2010 marks thirteen years for Metrowater of dedication and commitment to delivering safe healthy drinking water and quality wastewater services to the people of Auckland City.

It also marks the end of a chapter as Metrowater is integrated into Watercare Services Ltd, creating a single water and wastewater company servicing the Auckland region.

This document demonstrates how Metrowater has performed in relation to targets agreed with its shareholder Auckland City Council, in the Statement of Intent. These targets balance the needs of customers, the shareholder and the wider community and are consistent with Metrowater's statutory obligations to:

- Be a good employer
- Exhibit a sense of social and environmental responsibility with regard to the interests of the community in which it operates
- Conduct its affairs in accordance with sound business practice[1]

The financial reporting in the latter stages of this report is a statutory requirement under the Companies Act. In addition to satisfying financial reporting obligations, this document also reports on Metrowater's performance from a social and environmental perspective, consistent with a triple bottom line approach. The results for the other specific performance measures and targets from the Statement of Intent are summarised in this report to complete the picture of the financial, social and environmental outcomes Metrowater has achieved.

1 Local Government Act 2002, Section 59 (1)

Contents

THE METROWATER BUSINESS

When Metrowater was established in 1997, it was charged with making Auckland City's water and wastewater services more efficient, transparent and responsive to customers and the community.

Those goals remain largely unchanged to this day. What has varied from year to year are the circumstances in which the company has operated and the specific goals that have been adopted to meet the wider strategic needs of the City.

In the last 16 months of Metrowater's existence, there were four areas of focus outlined in the company's Statement of Intent. They can be summarised as:

- **Commercial Reliability:** Ensuring delivery of an appropriate return to the shareholder (Auckland City Council), operating efficiently in order to deliver better service at the lowest cost, and maintaining a fair and robust customer debt management process.
- **Conservation and Environment:** Reducing sewage overflows, encourage water conservation, and reducing leakage from the water network
- **Service Reliability and Quality:** Delivering prompt, effective service above the median for Australasian industry while also investing to deliver better outcomes for less cost. Plus being a leader in public health and water quality.
- **Social Responsibility:** Ensuring customers can voice their complaints and have them fairly heard. Operating an affordable pricing model, and ensuring that customers facing financial hardship receive meaningful help. Continuing to promote and encourage an effective safety culture amongst staff and service providers.

Metrowater has delivered in all four areas – the articles and case studies in this report illustrate the gains made in more detail. Metrowater takes special pride in the fact it has continued to improve performance in many areas over the last 16 months. This speaks volumes about the commitment of the staff who work at Metrowater and the suppliers and contractors who work with Metrowater.

Metrowater is also proud of its achievements over the last five years. The commitment has been to continually achieve more for less, not only for current customers, but also with an eye to the needs of future generations.

HIGHLIGHTS OF THE LAST FIVE YEARS

- Consistently raising service standards and customer satisfaction levels while holding the change in the cost of providing those services at or below the rate of inflation over the period.
- Introducing a Hardship Programme for customers facing genuinely difficult circumstances.
- Reducing the environmental impact of activities through a host of initiatives, culminating in the groundbreaking Clear Harbour Alliance which separated stormwater and wastewater flows in the Motions Creek catchment.
- Improving debtor management, thus improving cashflow and reducing the need to borrow.
- Handing over a sound organisation to Watercare – one that has continued improving and developing right up until handover date.
- Developing an innovative contract procurement and delivery model that shares risks and rewards with suppliers, the net effect of which has been improved service delivery at a lower cost.
- Ongoing improvements in the company's Health and Safety culture, to the extent that last year Metrowater recorded only one lost time incident, down from seven three years ago.

VISION AND VALUES

Metrowater's Vision and Values place a strong emphasis on operational efficiency and customer service. These principles have been integrated into the organisation's culture and have set the direction for improvements across most areas of performance. The company has become increasingly pro-active in meeting the expectations of customers and other stakeholders, while responding to their needs.

Our Vision:
We are passionate about delivering quality water services and value to our customers, and we aspire to be the role model for other water companies.

Our Values:

Leadership
We are all leaders accountable for our behaviours and results.

Respect
We respect each other and our environment.

Growth
We are committed to the growth of our people.

Can do/Will do
We have a can do and will do attitude.

Metrowater also contributes significantly to the achievement of Auckland City Council's vision, in particular its objectives around:

- cleaning up our waterways and reducing harbour pollution
- ensuring world-class drinking water quality
- catering for growth
- reducing flood risk

See Auckland City Council's Long-term Council Community Plan 2006–2016 for details on their vision

HIGHLIGHTS OF THE YEAR

- Customer satisfaction ratings, as rated by the customer, at an all time high
- Clear Harbour Alliance project completed five months early and 5% under budget
- Service Performance Index results show service standards have once again improved over the last year.
- Company successfully launched "Float" scheme to help customers facing hardship with 49 families successfully graduating from the scheme
- Company achieved targeted breakeven result through period of significant change
- JRA "best workplace" survey results for Metrowater over last 18 months show further improvement
- Leak detection and repair costs down from 44c/1000 litres to 28c/1000 litres

CHAIRMAN'S REPORT

Customer service and satisfaction results have been maintained at excellent levels, further operational efficiency improvements have been delivered and a full, and positive, contribution has been made to the industry transition and restructuring processes.

This has been a time of significant change within Auckland with the formation of the Auckland Super City and the major restructuring of all the City's Local Government entities. Through this period, to its credit, Metrowater has continued to deliver to the high standards it has set over recent years.

Customer service and satisfaction results have been maintained at excellent levels, further operational efficiency improvements have been delivered and a full, and positive, contribution has been made to the industry transition and restructuring processes. These results have been achieved thanks to the excellent work of the Metrowater staff and the significant commitment they have shown to Metrowater and its business. This represents a very real return on Metrowater's focus over the years on investing in its people and building a positive corporate culture emphasising performance and accountability.

The Board acknowledges staff contribution to this very testing process.

Excluding the financial impact of the Auckland Super City restructuring, Metrowater's financial results have been dominated by the impact of sales variations. It had been anticipated, following the significant declines in sales of water in 2008/09, that water sales volumes would further decline in 2009/10 however this turned out not to be the case. There was a 2.4% increase in sales volumes through the 2009/10 financial year recovering some, but not all, of the sales reductions seen in the 2008/09 year. This increase in sales volumes however has not continued through the first four months of 2010/11 with actual sales closer to the 2008/09 volumes, down 2.6% on 2009/10 volumes.

CHAIRMAN'S REPORT (continued)

Metrowater had, as agreed with its shareholder Auckland City Council, built its budgets and set its prices for the 2009/10 year to achieve a breakeven result from operations, before financial adjustments associated with Metrowater's integration into the new Super City structure. Under these budgets, the price increase instituted in July 2009 was set primarily to cover the anticipated significant increase in wholesale costs signalled by Metrowater's supplier Watercare. However, as a result of the unexpected increase in sales in 2009/10, Metrowater generated more revenue than it required. As a result, after consultation with Auckland City Council, Metrowater acted to return this revenue surplus to its customers at the end of June 2010 as a uniform credit on all customer accounts.

The Metrowater Balance Sheet remains in a healthy shape with fixed assets of $1.4 billion, gearing at 15.1% and a capital programme of $42.0 million having been delivered over the 16 month period ($32.5 million for the 2009/10 financial year plus $9.5 million for the four months to October 2010). This is after the reductions Metrowater made to its planned capital programme in light of the Auckland Super City transition. Working with Watercare, the Council, the Auckland Transition Agency and other water operators across the region, Metrowater was able to identify a net $15 million of capital projects from the 2009/10 year to be deferred for consideration by the new integrated organisation. These projects were chosen on the basis that they represented the best opportunities for efficiency savings under the integrated approach to planning and execution that the new structure should offer.

As the life of Metrowater as a separate entity draws to a close, the company leaves a business and assets in good order for the new integrated Watercare to take forward. Metrowater has come a long way in the last 13 years having delivered significant successes and firsts for Auckland City.

When launched in 1997, Metrowater became New Zealand's largest dedicated public water retailer company, a position that Watercare will now assume.

In the period from 1997 to 2000, Metrowater focused on establishing its own capabilities and working to become a true stand alone business by disentangling its operations fully from those of the Council. It also launched what was at that stage an innovative volumetric charging model for wastewater based on water consumption. This volumetric charging provided direct funding for wastewater investment and operations plus created for the first time, a more specific link for customers between use of water and wastewater services and to the cost of those services.

The next phase of Metrowater's evolving role occurred through the period from 2000 to 2005. Through this period the company delivered price stability to its customers with no increases in water and wastewater charges year on year. It also introduced the prompt payment discount scheme that gave customers the opportunity to lower water and wastewater costs by paying bills in a timely manner. Strategically, Metrowater also focused its attention on the important issue of its asset management and capital investment programme. Mindful of the long term goals of the Council to deal with wastewater pollution issues and clean up the harbours, Metrowater undertook an award winning "Integrated Catchment Study" of the City to understand the wastewater pollution issues and identify solutions.

From 2005 to 2010, Metrowater shifted its focus again, with an emphasis on implementing the solutions identified from the previous planning work and raising customer service standards. As part of the City's Long Term Council Community Plan (LTCCP) preparation process, Metrowater undertook a programme of capital investment aimed at achieving the long term goals of reduced pollution in the harbours. Key to this was the wastewater and stormwater separation project work Metrowater undertook. The most recent and largest of these being the Clear Harbour Alliance project focused on the catchment area south of SH16 in Kingsland and Eden Terrace. This award winning Alliance project completed the separation work ahead of schedule, below budget and with outstanding customer feedback.

Overall, Metrowater has continued to deliver the pollution reduction targets years ahead of schedule and many millions under cost.

At the same time as delivering these capital investment programmes Metrowater has also delivered improvements in customer service standards. Customer satisfaction ratings, by customers, improved 25% in the last five years. At the same time Metrowater kept the cost of delivering these services under control by keeping costs constant in real terms after adjusting for inflation.

This record of accomplishment, performance and success over many years is a credit to the people associated with Metrowater, and shows what can be achieved through the Council Controlled Organisation (CCO) business model. The strategic outcomes have been met and exceeded, the Balance Sheet and asset base has been improved, costs have been controlled and efficiencies delivered and all while the quality of service and the customer satisfaction levels have steadily risen.

On behalf of the Board of Directors my thanks go to our management team, to our staff and business partners for the achievements of Metrowater over the years. As Chairman, I would also like to thank the Board for their contributions where the skills and wealth of experience they have provided has been a great asset to the governance of the group.

For the Board

Ross B. Keenan
Chairman

CHIEF EXECUTIVE'S REPORT

Metrowater's results over the last sixteen months show that, through this time of change, the company has been able to maintain the high performance standards it has established in recent years.

Metrowater has done this by focusing efforts principally on a two part agenda,

- Maintaining consistency and quality in customer service standards
- Actively cooperating with, and contributing to, the Auckland Water industry integration process.

CUSTOMER SERVICE

The results of Metrowater's customer service focus clearly show through in two of Metrowater's key service performance measures;

Customer satisfaction:

Customer's satisfaction ratings of Metrowater improved to a new high with an overall rating for the year of 8.0. A further improvement on the excellent result of 2008/09 (7.8), and a continuation of the trend of improvements running from 2007/08 (6.8).

Service Performance Index (SPI):

The SPI is an index measure that indicates Metrowater's overall performance across ten key metrics covering different aspects of service quality, responsiveness and resolution. In 2008/09 Metrowater did not achieve the demanding target set for the year, with an index result of 96.6 versus the target of 104.4. In the twelve months to June 2010 Metrowater significantly improved this result to 110.8, easily meeting the target to be greater than 104.4. In the four months to the end of October 2010, when the agreed target was modified by the 2010/11 Statement of Intent to focus on maintaining performance standards, Metrowater also exceeded expectations delivering further improvements with the SPI increasing by 7.3 points.

RESTRUCTURING THE AUCKLAND WATER INDUSTRY

The restructuring of Auckland's water industry has understandably had a significant impact on Metrowater, and management has worked hard to keep the focus of the change as positive as possible. To this end, Metrowater has taken an active role in working to ensure the change is a success, contributing over 20,000 hours of effort to the transition planning and implementation effort.

Internally Metrowater has put considerable effort into ensuring the handover of its activities and business to Watercare is as clean and orderly as possible. In particular, Metrowater has actively cooperated to ensure opportunities for efficiency are maximised, especially around the capital programme and balance sheet. This has led to Metrowater reducing its capital spend by around $15m against the company's original planned works programme by rescheduling the works most likely to offer efficiency benefits for Watercare to consider from a regional perspective.

