14% or less.

HEALTHY WATERWAYS

(a) Wastewater Network Performance

(i) **Number of dry-weather sewer overflows per 100km of wastewater pipe length per year**
(Target: ≤5 – Achieved: 1.8 – Previous year: 2.7)

Watercare reports on the number of wastewater overflows from its retail network during dry weather as a measure of the capability of the network to meet current demand. The result for the year was 1.83 overflows per 100 km of wastewater mains, which is well under the target of five or fewer.

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

Auckland-wide wastewater network discharge consent was granted on 19 June 2014. An implementation programme is currently being developed to ensure compliance.

(iii) **Number of sewer bursts and chokes per 1000 properties**
(Target: ≤10 – Achieved: 8.8 – Previous year: 6.8)[3]

The number of unplanned wastewater network interruptions as a result of bursts and chokes is a measure of the integrity of the system. The target is to achieve fewer than 10; the result for the year was 8.8 for the Auckland region.

(b) Wastewater Treatment Plant Compliance

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

(i) **Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for Metropolitan areas (Target: 100% – Achieved: 100% – Previous year: – 100%)**

Compliance with consents at the metropolitan wastewater treatment plants was 100% against a target of 100%. There was one transient period of 24 hours of minor non-compliance at the Mangere Wastewater Treatment Plant during the year and an upgrade programme has been implemented to address this.

(ii) **Percentage of wastewater discharged that is compliant with consent discharge requirements (excluding minor or technical non-compliance) for non-Metropolitan areas**
(Target: ≥35% – Achieved: 64% – Previous year: – 60%)

Work is being undertaken to improve the poor performance of some of the rural wastewater treatment plants inherited by Watercare from local councils during integration. This year the plants performed at 64% against a target of 35%. The company aims to achieve 100% compliance with this measure by 2020.

(c) RMA Compliance

(i) **Number of successful Resource Management Act (RMA) prosecutions against Watercare**
(Target: 0 – Achieved: 0 – Previous year: 0) There were no RMA prosecutions during the year.

(NON-FINANCIAL PERFORMANCE MEASURES)

SATISFIED CUSTOMERS AND STAKEHOLDERS

(a) Customer Satisfaction

(i) Percentage of customers surveyed satisfied with Watercare's delivery of water and wastewater services (Target: ≥80% – Achieved: 84.7% – Previous year: 81.4%)

In line with best practice, an independent research organisation is used to survey a random selection of customers who contact Watercare to report faults. Watercare considers customers as being satisfied if the overall average score is at least 7.2 out of a possible 9.0. The overall average score for the year was 7.6 out of 9.0. This equates to a performance of 84.7%.

(ii) Percentage of calls answered within 20 seconds (Target: ≥80% – Achieved: 82.3% – Previous year: 79.7%)

Grade of service is a call centre industry best-practice performance measure, aimed at ensuring calls are answered within 20 seconds. During the 2013/14 year, the grade of service target of 80% was met – 82.3% of telephone calls were answered within 20 seconds. The telephone calls received after hours are not included in this total. After-hours calls are answered by First Contact and their grade of service performance for the year was 88.7%.

(iii) Number of water quality complaints (taste, odour, appearance) per 1000 water supply connections (Target: ≤5 – Not Achieved: 5.9 – Previous year: 4.6)

In order to improve the level of service provided, Watercare monitors the number and type of water quality complaints received from its customers. The number of complaints relating to taste, odour or appearance of the drinking water was 5.9 per 1000 connections, which is above the target of five or fewer. The target was not met due to a high number of water quality complaints in January from the flushing of the Kumeu/Huapai transmission main and the algal bloom in the Waitakere water sources resulting in taste and odour complaints.

(iv) Percentage of complaints 'resolved and closed' within 10 working days (Target: ≥95% – Not Achieved: 94.2% – Previous year: 97.2%)

The target of 'resolved' complaints measures the total time taken for each issue to be resolved and for feedback to be given to the customer. A 10-day target is considered industry best practice. In the 2013/14 year, 2300 complaints were received out of a total of 406,567 customer interactions (phone, written and email) and of these complaints, 94.2% were resolved within 10 days; this did not meet the target of 95%. The target was not met due to an increased complexity in complaints, especially relating to the Non-Domestic Wastewater tariff, which was topical as it was widely consulted on throughout the year.

EFFECTIVE ASSET MANAGEMENT

(i) Percentage of actual capital expenditure relative to budget (Target: ≥85% – Achieved: 96% – Previous year: 97.5%)

Watercare aims to ensure capital expenditure is greater than 85% of the approved financial budget. For 2013/14 the actual capital expenditure was 96%, which was above the target of 85%.

SOUND FINANCIAL MANAGEMENT

(a) Prudency

(i) Minimum funds flow from operations (FFO) to interest cover before any price adjustment (Target: ≥2.5 – Achieved: 3.30 – Previous year: 3.37)

The funds from operations (FFO) to interest cover ratio for the year ending 30 June 2014 was 3.30. Funds from operations were boosted by higher-than-budgeted revenue, while interest expense benefited from a combination of lower-than-budgeted new borrowings and lower-than-projected cost of funds.