As one would expect from such an integration of businesses, the restructuring process has had an impact on the reported financial results for the company. Excluding the value of staff time spent working on the integration, the impact has been quantified as $21.5m.None of this $21.5m was included in Metrowater's original financial plans for the period. However, as a result of efficiencies within the business and changes Metrowater was able to make through the extended transition period, $6.5m of this impact has been accommodated within the accounts for the underlying operations of the business. As a result, excluding the $15m of final adjustments and provisions applied to the accounts at 31 October 2010, Metrowater's results show the business was on track to achieve its breakeven target.

FINANCIAL RESULTS

As required by its Statement of Intent, Metrowater has set prices to achieve a breakeven position at the end of the financial year before any final accounts adjustments. At the end of the twelve months to 30 June 2010, Metrowater's Net Profit Before Tax (NPBT) position stood at just $163k. At the end of October 2010, before the $15m of final adjustments and provisions required for the transfer to Watercare were added, the company's underlying NPBT positions was in line with the expectations in the company's budget for that point of the year. This means Metrowater achieved its breakeven objective for 2009/10 and is on target to achieve a breakeven result for June 2011.

A significant influence on the underlying financial results has been sales volumes where sales for the twelve months to 30 June 2010 exceeded expectations and for the four months to 31 October 2010 fell below expectations. For the financial year to the end of June this would normally have meant Metrowater generated a surplus as, although some additional costs had been incurred as a result of the Auckland restructuring process, the base operating costs had been well controlled through the year. However, recognising such a surplus was not consistent with the company's breakeven mandate, Metrowater after consultation with Auckland City Council, took the decision at the end of June to issue all customers with a $30 account credit to return the surplus to customers.

Transition costs	Value ($m)
Items absorbed within Metrowater's underlying operations	
Staff redundancies and related payments	-$1.6m
Accounting adjustments to operating expenses for capital scoping and other work no longer required	-$3.0m
Assets written-off as not required by Watercare (mostly intangible assets)	-$1.9m
Additional adjustments and provisions as at 31 October 2010	
Intangible asset accelerated depreciation	-$13.0m
Provision in revenue for customer bill discounts	-$2.0m
Total	**-$21.5m**

Notes:
1 Reported under 'Depreciation and amortisation' in accounts
2 Reported under 'Trade and other receivables' in the accounts

CHIEF EXECUTIVE'S REPORT (continued)

Conversely the fact that in the four months to the end of October 2010 Metrowater has seen sales volumes fall below budgeted levels by approximately 2.6% has meant the company has faced a shortfall in revenue for the four months. However, this has been offset by both further cost reductions versus budget, and by other unbudgeted revenue received from legal action against third parties that had previously damaged the Metrowater network

SOCIAL RESPONSIBILITY

Metrowater is very proud of the hardship scheme it launched during the period. This scheme is we believe a first for a water utility in New Zealand and was conceived as a scheme designed to take some of the best ideas from other hardship programmes from utilities across Australasia. Given the economic climate and the recession conditions faced by customers, Metrowater was keen to offer something that would help those in need while also helping manage the risk these conditions posed to Metrowater. At the end of the year, 89 families were enrolled in the scheme and a further 49 had moved through the scheme and graduated back to normal billing and payments.

This scheme has had tangible benefits for Metrowater by improving the company's overdue debt figures. However, just as significantly there have been less tangible, but none the less important, benefits as well. Staff involved have taken real pride and satisfaction from being able to help in this new way. The performance of the scheme has provided a success story that has been recognised and celebrated by all staff. The reaction from those who Metrowater has been able to assist has also been extraordinary, and at times extremely touching and very humbling.

INVESTING IN PEOPLE

In the past sixteen months Metrowater has benefited from the investment it has made, and continues to make in its people. Staff morale and engagement has been much higher than would normally have been expected, especially given the changes the company has faced and the pressure this has put on individuals.

Through the year Metrowater participated in two JRA "Best workplaces" surveys and the company was pleased to see that not only was participation once again high, but also the results showed continued improvement in a number of areas. Particularly gratifying was the significant improvement in staff's ratings for the Learning and Development category of the survey.

It is also encouraging that Metrowater has seen a high number of people who wanted jobs in the new "Super City" obtaining the jobs they wanted.

CLOSING COMMENT

On a personal note I would like to thank my management team, our staff and business partners for their contribution over what has at times been a testing and challenging period. Everyone can be proud of what they have achieved and the legacy they leave for the future. I also want to thank the Board for their support, they have gone out of their way to support the company's effort to navigate this time of change and in particular to support the people of the company while also providing wise council and challenge.

Tim Hammond
Acting Chief Executive

KEY PERFORMANCE MEASURES

The following is a summary of the success of Metrowater's business strategy as evaluated against the corporate performance measures listed in the tables below and reported in the company's Statement of Intent ("SoI").

KEY PERFORMANCE INDICATORS

Performance Measure	Triple Bottom Line	08/09	Target 09/10	Actual 09/10	✓/x	Target to Oct 10	Actual to Oct 10	✓/x	Comment
Economic Relativity Measure									
Cost To Serve (core opex/pop) per capita	F,S	$62.82[1]	$64.88	$65.33	x	$67.00	$62.52	✓	The quantum of the increase from 08/09 to 09/10 is driven by the increase in the Rates charges paid by Metrowater. Aside from that increase, Metrowater kept costs within the target excluding one off items related to the Auckland restructuring work.
Service Performance Measure									
Service Performance Index "SPI" (see note 2)	S,E	96.6	104.4	110.8	✓				SPI was better than the target for the year with most indicators within the index returning good results
Change in Service Performance Index "SPI" (see note 3)	S,E					>0	+7.3	✓	Results for four months to October 2010 show continuing good performance in most components of the index
Sustainable Organisation									
Voluntary Staff Turnover	S	12.4%	<15%	19.3%	x	na	na	na	Staff turnover understandably increased through the period given the impending integration of Metrowater with Watercare and the uncertainty for staff regarding their future. This was further exacerbated by the restriction for all local government organisations on hiring new staff
Unaccounted for Water 'UfW' (000m^3 pa)	F,E	7,269	<6900	7,390[4]	x	<6800	7,252[5]	x	Metrowater experienced spikes in monthly UfW levels in September 2009 and March 2010, believed to be related to weather events, that have distorted the average for the period. It is encouraging however that in the last 5 months UfW levels have been decreasing

Triple Bottom Line Key: F = Financial, E = Environmental, S = Social

Notes:

1 The reported result for 08/09 was originally reported as $65.82, however it has been restated to $62.82 as some network damage costs from that period have since been recovered from a third party
2 The Service Performance Index (SPI) comprises measures for the following 10 key aspects of Metrowater's operations: Water Quality Complaints, Number of Unplanned Water Supply Interruptions, Duration of Water Supply Interruptions, Response Times to Priority Jobs, Number of Wastewater Spills, Wastewater Spill Cleanup Time, One Call Resolution, Supply Restoration Time for Planned Shutdowns, Enquiry Response Times, Length of Notice of Shutdowns
3 Given the industry restructuring process that was underway, the SPI target in the 2010/11 SoI for the 4 months to October 2010 was changed to focus on the change in the result, rather than the absolute level, as the priority was on ensuring standards didn't slip
4 Because of Metrowater's 3 month billing cycle and the resulting 3 month lag in fully reconciling results, the reported results are for the 12 month period from March 09 to March 10
5 Given this is only a partial year result, the reported result includes estimates to the end of September only using confirmed data from the first quarter of the 2010/11 year.

TRACKING MEASURES

Tracking Measure	Triple BottomLine	08/09	Forecast 09/10	Actual 09/10	Forecast to Oct 10	Actual to Oct 10
Return on Public Investment (ROPI)[1]	F	1.6%	0.1%	1.6%	-0.5%[2]	-1.9%
Return on Capital[3]	F	2.52%	2.6%	1.27%	0.4%	-1.2%
Gearing	F	15.2%	17.3%	14.6%	17.4%	15.1%
Ratio of Shareholders Funds to Assets	F	61%	59%	60.6%	59.4%	63.5%
Net Profit Before Tax (NPBT)	F	$11.8m	$0.5m	$0.17m	-$3.3m[2]	-$16.7m[4]

Notes:
1 Consolidated shareholder funds are the sum of net paid up share capital, retained earnings, accumulated losses, and revenue and capital reserves. Total assets are the sum of the net book values of investments, current, fixed an intangible assets as disclosed in Metrowater's balance sheet.
2 While the full NPBT for 2010/11 is budgeted to be $0m, NPBT at the end of October was predicted to be negative. This accounts for the fact the ROPI at the end of October is also a negative.
3 Return on Capital = EBIT divided by Fixed Liabilities and Equity.
4 The reported Net Profit Before Tax to 31 October 2010 includes $15m of asset impairments and provisions put in the books on 31 October 2010 as a result of the transfer of the business to Watercare.

COMPLIANCE MEASURES

Compliance Measure	Triple Bottom Line	08/09	Target 09/10	Actual 09/10	✓/x	Target to Oct 10	Actual to Oct 10	✓/x	Comment
Compliance with consents for Wastewater Treatment Plants	E	Not Achieved	Achieve	Achieved	✓	Achieve	Achieved	✓	The replacement of filter media for phosphorus removal has improved the plant performance
Maintain the Ministry of Health's Aa grade for water supply	S	Achieved	Achieve	Achieved	✓	Achieve	Achieved	✓	Metrowater completed its most recent grading review with MoH in October 2010
Fire hydrants tested by the Fire Service to meet the Fire Service Code of Practise	S	Achieved	Achieve	Achieved	✓	Achieve	Achieved	✓	The Fire Service's own testing programme was impacted by industrial action so to compensate Metrowater stepped up its own testing programme
Maintain ACC* tertiary accreditation for Health & safety	S	Achieved	Achieve	Achieved	✓	Achieve	Achieved	✓	Metrowater remains tertiary accredited

* ACC = Accident Compensation Corporation

LONG TERM INDICATORS

Long Term Indicators	Triple Bottom Line	Target	08/09	09/10	✓/x	Actual to Oct 10	✓/x	Comment
To progressively reduce the volume of wastewater discharging from our networks into the environment by 35% over a six year period to 2011	E	35% reduction by 2011	36.7%	39.6%	✓	(note 1)	✓	Target achieved 2 years early in 2008/09
To achieve a 10% reduction in per capita water consumption over the period 2004-2020	S	10% reduction by 2020	4.8%	5.8%	✓	6.9%	✓	On track to achieve long term target
Maintain average household bill <2% of average household income	S	<2%	0.84%	1.06%	✓	0.92%	✓	09/10 increase in consumption due to long hot summer caused an increase in the average bill over 08/09. Result for 10/11 is only for four months of year and as such excludes full impact of seasonal demand expected in a year.

Notes:
1 No result reported to October 2010 as volume of annual discharge will only be calculated at end of the 2010/11 year, however target was met 2 years ago.

BUSINESS REVIEW

Metrowater's business review for 2009/10 provides a summary of the company's performance against the targets and objectives set out in the Statement of Intent ("SoI") agreed between the shareholder, Auckland City Council, and Metrowater. The report also summarises key business achievements and provides specific case studies to highlight some of those successes.

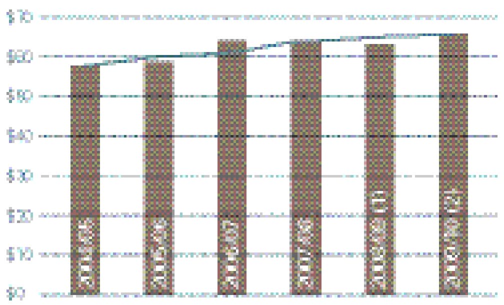
Metrowater is pleased to report another year of continuing improvement in operating performance where material progress has been made against all four business objectives set out in the Statement of Intent ("SoI").

- Commercial Reliability
- Conservation and Environment
- Service Reliability and Quality
- Social Responsibility

As well as the sound financial results Metrowater can report good result for all but one of the targeted performance indicators. This one exception being the Unaccounted for Water ("UfW") result where, although the target has not been achieved, progress was made in improving the result, with the results in the later months showing an encouraging trend of cost effective improvements. (Further detail on UfW can be found in the "Conservation and Environment" section of this report).

BUSINESS REVIEW (continued)

Cost to Serve
Operating costs per capita

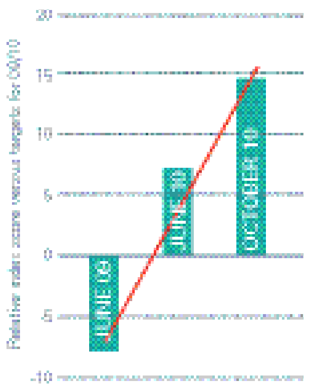


■ Actual Cost to Serve
■ Cost to Serve increasing at CPI

Notes:

1 The reported result for 08/09 was originally reported as $65.82, however it has been restated to $62.82 as some network damage costs from that period have since been recovered from a third party.
2 2009/10 data is for the year to June 2010 and excludes one off transition related costs.

Service Performance Index
Year to date actual compared with target



COMMERCIAL RELIABILITY

Delivering More for Less

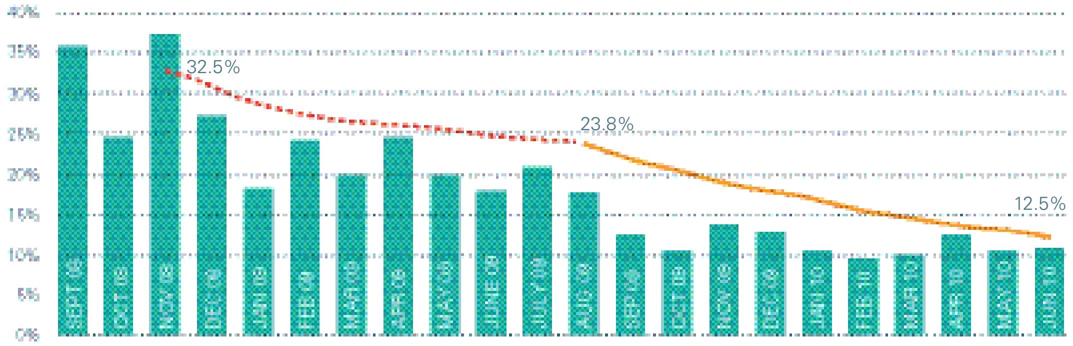
Metrowater has had a strong focus on efficiency particularly on the efficient and effective management of business and network operations. From 2005 to 2010, Metrowater has kept operating costs constant in real terms, while at the same time improving customer service and satisfaction.

A few of the areas Metrowater has focussed on to achieve this include:

- When, in 2006, Metrowater committed to reducing the amount of polluted water entering the Waitemata harbour by 35%, the company recognised that it did not possess all the capabilities in house to deliver on this. Consequently, Metrowater established a powerful, innovative alliance (the Clear Harbour Alliance) with GHD, Opus International Consultants and Downer EDI, which resulted in a major improvement to the wastewater system. The result of the alliance was a project that came in 5% under budget, and 5 months ahead of schedule.

- Water that is lost through leakage or cannot, for a variety of reasons, be accounted for is an issue for all water networks. This is no different for Metrowater and the company has put significant effort into successfully reducing its Unaccounted for Water (UfW) levels in the last four years. In the last sixteen months Metrowater has reached a point where the economic returns on investment for its existing UfW programmes have become increasing challenging to maintain. This has led Metrowater to focus on identifying more cost efficient methods for identifying and repairing leaks. As a result the average cost of finding and repairing a leak has fallen from 44c/1000 litres to 28c/1000 litres in the period.

Non Jobs as a % of Total Jobs



■ % of Total Jobs Raised ■ 12 month Rolling Average ■ ■ Estimated 12 month Rolling Average

- A particular focus over the last sixteen months within Metrowater has been on reducing the number of "non-jobs" – that is, cases where a fault is reported to which Metrowater responds, only to find it is not actually a Metrowater network related issue. E.g. a leak that is reported to Metrowater but is coming from a customer's private plumbing requiring a plumber's services. If Metrowater sends a crew to attend such a "non-job" it incurs unnecessary costs and ties up resources only to find there is usually little it can do. By improving the questioning of the caller when the fault is first reported to determine more details about what has happened, Metrowater has reduced the "non-job" cases. Previously 25-30% of all dispatched jobs were found to be "non-jobs", however with this change in process this has been reduced to around 10%. This effectively frees up 15-20% capacity in field crews allowing costs to be saved with no drop off in service.

- Metrowater has a good record on recovery of debts it is owed, as one would expect of a well run commercial enterprise. This has been achieved through both incentives offered to customers, such as the prompt payment discount, and through the efforts of Metrowater's own internal collections team. In the last sixteen months Metrowater has also increased the use of external collection agencies. This has assisted in the control of the debt levels and also allowed Metrowater to compare the effectiveness of the internal collection team allowing Metrowater to more cost effectively focus its collection activities.

The net result is Metrowater has achieved its debt level targets for the year and reduced its average days overdue for customer payments (called DSO, or Days Sales Overdue) to around 18 days. This compares very favourably with the international benchmark for utilities, according to Dun & Bradstreet, of over 40 days. The impact on Metrowater's business of this is simple: the difference between our DSO and the international benchmark figure results in an annual reduction in debt of about $1m.

BUSINESS REVIEW (continued)

SERVICE RELIABILITY AND QUALITY

Delivering a quality customer experience

In 2007/8, Metrowater re-evaluated its customer service practices, asking what are our customers' major concerns, and how do we best measure our performance against those expectations.

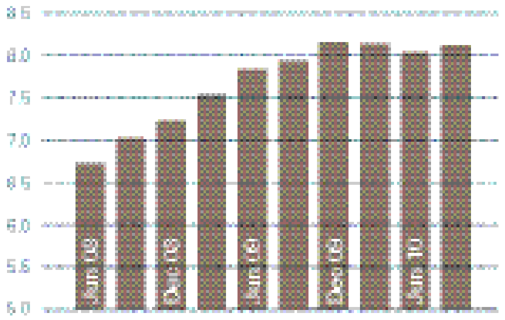
This resulted in a series of initiatives targeted at improving outcomes for customers, including:

- Sending a Customer Feedback Survey to every customer affected by maintenance work. If the customer is unhappy about any aspect of our work, we follow up in person to ensure they know they had been heard.
- Appointment of a Customer Liaison Officer to work in the field directly with customers impacted by Metrowater works.
- A dedicated team of Customer Service Engineers, responsible for resolving difficult technical issues.
- Increasing awareness of crews of the impact their work has on customers and giving crews autonomy to manage customer concerns directly.
- Giving frontline staff greater autonomy to respond to customer queries and complaints, with the aim of having the greatest number of customer calls resolved with just one phone call.

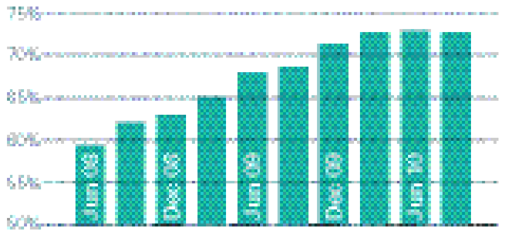
Thanks to these initiatives and others, Metrowater has identified new opportunities to improve customer service. For example, before a crew begins any unplanned work that will disrupt the water supply, they now seek to knock on the doors of those homes affected, to let them know what is happening. Just as importantly they do the same when work is complete and supply is restored. When work is planned in advance, Metrowater seeks to also notify customers in advance. Metrowater will then work with those who have special requirements on how to cater to their needs while the works occur (see the Clear Harbour Alliance case study for examples).

The effectiveness of the initiatives implemented to improve the quality of service experienced by customers is reflected in customer satisfaction ratings. These ratings have steadily increased from scores of 6.8 in 2007 to scores around 8.0 in 2010. Similarly One call resolution – the proportion of customers issues resolved with one call to the Company – has also steadily improved moving from 59% in 2007 to 73% in 2010. It is pleasing to note that, despite the uncertainty associated with the industry restructuring and transition process, the excellent levels of performance in customer satisfaction and one call resolution have been maintained reflecting the commitment of Metrowater staff to delivering a quality customer experience.

Customer Satisfaction



One Call Resolution



CONSERVATION AND ENVIRONMENT

Keeping our harbours clean

Two of the most important facets of this objective are the focus on "Keeping our harbours clean" and "Water efficiency". These two items have, for several years, been dominant factors in shaping Metrowater's strategies and activities.

From its inception in 1997, one of Metrowater's priorities has been to reduce the businesses impact on the environment. In 2005, Metrowater achieved one of its initial goals of halving the quantity of polluted water entering the harbour against 1996 levels.

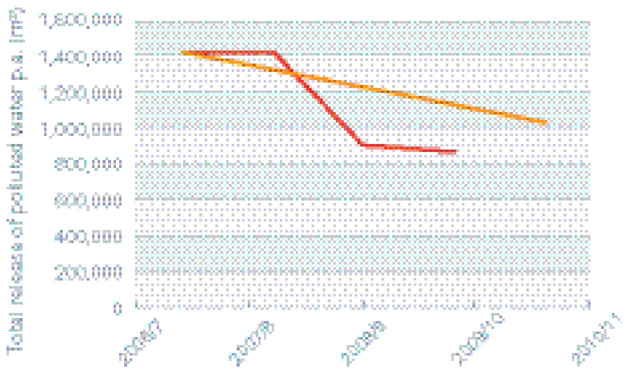
Having achieved that target Metrowater worked with Auckland City Council in conjunction with the Council's Long Term Council Community Plan (LTCCP) preparation process to develop a plan for further improvements. Part of this plan clearly showed that a critical factor that needed to be addressed was the 15% of Auckland City's drainage system that was still carrying combined stormwater and wastewater flows – an inheritance from the early days of the city. The most obvious solution to this being to carry out further capital work to separate the two flows into dedicated separate systems. This becomes especially important for the future in light of the projected growth of the city where the impact of these combined systems will increase.

Metrowater therefore committed itself to a new goal of a further 35% reduction in wastewater discharges from the network by 2011, a commitment it codified in its Statement of Intent. By June 2010 the company had not only achieved this target but exceeded it, reducing the volume of polluted water entering the Harbour by nearly 40% or 566,000 m3. A major factor in this achievement was the success of the Clear Harbour Alliance project that completed its works during 2009/10. This project involved an investment of around $50m in separating the old wastewater and stormwater services in the southern part of the motions catchment area, an area south of the North Western Motorway from Kingsland to Eden Terrace. This builds on the previous investment in separation work for other areas where $28.3m has been spent separating the wastewater and stormwater services in the Orakei Basin, Upland and Pt Chevalier catchment areas.

As well as the major capital works to separate the old wastewater and stormwater services to reduce pollution into the harbour, Metrowater has also focused on smaller works and maintenance activities to control operational issues that impact the harbour. A prime example of this is the focus on dry weather overflows. Dry weather overflows are overflows that in normal circumstances should not happen and are generally caused by lines becoming blocked for some reason. The most common causes of such blockages are damage or deterioration in the sewer line itself, or clogging of the line with foreign material, such as congealed fats, tree roots or debris.

To address the problem of line damage and deterioration Metrowater has an active programme of wastewater pipe renewals and rehabilitation. The aim being to extend the life of existing wastewater systems by replacing or relining them. Metrowater targets these works both in response to actual events, and in a proactive way based on the findings from the company's active video surveying, laser profiling and smoke testing work aimed at detecting potential issues. If a pipe needs repair (rather than replacement) "trench-less technology" is used wherever possible, to avoid disruption to the community. An example of such an approach is the practise of relining a pipe. This involves feeding a resin-impregnated "sock" through the pipe and then fixing it in place by pumping hot water through the system. In the 16 months to October 2010 Metrowater relined approximately 3000m of line, and replaced a further 240m of sewer at a total cost of $3.5m

Reduction of Releases of Polluted Water



For the issue of lines that become clogged or blocked from external sources, Metrowater has for a number of years been running a programme that tracks and monitors such blockages and the resulting spills. This allows Metrowater to identify the high risk locations for such issues, or "hot spots". Analysis of these "hot spots" often allows specific external causes of the problems to be identified. For example, in areas with tree lined streets, root incursions into the sewer are common, in areas near restaurants and fast food outlets fats can be an issue and areas where there is major construction and development work, debris can be an issue. Utilising this information Metrowater can then target a mix of proactive actions to minimise the risk.