(b) Affordability

(i) Percentage of expenditure on water supply services relative to the average household income (Target: ≤1.5% – Achieved: 0.90% – Previous year: 0.86%)

The average monthly household water and wastewater bill from Watercare was $67.55 for the period 1 July 2013 to 30 June 2014 inclusive. Statistics New Zealand's current (2012/13) average monthly household income in Auckland is $7523. This means that the average household bill represents 0.90% of the average household income. This compares to 0.86% for 2012/13.

STABLE WORKFORCE

(a) Lost-time Injuries

(i) Lost-time injury frequency rate (LTIFR) per million hours worked (Target: ≤5 – Achieved: 2.53 – Previous year: 0)

Watercare staff achieved a LTIFR of 2.53 per million hours worked, which is within the target range of five or fewer.

(ii) Level of ACC workplace management practices accreditation (Target: Tertiary – Achieved: Tertiary – Previous year: Tertiary)

ACC tertiary-level accreditation was maintained. Audits are carried out every two years, with the last audit conducted in 2012. Watercare achieved Tertiary accreditation at the 2012 audit. The next audit has been scheduled for December 2014.

(b) Staffing

(i) Percentage of total hours absent due to illness (Target: ≤2.5% – Achieved: 2.14% – Previous year: 2.0%)

Watercare achieved an unplanned absenteeism rate of 2.14%, which is under the target of 2.5% or less and slightly higher than last year's rate of 2.0%.

Watercare provides a comprehensive occupational health service to all staff, including: medical consultation, influenza immunisation, mandatory vaccinations for working in certain environments, skin checks and rehabilitation programmes. Employee Assistance Programme services are available to all staff, either through the company or by self-referral.

(ii) Percentage of voluntary leavers relative to number of permanent staff (Target: ≤12% – Not Achieved: 12.5 % – Previous year: 10.1%)

Voluntary staff turnover for the year was 12.5%, which is slightly above the target of ≤12%. During December 2013, the Watercare Customer Services Call Centre moved from East Tamaki to Newmarket which is a significant commuting distance for some employees who subsequently decided not to relocate.

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GLOSSARY

Adopt A Stream	Watercare's free education programme.
Asset Management Plan (AMP)	A document that defines Watercare's best engineering judgment of the revenue and capital investment required to maintain the integrity of its asset base over a 20-year period.
Biogas	A by-product of the wastewater treatment process that comprises approximately 65 per cent methane.
Biosolids	A treated solid by-product of the wastewater treatment process.
Capex	Capital expenditure.
Capitalised interest	The borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are capital projects that span more than one financial year, added to the cost of those assets, until such time as the assets are substantially ready for their intended use.
Central Interceptor	A large tunnel that will collect and carry wastewater.
EBITDA	Operating surplus from trading operations before depreciation and amortisation, finance costs, vested assets revenue (non-cash) and developer and financial contributions (non-cash).
Global Reporting Initiative (GRI)	A non-profit organisation that works towards a sustainable global economy by providing sustainability reporting guidance.
Greenhouse gases	Gases that trap heat in the atmosphere. Examples of greenhouse gases are methane, perfluorocarbons and nitrous oxide.
Infrastructure assets	Assets that are mainly held and used for the purpose of treatment, storage and transmission of water and wastewater, such as water mains and sewers, and also treatment plants, tanks, dams and reservoirs.
Infrastructure growth charge	Amount collected from property owners or developers applying for new connections to help fund new infrastructure required by growth.
Iwi	Tribal group/s (origin: Māori).
Kaitiaki	Custodian (origin: Māori).
Mana whenua	Territorial rights; tribal connection to a geographic region; associated with possession and occupation (origin: Māori).
Mauri	A material symbol of life (origin: Māori).
Net finance costs	Interest paid/payable less interest received/receivable.
Opex	Operational expenditure.
Regional Demand Management Plan	A plan that outlines how Watercare intends to achieve a 15% reduction in gross per-capita water consumption by 2025.
Reliability-Centred Maintenance (RCM)	A framework which identifies the optimum time to maintain or replace assets based on operational performance, cost, health and safety and the environment.
Statement of Intent (SOI)	The SOI represents Watercare's public and legislative expression of accountability to its shareholder and establishes the agreement between the board and its shareholder.
Statement of Service Performance (SSP)	The SSP is a retrospective record of the performance of the company against the measures in its SOI.
Subvention receipt	Amount received/receivable from a profit company by a loss company for the sale of tax losses.
Sustainability	Meeting current needs without compromising future generations' ability to meet their own needs.
Tāmaki Makaurau	The Auckland isthmus region (origin: Māori).
Tangata whenua	Indigenous people of the land (origin: Māori).
Taonga	Property, goods, possessions (origin: Māori).
Trade Waste	Any discharge into a sewer in the course of an industry or trade process.
Unaccounted-for water loss	Water that is lost before it reaches the customer. Losses can be real losses (through leaks) or apparent losses (for example, through theft or metering inaccuracies).
Vested assets	Infrastructure assets transferred to Watercare by external parties: e.g. developers, New Zealand Transport Agency, Veolia Water Services (ANZ) Pty Limited.
Wastewater	Liquid or solid matter discharged into the sewer network from domestic, commercial or industrial locations.
Well-being	A general term to encompass health, happiness and welfare.

WATERCARE
SERVICES
LIMITED

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