Working with Council, Metrowater has sought to educate people in hot spot areas on the risks of putting inappropriate materials into the sewers. Metrowater has also acted to ensure the appropriate protective devices are installed at high risk sites, such as fat traps or debris grills, to stop material entering the system. In areas where there are ongoing issues, Metrowater has also put in place regular sewer inspection and cleaning programmes with lines typically being video surveyed, flushed and "root-cut" to keep them clear. In 2009/10 Metrowater has placed particular focus on its root cutting and flushing programme reviewing all sites on the programme to increase effectiveness. As a result over the last year the proactive programme has had a 100% strike rate, with potential issues being found at all sites targeted. This has allowed Metrowater to be proactive in addressing these matters before they became real issues.

CASE STUDY: CLEAR HARBOUR ALLIANCE: A GREAT OUTCOME USING LIMITED RESOURCES

Separating combined stormwater and sewerage pipes is a major undertaking in the best of conditions given the depths of the pipes and the way the lines criss-cross under each neighbourhood. When it involves 1200 closely spaced properties, many of them on steep, narrow streets, the challenges become greater still.

In 2007 Metrowater called together New Zealand's first ever water alliance – comprising Metrowater, GHD, Opus International Consultants and Downer EDI – to undertake a $50m separation project in the Kingsland/Eden Terrace area. The project was part of a wider commitment to reducing the volume of polluted water entering the Waitemata by 35%.

The project was bigger, more complex, and potentially more disruptive to the community than any such work previously undertaken by Metrowater. As a result Metrowater recognised that a traditional contracting approach – in which consultants, engineers and contractors tend to work separately focused on their specialist areas – could pose problems in itself. In particular, Metrowater was determined that customer satisfaction and community engagement needed to play a lead role in the planning and delivery of these works.

The first six months of Clear Harbour Alliance were dedicated to building a project culture among the team (which included 300 field staff) and developing the Target Outturn Cost (TOC) – i.e. how much the work is expected to cost based on joint planning between all parties. To bring the team together and overcome any silos between project members a purpose-built temporary office was used to house the team together for the duration of the project, and it was made clear to everyone that for the duration of the project, they worked for the alliance not their respective parent company. This was new, untried, and it pushed personal comfort zones for many.

And it worked.

Clear Harbour Alliance - Kingsland area: 906 properties, 13.2 km pipe, 24 overflow points no longer operating

- The project was completed five months ahead of schedule.
- It came in 5% under budget.
- Not a single infringement or improvement notice was issued to the project regarding safety, quality or environment.
- For every complaint from residents affected by the work, two "bouquets" were received. A "bouquet" being an unprompted compliment or thank you from a member of the public.
- Other water utilities from around the country came and looked and what was being done and some have now started adopting the Alliance customer communication model for their own projects.
- The Alliance won the coveted NZ Planning Institute Best Practice Award, 2009

One of the most inspiring aspects of the project was the field staff's contribution to customer satisfaction. The initiatives they introduced included:

- Putting tape on truck tyres to reduce noise at night.
- Shutting down works for three days so a family could have a home birth.
- Shutting down machines for a period each day so a mother could give her child an afternoon nap.

> "Like many contractors, I began this project just wanting to get the job done. But through this alliance we have built trust within our own team where we can communicate more, get solutions faster and ultimately provide a better experience for the community."

Stefan Forincescu | Clear Harbour Alliance Construction Manager

BUSINESS REVIEW (continued)

Water efficiency

New Zealand has the same volume of renewable water resources as all of Australia, and 2.5 times as much as the United Kingdom. But this is no reason to be complacent. The cost of new dams and other infrastructure needed to deliver water, coupled with the cost of discharging wastewater, is high. By being responsible about demand now, the community cannot only save itself money, but also delay the time when future generations will need to invest heavily to meet the needs of growth.

Since its inception in 1997, Metrowater has been committed to water efficiency. In 2004 the company committed itself to the goal of reducing per capita demand by 10% from 2004 to 2020. Largely through an ambitious leakage reduction programme, Metrowater has achieved over 60% of this target to date.

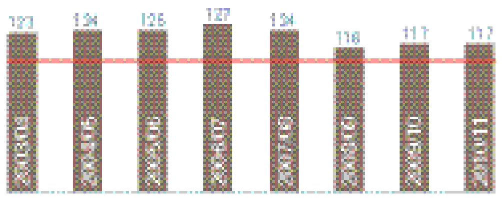
Some recent initiatives prove the power of working closely with customers to achieve savings.

- Mighty River Power, one of Metrowater's biggest customers, found opportunities to use non-potable (untreated) water at its gas-fired Penrose plant rather than Metrowater's standard mains supply water, thus reducing usage and costs at the same time.
- Auckland Meat Processors undertook an active leak detection and repair programme (in conjunction with a programme to reduce hot water use) that they predict will save them $4.5m over the next 10 years.
- Housing NZ has also benefited from working with Metrowater. Its 10,000 properties within the Metrowater area consume, on average, 20% to 30% more water than other residential properties in the same area. In 2008, both organisations agreed to match Metrowater's water usage data with Housing NZ's property data, in order to create a profile of water usage by property, including those with multiple dwellings serviced by a single water meter. This identified several properties that had consumption levels well above average. This allowed Housing NZ to inspect the properties for leaks. Housing NZ found that four out of every 10 dwellings it inspected were experiencing water leaks. It took action to remedy those and reduce its water usage, potentially saving over $2 million a year.

In 2010 Metrowater also redesigned its water bills to make it easy for customers to compare their usage with typical households and their own historical usage. The new bill includes:

- A bar graph that shows household usage for each the past five quarters. This makes any change in usage patterns stand out.
- A band table that compares usage with other households of various sizes. This often prompts people to think about their water consumption.

Water Consumption Kilolitres per capita



— Target per capita consumption by 2010

CASE STUDY: REDUCING LEAKS – IMPROVING WATER AND BUSINESS EFFICIENCY

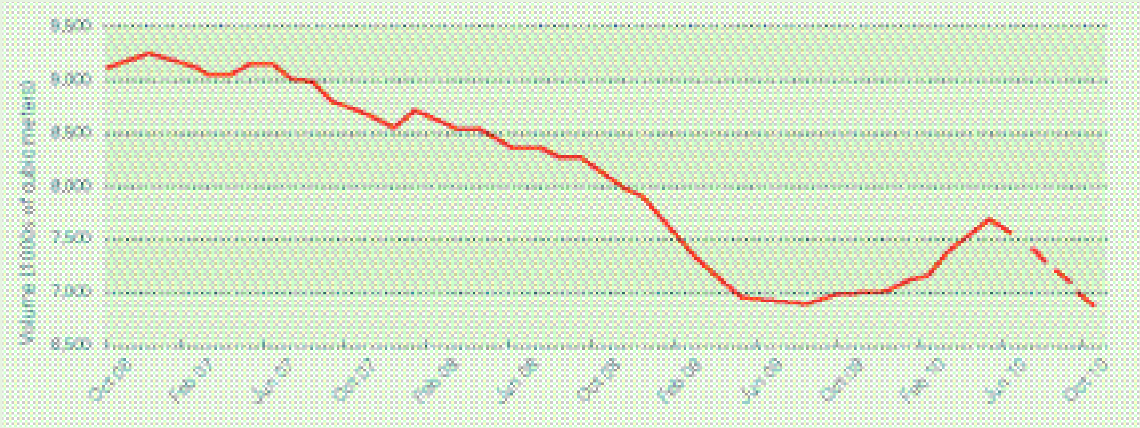
In December 2006, Metrowater's rate of water loss, or its Unaccounted for Water (UfW) level, was nearly 18% of the total volume purchased and the company made reducing this a priority. By 2009, the company had reduced Unaccounted for Water (UfW) by almost a quarter.

That placed Metrowater in the midrange of similar operators internationally in terms of loss levels.

A key element of the UfW reduction strategy was Metrowater's focus on leak detection and repair, a particularly challenging issue in an area like Auckland where many leaks remain invisible as the water readily soaks into the aquifer. While obviously eliminating leaks is desirable, it comes at a cost, and by 2009 Metrowater had identified and remedied those leaks that could be found at a reasonable cost. Consequently, the cost of stopping leaks had risen from 24.3c per 1000 litres in 2008, to 44.1 cents per 1000 litres by early 2010. Metrowater therefore set itself a new challenge: to maintain momentum in water savings while also getting costs back close to 2008 levels.

Metrowater also experienced two worrying spikes in UfW levels in the early part of the period that the existing programme of works initially appeared to be unable to explain or control. These factors combined prompted Metrowater in early 2010 to commission independent consultants to audit the company's UfW management programme and methods. While this work confirmed that the leak detection programme was still an appropriate programme to have in place it did signal that something else was also needed. Given Auckland's geology, climate and the nature and age of the water network, the existing structure of the programme of leak management work was seen as unlikely to deliver further improvements. Instead it should only, at best, be expected to maintain leakage levels in normal circumstances. A point emphasised by the spike in UfW seen in early 2010, which is now believed to be linked to a spike in consumption associated with the extraordinarily long hot summer. For further improvement it became clear Metrowater would need to develop a new approach for identifying leaks on the network in a more targeted way to complement the work of the old detection programme.

Unaccounted for Water (UfW)
Annualised Volume



As a result Metrowater has now developed a programme that, rather than relying on the old continuous sweep of the city approach, adopts a more targeted approach. This involves breaking the network into smaller areas and using calculated balances in each period to direct leak detection in a more pinpointed way to apparent problem areas. To improve the effectiveness of this programme Metrowater has also started installing a series of intermediary meters to more clearly delineate smaller areas. These District Metering Areas (DMAs) are then able to be individually tracked to determine their water balance over time. With this new approach, Metrowater has started to see UfW levels once again improve in recent months.

In conjunction with this work, Metrowater has also streamlined its maintenance and repair operations so that crews get to leaks sooner, and spend more time on actual repair work. As a result, over 70% of reported leaks are repaired within three days and 95% within a week.

This has resulted in the following:

- Metrowater is now detecting leaks earlier, and therefore stopping them sooner. The earlier a leak is stopped, the less it costs.
- Metrowater estimates that leaks are now being repaired five times faster, on average, than before the programme started.
- The cost of all leak repairs has fallen to below 28c per 1000 litres – only a few cents above the costs of 2008.
- Unaccounted for Water losses in the 12 months to March 2010 were one billion litres less than in the same period of 2008.

BUSINESS REVIEW (continued)

SOCIAL RESPONSIBILITY

Health, safety and wellbeing

The social responsibility agenda for the period in terms of Metrowater's staff, Customers and the Community has been largely dominated by three factors, "Health, safety and wellbeing", "The transition to Watercare", and "Customers facing hardship".

In 2007, Metrowater started initiatives intended to expand the focus of Health and Safety in the organisation from the existing actual incidents focus, to a focus on both actual and potential incidents.

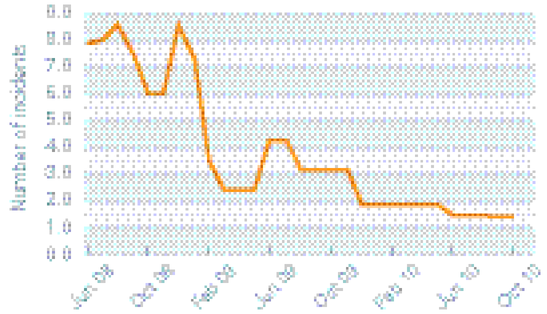
The results of this focus can be seen in Metrowater's key health and safety statistics. Metrowater and its contractors had seven Lost Time Injury events in 2007/08 (defined as those cases requiring time off work to recover). In 2008/2009 this fell to two. In 2010, from approximately 440 full time equivalent staff, consultants and contractors, Metrowater has had only one Lost Time Injury. Metrowater's maintenance and repairs contractor, Utility Services, have also in the last year celebrated 1000 days without a Lost Time Injury.

The key to this improvement has been a multi faceted approach including

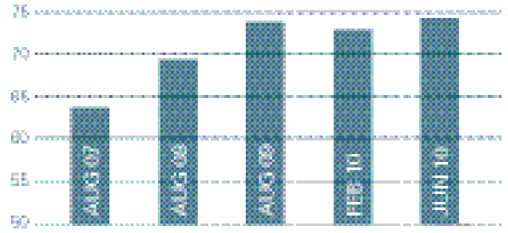
- A structured programme of formal training both on health and safety specific matters and on work practises and procedures
- Regular and frequent informal training/briefings including "Toolbox Briefings" or "Tailgate Meetings" for contractors and their crews in the field
- A focus on lessons learnt from incidents and near hits. Including monthly executive level review of any potentially serious cases that both demonstrated senior level commitment to health an safety and also provided a channel for expediting action if required.
- Active promotion of a "no blame" culture around near hit reporting supported by competitions and rewards for improving near hit reporting levels. A programme that resulted in a tripling of near hit reports in 2010 leading to the programme being recognised as a finalist in the prestigious New Zealand Workplace Health & Safety Awards.
- A reorganisation of the processes for the company's health and safety committee to put even more emphasis on staff taking the lead on issues, initiatives and actions.

A similar pattern of steady improvement has emerged from the company's commitment to staff wellbeing. In the 2008 JRA "Best Workplaces" Survey, Metrowater was named the most improved medium to large workplace in New Zealand. The 2009 Metrowater's JRA survey results saw the employee's rating of the company improve further on the excellent 2008 result, and then pleasingly through 2010 Metrowater has been able to maintain these higher results. The 2009 and 2010 result are especially gratifying for the company, coming as they did during a time of great change and uncertainty for many staff.

Lost Time Injuries
Frequency Rate per million hours –
12 month rolling average



JRA Best Workplaces Survey
Overall performance company index score



Transition to Watercare

In 2009, Metrowater recognised that in addition to maintaining high service levels for customers, Metrowater also needed to prepare staff for the changes ahead. Thus Metrowater developed a training and mentoring programme for all staff with a focus on:

- Enabling staff to make the most of the opportunities presented by the imminent changes in the water industry and Auckland local government.
- Giving staff tools to manage their personal wellbeing as they faced a time of uncertainty with regards to job security as well as additional work pressures due to the impact of the change process and the inevitable staff attrition that occurred.

Staff feedback was very positive and appreciative around this programme and the commitment staff have shown in return to maintaining Metrowater's business performance standards through this period has been a real benefit for Metrowater.

CASE STUDY: HOW METROWATER WORKS WITH CUSTOMERS FACING HARDSHIP

Metrowater like any business needs to control the debts it is owed and as such Metrowater has for many years been active in pursuing debts it is owed. However, Metrowater is also not blind to the social obligations it bears as a provider of such a critical and essential service.

It is a reality that the recession over the last few years has placed many New Zealanders under more financial stress than normal. That is a concern for Metrowater, as although the company needs to keep money coming in to sustain its business, it recognises that water is not a discretionary purchase.

This has led Metrowater to ask itself how the company could best help those customers, who while willing to pay, could no longer afford to keep up payment of their Metrowater bill?

In 2008 it became clear that a number of customers who had a record of paying their bills were now struggling to pay. It was equally clear that those customers would pay if they could.

To find a solution the company invited Kildonan UnitingCare, one of Australia's leading social services agency, and New Zealand's Lifewise agency to partner with Metrowater in developing a programme to support customers facing hardship. Metrowater's Corporate Social Responsibility Manager, Jon Dunning, also spent time with Yarra Valley Water in Melbourne, who run a widely praised, audited hardship scheme.

"Out of this and other research, we learned to 're-tune' our ears and reset our expectations," says Jon. "We are now much better at meeting our customers where they are."

"Float", as the scheme Metrowater has launched is called, is not a handout scheme or a "debt forgiveness" programme. In fact, says Jon, Metrowater has not yet written off a single customer debt from it. Instead it is designed to give breathing space to customers facing hardship, coupled with tools and support to manage their circumstances. A Key component of making this work is the specialist skills and attitude of the staff Metrowater has trained to run this programme. "For example a sample conversation we've had in one case was asking a customer how much they could afford to pay each week. When they said $30, knowing they have children, we've replied 'well, with the school year about to start you're facing some hefty costs. How about we make it $20 for the next couple of weeks?'. And you can hear the surprise – and relief – at the other end of the phone."

At the time of writing, 89 Metrowater customers were on the Float programme, and 49 who had been on the scheme through the year had returned to normal billing. "Our recovery rate is better than some commercial debt recovery services," says Jon, "and we achieve this while also treating our customers with respect."

OUR PEOPLE

LEWIS JAINE

Meter and Revenue Manager

Lewis Jaine has been with Metrowater since its inception in 1997. A civil engineer by profession, Lewis began his career with the Otahuhu and the Mount Roskill Borough Councils in the 1980s. When they merged with Auckland City Council as a result of consolidation, Lewis was charged with setting up the Council's water division as a commercial trading enterprise.

"I'd been covering all aspects of civil engineering to that point," he recalls, "and the idea of working in an organisation with a specific focus appealed to me."

When Metrowater was established a decade later, Lewis's enthusiasm was reignited. "The last 13 years have been the most exciting of my career. We had only about three months to get all the systems in place to set up Metrowater, so the first part of our growth was like a newborn baby's, with things changing daily. Then there was a period of consolidation, focussing on processes and systems. The latest phase has seen a real focus on performance – not just financially but also in terms of customer service.

"I'm one of only 13 staff who've been with Metrowater since its birth. I'm particularly proud of seeing customer satisfaction continually increase over that time, while also having our shareholder – Auckland City Council – view the company as a success."

ABIGAIL VALLIS

2IC, Customer Relations Team

Having to respond to 1500 emails a month might seem like a tough ask, but Abigail and her team not only manage it with a smile, they also make sure that each reply is personal and bureaucrat-speak free. 15 years experience in the hospitality industry was great preparation for her role, says Abigail, and it's one she relishes after the "rotten hours" of her previous profession.

Nonetheless, her current role is not without challenges. "One of our KPIs is that we must provide a full and meaningful response to every customer query within 10 days," she says. "With the transition to Watercare approaching we've had higher staff turnover in the last year than normal, so training new staff while still maintaining standards has been challenging. Metrowater has given a lot of support and training, and we've also made a point of celebrating each others' successes as a team."

"I've had a fantastic three years at Metrowater. My favourite thing is the culture – people are approachable and personable. And I'm proud that we give customer service a high priority. When you're a monopoly, that's all the more reason to act responsibly."

OUR PEOPLE (continued)

HENRY WONG

Acting Capital Investments Manager

Henry Wong considers himself fortunate having held a number of interesting roles at Metrowater. He is particularly proud of having been part of the groundbreaking Clear Harbour Alliance as Commercial Manager, he describes the experience as both "amazing and successful".

"Working in collaboration with other organisations' teams is unusual and all projects should be done like this ," he says. "I loved being part of a project where everyone was looking together for solutions. Designers, engineers, crew and management were one team with the prime objective – to improve the customer experience."

Adding to the pleasure of the role was being part of a winning team. ("You can't improve the customer experience through just setting up a customer department, but you can when everyone from the work crews upwards "owns the customer", he quips). And he's especially proud that the project came in 5% under budget, while also achieving excellent results on most key performance targets

At the time of writing, Henry was involved with the team working on demobilizing the company. This work includes closing down some Metrowater projects while transitioning others to Watercare – a process he likens to "putting your affairs in order". The transition is not an integration for Metrowater, he points out, but an end. "There's a sense of sadness for me about that. Metrowater is a diverse, inclusive company full of passionate people who care about the city. It's no surprise that so many people here are going on to new jobs thanks to the skills they developed at Metrowater."

EMMA COMRIE-THOMSON

Environmental Coordinator

Reducing our environmental impact and driving environmental best practice have been major goals for Metrowater, and no person is more important in ensuring we succeed than Emma. Her leadership touches every aspect of Metrowater's operations, and she's also responsible for the day to day management of the company's environmental and resource consent compliance.

"The key is being able to break down the complexities of environmental compliance into 'bite sized chunks' that you don't have to be an expert to understand," says Emma. As a trained environmental scientist and qualified educator, she's well positioned to do just that. Since joining Metrowater in 2008, Emma has developed a range of environmental management systems, processes and procedures for day-to-day use in the field.

"I work closely with our contractors and staff to make sure the right messages are getting heard, and the right actions taken. I'm also responsible for environmental audits and monitoring," she says. "My role is part science, part education and part people management."

Emma is on the steering group for the Auckland Regional Wai Care programme, which works with community groups and schools to improve water quality, and she developed the Metrowater Water Conservation Programme in schools. She is also involved with Futureintech, a government supported initiative to encourage school children to study for a Science and Engineering degree.

STEPHEN MERRICK

Information and Resource Manager

Stephen joined Metrowater in October 2000 at the suggestion of the then CEO, who was committed to providing the company with robust library and information services.

With a Masters degree in History, a Diploma of Library & Information Sciences, and a background managing special projects at Auckland City Libraries followed by five years managing Auckland University's Biological Sciences Library, Stephen was eminently qualified for the role.

Since completing that project, Stephen has played a key role in Metrowater in managing the intranet and internet websites, and drove the redevelopment of the latter, introducing customer forms, e-Billing and View Bill Online.

The underlying drive, he says, was "to give customers another channel for interacting with us – extending their choice – while also streamlining our own processes." At the time of writing, View Bill Online had just signed up its 4000th customer, while E-Billing had over 8,000 accounts enrolled.

Stephen also played a major role in Metrowater's Balanced Scorecard and Risk Management reporting frameworks, both of which provide a powerful means for the organisation to gain a "corporate" view of what could otherwise be a collection of uncoordinated activities running across many sections of the company.

One of the biggest projects Stephen managed was the implementation of a Document Management System. "Information needs to be managed like any other corporate asset," says Stephen. "Our staff need to have quick and easy access to documents in order to promptly resolve customer enquiries or address operational and strategic issues. Instead of just relying on the knowledge of other staff, they should have immediate access to every piece of information they need to service the public in a professional manner.

"My proudest achievement is helping to bring about a mindshift in the company that information is a vital corporate asset, rather than something owned by individuals or teams. That increases the value of information and makes sharing it much easier – and that enables people to do their jobs better."

METROWATER BOARD OF DIRECTORS

MR ROSS KEENAN BCom FCIT

Chairman

Ross Keenan joined the Metrowater Board in January 2007. He has considerable corporate governance and executive experience, including current appointments as Chair of NZSX-listed company Allied Work Force Group and Chair of Ngai Tahu Tourism Ltd. He is the Deputy Chair of Watercare Services Limited; and a Director of Ngai Tahu Holdings Corporation, Ngai Tahu Seafood Ltd, Auckland Regional Transport Network Ltd and Touchdown Ltd.

DR PETER BROTHERS BSc, BE, PhD, FIPENZ

Dr Peter Brothers joined the Metrowater Board in December 2004. He is Chief Executive of Manukau Institute of Technology, Chair of Engineers without Borders and a Director the Auckland Regional Transport Authority. Dr Brothers was previously Dean of Engineering at the University of Auckland, holding that position for nine years. His career began with the then DSIR (Department of Scientific and Industrial Research), later spending 20 years in the US in both public and private sector infrastructure roles.

MS MARGARET DEVLIN

BA (Hons), FIWO, AMinstD, CEnv

Margaret Devlin joined the Metrowater Board in July 2007. She has extensive experience from the United Kingdom water industry as Managing Director of South East Water and Chairman of Water UK, the United Kingdom's water industry membership organisation. She was also a member of the UK Government's Water Saving Group and a founding Director of Waterwise, a water industry initiative to further promote water efficiency. She is currently Chair of CF Reese Services Ltd, Scott Sheet Metal, and EPIC plus all associated companies; she is deputy Chair of WEL Networks, and a director of Indepen NZ Ltd, Citycare, IoD National Council, Midland Healthcare and Moto International Holdings Ltd.

MR GEORGE GREEN FCA, CMA

George Green has been a member of the Board of Metrowater since July 2002. He is a Fellow of the Institute of Chartered Accountants in New Zealand and has a background of experience in management consulting specialising in strategic planning, financial management and systems implementation. He is Chairman of Morrison Low & Associates, Pacific Hygiene, Rapaura Vintners Ltd, Sleepyhead Manufacturing Co Ltd and associated companies; a Director of Auckland Regional Transport Network Ltd, Parkwood Management Ltd and Manukau Leisure Services; and a Member of the Admissions Appeals Tribunal of the Institute of Chartered Accountants of NZ.

MS ALISON PATERSON

CNZM, QSO, DCom, FCA, ADistFInstD

Alison Paterson was appointed to the Metrowater Board in July 2002. She is Chair of Abano Healthcare, BPAC NZ, Farm IQ, the EACC Overnight Committee (Ambulance NZ), Stevenson Agriculture Ltd and the Governing Board - Centre of Research Excellence for Growth and Development at the University of Auckland. She is also a Director of Vector, Vector Metering Data Services Ltd, NHC Group Pty Ltd, Stevenson Group Ltd and Nga Pae o Te Maramatanga; and a member of the NZX Market Disciplinary Tribunal and Massey University Council.

MR BRYAN TAYLOR BSc, LTh, ThA

Bryan Taylor joined the Metrowater Board in July 2005. He is a partner of Bryan Taylor & Associates and has experience in corporate governance and senior management roles in the public and private sectors. He is Chairman of Civic Assurance Ltd, RiskPool and Waitakere City Properties, a Trustee of the Anglican Trust Board, Partner of Hillsborough Healthcare Products, Member of Auckland City Carpark Enterprise Board, a Consultant for GHD, PricewaterhouseCoopers and previous Chief Executive of Auckland City Council.

MR DENNIS PICKUP BCA

Dennis Pickup joined the Metrowater Board in September 2008. He has considerable experience in leading change management, serving in the position of Chief Executive for 26 years in the service and retail sectors. This included Managing Director and Chief Executive of Tourism Holdings Ltd, where he repositioned the company as a growth and revenue company. He is Chair of Booze Bros Ltd, the holding company of liquor distributor Hancocks Wines and Spirits Ltd and retailer Glengarry Wines Ltd. He also chairs Foodfirst Ltd, The Redesign Team Ltd and Dennis Pickup Associates Ltd; and is a Director of Link Foodservice Ltd and NZ Associated Refrigerated Food Distributors Ltd.

METROWATER EXECUTIVE TEAM

TIM HAMMOND BSc, Dip Teaching

Acting Chief Executive

Tim joined the Metrowater Executive Team in April 2005 from the Bank of New Zealand. He has 16 years experience working in the oil industry in a number of different countries, where he acquired a broad range of experience in operational, strategic, commercial and management roles. During his time with Metrowater, Tim has held a number of roles on the Executive Team in both a corporate and operational capacity with his last role before taking on the Chief Executive duties being General Manager of Service Operations where he ran the day to day operations of the company. In July 2009, when the previous Chief Executive departed, Tim took on the role of Chief Executive for the critical period of the industry transition and he has led the company since that time.

LINDA DANEN BBS

Head of Strategy and Marketing

Linda joined Metrowater in May 2004 as General Manager Retail Services. She has previously held business and customer operations management roles in a variety of utilities and services; Mercury Energy, HIH Insurance, Accident Compensation Corporation, Telecom NZ and Metservice. Linda has also served as Trustee of the Metrowater Community Trust. Her current role includes the formation of company strategy, developing marketing tools and managing communications. Since January 2010 Linda has been seconded to Watercare and the Auckland Transition Agency to assist with Auckland restructuring work.

ANIN NAMA MPM (Hons), PGDipPM, REA (Civil)

General Manager – Asset Management and Investments

Anin has 18 years experience in civil engineering and project management and has been with Metrowater since its formation in 1997. Prior to this, he worked for Auckland City Council and a civil engineering consulting firm where he held various engineering positions. Recently, he was responsible for establishing New Zealand's first water sector alliance known as Clear Harbour Alliance. Anin oversees the Asset Management, Health & Safety, Environmental, Engineering Development and Investment functions of Metrowater.

STANA PEZIC BCom, DipBus, CA

Chief Financial Officer

Stana joined Metrowater in March 2007, from her previous role as Finance Director at A&R Whitcoulls Group. She has extensive experience in large-scale retail and asset-based businesses, holding senior financial management roles with Carter Holt Harvey and The Warehouse. Stana oversees the finance, risk management, legal and information systems functions for Metrowater.

BRIAN SHARMAN MIPENZ CPEng

Acting General Manager Service Operations/Chief Engineer

Brian has over 30 years experience in the water industry and has been with Metrowater since February 2000. Brian worked for 20 years with UK-based North West Water, in a number of roles and on projects both within the UK and abroad. Brian's current responsibilities cover Metrowater's daily operational activities, including call centres, metering, network control, and all field crew activities dealing with water supply and wastewater network maintenance and reactive works.

STATUTORY INFORMATION

FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

Directors' Remuneration	16 Months Ending 31 October 2010	12 Months Ending 30 June 2009
The following are the amounts paid to each director or their representatives:		
Current Directors		
Ross Keenan	$86,000	$64,500
Bryan Taylor (Remuneration Committee Chair – fees paid to Bryan Taylor & Associates)	$52,133	$39,100
George Green (Finance and Audit Committee Chair)	$52,133	$39,100
Margaret Devlin (Health, Safety and Risk Committee Chair)	$52,133	$37,400
Alison Paterson	$45,333	$34,000
Peter Brothers	$45,333	$34,000
Dennis Pickup (Appointed in September 2008)	$45,333	$28,333

The Company paid Directors Liability Insurance on behalf of the Directors. There are no other directors' interests declared. The directors have not entered into any share dealings.

Employees' Remuneration	16 Months Ending 31 October 2010	12 Months Ending 30 June 2009
Total remuneration and other benefits	Number of Employees	
$100,000-110,000	9	9
$110,000-120,000	4	5
$120,000-130,000	4	2
$130,000-140,000	3	1
$140,000-150,000	2	3
$150,000-160,000	0	1
$160,000-170,000	2	1
$170,000-180,000	0	1
$180,000-190,000	0	2
$190,000-200,000	1	1
$200,000-210,000	2	2
$210,000-220,000	0	1
$220,000-230,000	2	0
$250,000-260,000	1	0
$290,000-300,000	1	0
$380,000-390,000	1	0
$400,000-410,000	0	1

Figures over the 16 months have been annualised for comparative purposes. Some of the above figures reflect staff changes in the period ending October 2010. Figures above exclude redundancy payments.

Recommended Dividend

No dividends were recommended nor paid for the year.

Donations

Metro Water Limited provided $270,000 in support costs for the Community Trust (2009 $92,395). The Metrowater Community Trust donated $95,049 for charitable disbursements (2009: $47,762).

Changes in Accounting Policy

No changes in accounting policy.

Auditor's Remuneration

Services provided to the company by the auditor were for audit fees, which were $148,960 other services nil (2009: $96,379).

CORPORATE GOVERNANCE

This statement provides readers with an overview of the Company's main corporate governance policies, practices and processes adopted by the Board.

ROLE OF THE BOARD OF DIRECTORS

Metro Water Limited is a Council Controlled Organisation as defined in section 6 of the Local Government Act 2002. The role of the Directors is defined in section 58 of the Act as follows:

"The role of a director of a Council Controlled Organisation is to assist the organisation to meet its objectives and any other requirements in its Statement of Intent."

The Board is responsible for the preparation of the Statement of Intent (SoI), which must receive approval from the Company's Shareholder, Auckland City Council.

In addition to the obligations imposed by the form of the Company, Metro Water Limited is also covered by the Companies Act 1993 and governed by the Directors according to law and best practice.

The Board is responsible for the proper direction and control of the Company. This responsibility includes areas of stewardship such as the identification and control of the Company's business risks, the integrity of management, information systems, and reporting to the Shareholder.

While the Board acknowledges that it is responsible for the overall control framework of the Company, it recognises that no cost-effective internal control system will preclude all errors and irregularities. The system is based on written procedures policies and guidelines, organisational structures that provide an appropriate division of responsibility, sound risk management, a programme of internal audit, and careful selection and training of qualified personnel.

GROUP MANAGEMENT STRUCTURES

The Company organisation structure is focused on its main activities: customer services, network management, infrastructure management, and support services. These areas are all managed within delegated authority levels approved by the Board.

RISK IDENTIFICATION AND MANAGEMENT

The Company has in place policies and procedures to identify areas of significant business risk and to implement procedures to effectively manage those risks. This includes a Risk Health and Safety Committee.

TREASURY POLICY

Exposure to interest rate risks and foreign exchange is managed in accordance with the Company's Treasury Policy that sets limits of management authority. The treasury function of Metrowater is managed by its Shareholder Auckland City Council as the group treasury manager with both the Auckland City Council policy and Metrowater's own policy. Derivative instruments are used by the group to manage its business risks; they are not used for speculative purposes.

BOARD COMMITTEES

The Board has a number of committees that focus on specific areas of the Board's responsibilities:

Finance and Audit Committee

The Finance and Audit Committee is required to establish a framework of internal control mechanisms of the Company's affairs and support effective financial risk management. It addresses the recommendations of the external auditors, directing and monitoring the internal audit function and reviewing the adequacy and quality of the internal and external audit processes.

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Metrowater Limited for the 16-month period ended 31 October 2010 included on Watercare Services Limited's website. Watercare Services Limited's Board is responsible for the maintenance and integrity of Watercare Services Limited's website. We have not been engaged to report on the integrity of the Watercare Services Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated 27 January 2011 to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Remuneration Committee

The Remuneration Committee makes recommendations to the Board on remuneration policies and packages applicable to the Chief Executive and senior management of the Company.

Risk Health and Safety Committee

The Risk Health and Safety Committee (RHSC) reviews all matters relating to business risk, health and safety. Management operate a risk governance group which reports to the RHSC and focuses on business continuity, prevention of harm and mitigation of operational failure and reputation damage.

THE ROLE OF THE SHAREHOLDER

The Shareholder reviews and approves the Statement of Intent, long-term strategic plan (Funding Plan), and Asset Management Plans. Quarterly and Annual Reports of financial and operational performance are provided to the Shareholder.

AUDIT REPORT

To the readers of Metrowater Limited and group's financial statements and performance information for the 16-month period ended 31 October 2010

The Auditor-General is the auditor of metrowater Limited and group. The Auditor-General has appointed me, F Caetano, using the staff and resources of Audit New Zealand, to carry out the audit on her behalf. The audit covers the financial statements and performance information included in the report of Metrowater Limited and group for the 16-month period ended 31 October 2010.

Metrowater Limited and group's financial statements and performance information have been completed by Watercare Services Limited pursuant to the Local Government (Tamaki Makaurau Reorganisation) Act 2009.

UNQUALIFIED OPINION

In our opinion:

The financial statements of Metrowater Limited and group on pages 1 to 28 that are prepared on a dissolution basis:

Comply with generally accepted accounting practice in New Zealand; and

Give a true and fair view of:

- Metrowater Limited and group's financial position as at 31 October 2010; and
- The results of its operations and cash flows for the 16-month period ended on that date.

The performance information of Metrowater limited and group on pages 29 and 30 gives a true and fair view of the achievements measured against the performance targets adopted for the 16-month period ended 31 October 2010.

Based on our examination, Metrowater Limited and group kept proper accounting records.

The audit was completed on 27 January 2011, and is the date at which our opinion is expressed.

The basis of our opinion is explained below and refers to the financial statements being appropriately prepared on a dissolution basis due to the new local government structure for the Auckland region from 1 November 2010. In addition, we outline the responsibilities of Metrowater Limited, Watercare Services Limited and the Auditor, and explain our independence.

BASIS OF OPINION

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

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

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- Determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- Verifying samples of transactions and account balances;
- Performing analyses to identify anomalies in the reported data;
- Reviewing significant estimates and judgements made by Metrowater Limited and Watercare Services Limited;
- Confirming year-end balances;
- Determining whether accounting policies are appropriate and consistently applied; and
- Determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

The financial statements are appropriately prepared on a dissolution basis due to the new local government structure for the Auckland region from 1 November 2010.

On 1 November 2010 the local government (Tamaki Makaurau Reorganisation) Act 2009 dissolved Metrowater Limited and vested its assets and liabilities in Watercare Services Limited.

In forming our opinion, we considered:

- the accounting policy on page 2 about the financial statements being prepared on a dissolution basis; and
- the disclosures regarding the effects of that dissolution in notes 3, 23 and 25.

We consider the basis of preparation of the financial statements and the related disclosures to be appropriate to Metrowater Limited and group's circumstances.

RESPONSIBILITIES OF METROWATER LIMITED, WATERCARE SERVICES LIMITED AND THE AUDITOR.

The Local Government (Tamaki Makaurau Reorganisation) Act 2009 required the report of Metrowater Limited and group for the 16 month period ended 31 October 2010 to be prepared by Metrowater Limited and completed by Watercare Services Limited.

Therefore, Watercare Services Limited is responsible to ensure that the report of Metrowater Limited and group includes financial statements that comply with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of Metrowater limited and group as at 31 October 2010. They must also give a true and fair view of the results of operations and cash flows for the 16-month period ended on that date. Watercare Services Limited is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the 16-month period ended 31 October 2010.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This 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 New Zealand Institute of Chartered Accountants.

Other than the audit, and the Auditor-General being the auditor of Watercare Services Limited, we have no relationship with or interests in Metrowater Limited and any of its subsidiaries.

F Caetano
Audit New Zealand
On behalf of the Auditor-General Auckland, New Zealand

Financial Statements

STATEMENT OF ACCOUNTING POLICIES

This financial report has been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements were approved by the directors of Watercare Services Limited as the receiving entity in terms of schedule 4 of the Local Government (Tamaki Makaurau reorganisation) Act 2009, on the date they were signed on the statement of financial position.

The principal accounting policies adopted in the preparation of this financial report are set out below. Metrowater group has applied these policies to all the years presented in these financial statements, unless otherwise stated.

REPORTING ENTITY

Metrowater Limited is a Council Controlled Organisation (CCO) as defined in Section 6 of the Local Government Act 2002. The company is wholly owned by Auckland City Council, registered under the Companies Act 1993 and is incorporated and domiciled in New Zealand.

The consolidated financial statements of the group are for the economic entity of Metrowater Limited (Metrowater), Metrowater Community Trust (100% owned) and Auckland City Water Limited (100% owned).

The Community Trust was formed in February 2001 to assist low income families and individuals who cannot afford to pay their water and waste water bills and individuals who have special needs in relation to water use. Auckland City Water Ltd is a non trading company.

The primary objective of Metrowater is to provide goods or services for the community or social benefit rather than making a financial return. Accordingly, Metrowater has designated itself and the group as public benefit entities for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

BASIS OF PREPARATION

Statutory base

The financial statements of Metrowater and group have been prepared in accordance with the requirements of the Companies Act 1993, The Financial Reporting Act 1993 and as a CCO, the Local Government Act 2002.

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards, as appropriate for public benefit entities.

Measurement base

The financial statements are prepared based on deemed and historical cost, modified by the revaluation of certain property, plant and equipment to fair value.

Functional and presentation currency

Metrowater Group's group financial statements are in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000). The functional currency of Metrowater is New Zealand dollars.

Auckland Reorganisation/going concern assumption

Schedule 4 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009, dissolved Metrowater Limited and group on 31 October 2010. As a consequence of the dissolution of Metrowater, the group structure ceased to exist from that date.

The dissolution of Metrowater requires the financial statements to be prepared on a dissolution basis, not the normal going-concern basis. All the assets and liabilities of Metrowater and group have been vested in Watercare Services Limited. Because the assets and liabilities of Metrowater are relevant to Watercare Services Limited, no adjustments have been made in the financial statements resulting from the dissolution of Metrowater other than as set out in Notes 3 and 25.

The Metrowater Community Trust and Auckland City Water Limited are continuing entities that will form part of the Watercare group.

Balance Date change

The financial statements for Metrowater and group are for the 16 month period ended 31 October 2010 in accordance with the requirements of the Local Government (Tamaki Makarau Reorganisation) Act 2009 as applicable to entities dissolving as a result of the reorganisation. Therefore the amounts presented within the financial statements are not entirely comparable.

Changes in accounting policies

The financial statements for the 16 months to 31 October 2010 have been prepared on a disssolution basis. Previous financial statements were prepared on a going concern basis.

Although there have been no changes to specific accounting policies as a result of adopting the dissolution basis of preparation, the dissolution of Metrowater has resulted in adjustments to the carrying amounts of certain assets and additional expenses have been recognised, as outlined in notes 3 and 25.

Metrowater and group has adopted the following revisions to accounting standards during the financial year, which have had only a presentational or disclosure effect:

NZ IAS 1 Presentation of Financial Statements (Revised 2007) replaces NZ IAS 1 Presentation of Financial Statements (Issued 2004). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The statement of comprehensive income will enable readers to analyse changes in equity resulting from non owner changes separately from transactions with owners. Metrowater and group has decided to prepare a single statement of comprehensive income for the 16 month period ended 31 October 2010 under the revised standard.

Financial statement information for the year ended 30 June 2009 has been restated accordingly. Items of other comprehensive income presented in the statement of comprehensive income were previously recognised directly in the statement of changes in equity.

Standards, amendments and interpretations that are not yet effective and have not been early adopted:

NZ IAS 24 Related Party Disclosures (Revised 2009) replaces NZ IAS 24 Related Party Disclosures (Issued 2004) and is effective for reporting periods commencing on or after 1 January 2011. The revised standard simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The revised standard has not been applied to these accounts.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39.

The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The new standard is required to be adopted for the year ended 31 December 2013 and has not been applied to these accounts.

SPECIFIC ACCOUNTING POLICIES

A Principles of consolidation

i Subsidiaries

The consolidated financial statements include Metrowater and its subsidiaries.

Subsidiaries are those entities in which the group has control. Subsidiaries are fully consolidated from the date the group gains control and cease to be consolidated from the date that control ends.

ii Intercompany transactions

Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

iii Basis of consolidation

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

B Revenue

Metrowater 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:

i Water and Wastewater revenue

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

ii Other revenue

Includes the following revenue

- Management fees: Fixed and variable fees for the management of the Storm Water system for Auckland City, and fixed fees for the provision of water for fire services.
- Interest income – On a time proportion basis using the effective interest method.
- Dividend income – Auckland Energy Consumer Trust (AECT), when the right to receive payment is established.
- Development and financial contributions (including Network Upgrade Charge) – Financial contributions are recognised at the time an application is approved, calculated and invoiced or in the case of developments involving bonds, the conditions of the bond apply.
- Other – Includes the new meter connections income and miscellaneous recoveries.

C Grant expenditure

Metrowater provides funding to its subsidiary (Metrowater Community Trust) in the form of grants. This is treated as expenditure in the parent company's (Metrowater) books on consolidation. This expenditure is offset by the income in the Trust's books whilst the actual expenditure is recognised in the Group's account when the Trust incurs the expenditure.

D Income tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax expense (or revenue) is recognised in statement of comprehensive income. Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

E Goods and Services Tax

All items in the financial statements are exclusive of GST, with the exception of debtors and creditors, which are presented on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expensed.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

F Leases

Operating leases

An operating lease is a lease where the Lessor retains the risks and benefits of ownership of the leased asset. Payments under these leases are recognised as an expense in the statement of comprehensive income on a straight-line basis over the period of the lease.

G Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

For the purpose of the Statement of Cash Flows bank overdrafts that are repayable on demand and form an integral part of the Groups cash management are included as a component of cash and cash equivalent.

H Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less any provision for impairment. Current trade receivables are those which are due within 12 months from the balance sheet date, any other receivables are classified as non-current assets.

The revenue accrual includes estimated amounts on unread meters (see B Revenue).

Metrowater reviews the collection of trade receivables on an ongoing basis and writes off debts known to be uncollectible. A provision is made for doubtful receivables when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables.

l Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land and buildings are valued by registered valuers. Other material assets are valued or peer reviewed by independent assessors specialising in those areas.

Unless otherwise noted, an independent valuation and peer review is carried out every three years. Each year Metrowater reviews the valuation of its assets to assess whether the carrying value adequately reflects fair value.

Values applied to certain specialist assets, such as infrastructure assets and single use buildings, which do not trade readily on the market are calculated at depreciated replacement cost and are not market related.

i Valuation of assets

Increases in the asset's carrying amounts, due to revaluation, increase revaluation reserves in equity. Decreases in the asset's carrying amounts decrease revaluation reserves in equity only to the extent that the class of assets has sufficient revaluation reserves to absorb the reduction. All other decreases are expensed to the statement of comprehensive income.

Any accumulated depreciation at the date of revaluation is transferred to the gross carrying amount of the asset and the asset cost restated to the revalued amount of the asset.

If a revaluation increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is recognised firstly as revenue in the statement of comprehensive income to reverse previous decreases. Any remaining increase is applied to revaluation reserves in equity.

ii Infrastructure assets

Infrastructure assets are networks for water supply, wastewater supply, or combined stormwater with wastewater supply and include all associated assets and equipment. Infrastructure assets have been valued using depreciated replacement cost which equates to fair value. This is the cost in today's dollars of replacing an asset, less allowance for physical deterioration and adjustment for obsolescence and surplus capacity. The new asset may not be identical, but will offer the same service outcomes.

Valuation is carried out every three years and if necessary, earlier should a fair value assessment determine otherwise.

Water and Wastewater infrastructure assets were last revalued as at 30 June 2010. Metrowater commissioned SPM Consultants Limited, independent consulting engineers, to peer review the full valuation of water and wastewater assets undertaken by the Metrowater internal valuation department, completed in June 2010. As Metrowater is a public benefit entity, Optimised Depreciated Replacement Cost (ODRC) is used as the basis of valuation due to the specialised nature of its assets.

Drainage networks include pipes and associated equipment for carrying combined stormwater and wastewater.

Wastewater networks include pipes and associated equipment for carrying wastewater.

Water supply networks include pipes and associated equipment for carrying water.

Infrastructure assets are initially recorded at cost of construction (including materials and direct labour), costs of obtaining Resource Consents, finance costs (including interest) and other direct costs. Interest costs incurred during the course of construction that are attributable to the project are capitalised.

Infrastructure assets are depreciated. However, while under construction assets are not depreciated. Depreciation starts when the asset is completed and transferred to an asset class.

iii Computer equipment, furniture and fittings, motor vehicles and machinery

Computer equipment, furniture and fittings, and motor vehicles and machinery are recorded at fair value. These assets are depreciated over their useful lives.

iv Depreciation and Amortisation

Depreciation is provided on all assets other than freehold land on a straight-line basis; at rates that will write off the cost of the asset to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows.

Infrastructure assets	Expected useful life (years)
Pipes	50-220
Valves and Hydrants	88
Pump stations	10-15
Reservoirs	25
Meters	12-20
Screens	60
Manholes	125
Computer hardware	3
Other office equipment	3
Furniture and fittings	8-10
Building improvements	8
SCADA	3-5
Work in progress	not depreciated until completed

Intangible assets	Expected useful life (years)
Models(ICS, Water, Wastewater)	5
Data (ICS, Resource Consents)	5-20
Computer software	3

Metrowater reviews and, if necessary, adjusts the assets' residual values and useful lives at each balance sheet date.

v Additions and Subsequent Costs

Any additions since valuation will be recorded at cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset when its likely future economic benefits associated with the item will flow to the group, and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income for the financial period they relate to.

vi Impairment of assets

Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable on a class by class basis. 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.

Value in use is optimised depreciated replacement cost for an asset where the future economic benefits or service potential 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 it's remaining future economic benefits or service potential. 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 against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the debit balance is recognised in the surplus or deficit. For assets not carried at a revalued amount, the total impairment loss is recognised in the surplus or deficit.

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

vii Disposal of assets

Gains and losses on disposal of assets are determined by comparing proceeds of the sale with the asset's carrying amount and reported net in the surplus or deficit. When revalued assets are disposed of, any amount in the revaluation reserves in equity relating to those assets is transferred to general equity.

J Intangible assets

Intangible assets are a combination of computer software, water rights, integrated catchment studies, and community rights.

i Computer software

Computer software licences are capitalised based on the costs incurred to acquire and install the specific software. These costs are amortised using the straight-line method over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

Costs directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets (eg software development employee costs).

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives (not exceeding three years). Other development expenditure is recognised in the statement of comprehensive income as an expense.

ii Integrated Catchment studies

Integrated catchment studies provide local information and accurate estimates on the performance of the storm water network, identifying problems such as capacity of the system and interaction with the environment. The plans are used for the long-term management of the network. These assets are recorded at cost and amortised over their useful life and are also subject to an annual fair value assessment.

The cost of developing software tools (e.g. network models comprising data and propriety software packages) are capitalised where:

a) The data collected is new data

b) The data will have future benefit over multiple accounting periods.

K Trade and other payables

These amounts represent unpaid liabilities for goods and services provided to the group before the end of the financial year. Current trade payables are those which are due within 12 months from the balance sheet date, any other payables are classified as non-current liabilities.

Payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

L Borrowings

All borrowings are funded and managed by Auckland City Council within Group guidelines and Metro water's agreed fixed/floating target ranges.

Borrowings are initially measured at fair value net of transaction costs incurred. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities if they mature within 12 months after the balance sheet date. All other borrowings are classified as Non- Current Borrowings.

Interest on borrowings attributable to a qualifying asset is capitalised. A qualifying asset is defined as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Metrowater has defined 'substantial time' as being in excess of 6 months for completion.

All other interest is recognised as an expense in the statement of comprehensive income.

M Provisions

Provisions are recognised when:

The group has a present legal or constructive obligation due to past events.

It is more likely than not that an outflow of resources will be required to settle the obligation.

The amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Environmental

Metrowater has a duty under the Resource Management Act 1991 to avoid, remedy or reduce any adverse effects on the environment. There has been no event requiring a specific provision as at balance sheet date.

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N Employee Benefits

i Short-term benefits

Employee benefits that Metrowater expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave. Where long service leave is material, this will be subject to an actuarial calculation. However, this benefit is considered immaterial and is also currently not being offered as a condition of employment.

Metrowater recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Metrowater anticipates it will be used by staff to cover those future absences.

Metrowater recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

ii Disability and Death benefit

Current employees of the group are entitled to disability and death benefits from the group's Insurance scheme. Premium's are recognised as an expense as they become payable

O Equity

Equity is the community's interest in Metrowater and is measured as the difference between total assets and total liabilities.

Reserves are a component of equity that generally represent a particular use to which various parts of equity have been assigned. For Metrowater this is the Revaluation reserve.

Metrowater may establish designated funds and reserve's. Transfers to and from these reserves are at the discretion of Metrowater.

Charitable Payments due to Auckland City Council are payable within 6 months of year end.

P Critical accounting estimates and assumptions

In preparing these financial statements Metrowater has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. There are no estimates and/or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Infrastructural assets – valuation

Optimised Depreciated Replacement Cost (ODRC) has been utilised to value specialised assets. This method begins with assessing the replacement cost of the assets at the date of valuation less an allowance for over design if any, otherwise known as the Optimised Replacement Cost (ORC). Deductions for physical and economic obsolescence reflect the consumption of economic benefits to date. The balance of the ORC less all forms of obsolescence represents the fair value of the asset.

The following assumptions have been applied:

- Asset Component Split - incorporating appropriate componentisation of assets having differing lives.
- Optimisation – reflecting obsolescence or relevant surplus capacity in accordance with NZIAS 16
- Replacement Cost - Based on present day replacement costs using modern construction methods and materials.
- Useful or Base Lives – estimated in accordance with New Zealand Infrastructure and Valuation and Depreciation Guidelines and other references where appropriate.
- Remaining Useful life – based on physical condition of asset or calculated from the base life and age of asset.

Unbilled revenue

A revenue accrual includes estimated amounts on unread meters at balance date for services supplied to customers in the ordinary course of business. Water revenue is based on the customers' historic consumption levels with adjustment made for seasonality. Wastewater revenue is a percentage of water used.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 OCTOBER 2010

		16 months ended 31 October 2010		12 months ended 30 June 2009	
	Note	**Parent $000**	**Group $000**	**Parent $000**	**Group $000**
Revenue					
Water & WW Revenue	1	205,843	205,843	145,817	145,817
Other Revenue	2	10,222	10,222	12,681	12,681
Total Revenue		**216,064**	**216,064**	**158,498**	**158,498**
Less:					
Expenditure					
Employee Benefits	3	16,688	16,688	11,814	11,814
Watercare Costs	4	121,270	121,270	80,037	80,037
Depreciation & amortisation	11	46,651	46,651	24,156	24,156
Finance Costs	5	16,810	16,810	11,267	11,267
Other Expenses	6	31,340	31,217	19,434	19,437
Total Expenditure		**232,759**	**232,636**	**146,708**	**146,711**
Net (deficit)/surplus before tax		**(16,695)**	**(16,572)**	**11,790**	**11,787**
Less: Tax Expenses	7	(25,663)	(25,663)	1,956	1,956
Net (deficit)/surplus after tax		**8,968**	**9,091**	**9,834**	**9,831**
Other Comprehensive Income					
Property, plant and equipment					
Revaluation of Property, plant and equipment	11	179,816	179,816	89,573	89,573
Tax rate adjustment 33% to 28%	7	25,569	25,569		
Deferred tax on revaluation of property, plant and equipment	7	(59,368)	(59,368)	(29,559)	(29,559)
Total Other Comprehensive Income		146,018	146,018	60,014	60,014
Total Comprehensive Income		**154,986**	**155,109**	**69,848**	**69,845**

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 OCTOBER 2010

	Note	October 2010 Parent $000	October 2010 Group $000	June 2009 Parent $000	June 2009 Group $000
Equity					
Share capital	8	168,552	168,552	168,552	168,552
Retained earnings	8	368,279	368,411	371,437	371,446
Asset revaluation reserve	8	368,331	368,331	222,313	222,313
Total Equity		**905,162**	**905,294**	**762,302**	**762,311**
Assets					
Current Assets					
Trade and other receivables	10	32,604	32,694	35,279	35,279
Total Current Assets		**32,604**	**32,694**	**35,279**	**35,279**
Non-current assets					
Property, plant and equipment	11	1,387,105	1,387,105	1,192,019	1,192,019
Intangible assets	11	4,798	4,798	26,214	26,214
Total Non-current assets		**1,391,903**	**1,391,903**	**1,218,233**	**1,218,233**
Total Assets		**1,424,507**	**1,424,597**	**1,253,512**	**1,253,512**
Liabilities					
Current liabilities					
Bank Overdraft	9	5,604	5,553	2,040	2,013
Trade and other payables	12	17,635	17,645	24,490	24,508
Retentions	13	310	310	1,064	1,064
Employee benefit liabilities	14	776	776	1,518	1,518
Total Current liabilities		**24,325**	**24,284**	**29,112**	**29,103**
Non-current liabilities					
Retentions	13	350	350	1,459	1,459
Borrowings	15	215,000	215,000	190,000	190,000
Deferred tax liability	7	279,670	279,670	270,639	270,639
Total Non-current liabilities		**495,020**	**495,020**	**462,098**	**462,098**
Total Liabilities		**519,345**	**519,304**	**491,210**	**491,201**
Total Net Assets		**905,162**	**905,294**	**762,302**	**762,311**

For and on behalf of the Board:

R B Keenan
CHAIRMAN
27 January 2011

J G Todd
DIRECTOR
27 January 2011

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

	Note	October 2010 Parent $000	October 2010 Group $000	June 2009 Parent $000	June 2009 Group $000
Equity at beginning of period		**762,302**	**762,311**	**715,595**	**715,606**
Total comprehensive income		154,986	155,109	69,848	69,845
Other Movements					
Charitable payments to Auckland City		(12,126)	(12,126)	(23,140)	(23,140)
Equity at the end of the period	8	**905,162**	**905,294**	**762,302**	**762,311**

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

	Note	2010 Parent $000	2010 Group $000	2009 Parent $000	2009 Group $000
Cash flows from operating activities					
Receipts from customers		211,181	211,181	148,766	148,766
Receipts from Auckland City Council		23,834	23,834	23,611	23,611
Dividend received		33	33	-	-
Interest received		187	187	223	223
Tax refund received		570	570	1,031	1,031
Payments to Suppliers & employees		(56,656)	(56,667)	(35,218)	(35,229)
Payments to Auckland City Council		(8,868)	(8,868)	(10,144)	(10,144)
Payments to Watercare Services Limited		(119,661)	(119,661)	(79,095)	(79,095)
Interest paid		(17,866)	(17,866)	(13,144)	(13,144)
GST (net)		(600)	(600)	1,753	1,753
Net cash from operating activities	16	**32,155**	**32,143**	**37,783**	**37,772**
Cash flows from investing activities					
Purchase of intangible assets		(4,315)	(4,315)	(8,320)	(8,320)
Purchase of property,plant and equipment		(44,277)	(44,242)	(50,679)	(50,679)
Net cash from investing activities		**(48,593)**	**(48,558)**	**(58,999)**	**(58,999)**
Cash flows from financing activities					
Proceeds from borrowings from Council		25,000	25,000	40,000	40,000
Charitable payments to council		(12,126)	(12,126)	(23,140)	(23,140)
Net cash from investing activities		**12,874**	**12,874**	**16,860**	**16,860**
Net increase/(decrease) in cash, and cash equivalents/ (bank overdraft)		(3,564)	(3,541)	(4,356)	(4,366)
Cash, and cash equivalents / (bank overdraft) at the beginning of the year		(2,040)	(2,012)	2,316	2,354
Cash, and cash equivalents/ (bank overdraft) at the end of the year		**(5,604)**	**(5,553)**	**(2,040)**	**(2,012)**

The GST (net) component of operating activities reflects the net GST paid and received with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

The accompanying accounting policies and notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 OCTOBER 2010

	16 months ended 31 October 2010 Parent $000	16 months ended 31 October 2010 Group $000	12 months ended 30 June 2009 Parent $000	12 months ended 30 June 2009 Group $000
1. Water & WW Revenue				
Water	75,724	75,724	54,909	54,909
Waste Water	130,119	130,119	90,908	90,908
Total Revenue from Water & WW	**205,843**	**205,843**	**145,817**	**145,817**

Water & WW revenue is shown net of Leak Remissions and Prompt Payment Discount.
Below is a breakdown of Leak Remission & Prompt Payment Discount.

	16 months ended 31 October 2010 Parent $000	16 months ended 31 October 2010 Group $000	12 months ended 30 June 2009 Parent $000	12 months ended 30 June 2009 Group $000
Total Water & WW Revenue	228,983	228,983	161,357	161,357
Leak Remission – Water	(212)	(212)	(235)	(235)
Leak Remission – WW	(1,881)	(1,881)	(1,360)	(1,360)
Prompt Payment Discount – Water	(7,788)	(7,788)	(5,160)	(5,160)
Prompt Payment Discount – WW	(13,260)	(13,260)	(8,785)	(8,785)
Water & WW Revenue net of remissions and PPD	**205,843**	**205,843**	**145,817**	**145,817**
2. Other Revenue				
Network Upgrade Charge	3,604	3,604	3,876	3,876
Dividends Income	68	68	33	33
Interest Income	378	378	224	224
New Meters & Service Connections	1,777	1,777	1,123	1,123
Firefighting Fee	-	-	3,241	3,241
Stormwater Fixed Management Fee	1,636	1,636	2,826	2,826
Other Revenue	2,758	2,758	1,358	1,358
Total Other Revenue	**10,222**	**10,222**	**12,681**	**12,681**
3. Employee Benefit Expenses				
Salaries	16,064	16,064	11,453	11,453
Increase/(decrease) in employee benefit expenses				
Bonuses & Incentives	697	697	429	429
Holiday Pay	(73)	(73)	(68)	(68)
Total Employee Benefit Expenses	**16,688**	**16,688**	**11,814**	**11,814**
4. Watercare Costs				
Water	37,604	37,604	25,337	25,337
Waste Water	83,666	83,666	54,700	54,700
Total Watercare Costs	**121,270**	**121,270**	**80,037**	**80,037**

	16 months ended 31 October 2010 Parent $000	16 months ended 31 October 2010 Group $000	12 months ended 30 June 2009 Parent $000	12 months ended 30 June 2009 Group $000
5. Finance Costs				
Interest paid	17,866	17,866	13,115	13,115
Less: Interest capitalised	(1,056)	(1,056)	(1,848)	(1,848)
Total Finance Costs	**16,810**	**16,810**	**11,267**	**11,267**
6. Other Expenditure				
Auditors Remuneration				
- current year	150	150	92	92
- prior year	7	7	-	-
- paid on behalf of MW Community Trust	5	5	4	4
Donations made	270	365	92	152
Directors Fees	378	378	276	276
Rental & Operating Lease Costs	439	439	297	297
Impairments of receivables	280	280	334	334
Rates	5,916	5,916	3,328	3,328
Network Maintenance	10,007	10,007	8,170	8,170
Write off of property, plant and equipment	1,160	1,160	1,163	1,163
Other Operating Expenses	12,728	12,511	5,678	5,621
Total Other Expenditure	**31,340**	**31,217**	**19,434**	**19,437**
7. Tax				
Components of tax expense				
Current Tax Expense (tax loss)	-	-	0	0
Adjustments to current tax - prior period refund	(896)	(896)	(336)	(336)
Adjustments to current tax - other	3,886	3,886	0	0
Deferred tax expense (credit)	(4,464)	(4,464)	2,293	2,293
Impact of deferred tax as a result of reducing the tax rate	(24,189)	(24,189)	0	0
Income tax expense (credit)	**(25,663)**	**(25,663)**	**1,956**	**1,956**
Provisional Tax				
Provisional tax paid (refund)	569	569	336	336
Adjustments to current tax - prior period refund	(896)	(896)	(336)	(336)
tax payable to (Tax refund from) IRD	**(327)**	**(327)**	**0**	**0**

Imputation Credits

As Metrowater is treated as a trust for tax purposes, it is not permitted to maintain an imputation credit account.

Relationship between tax expense and accounting profit	Parent $000	Group $000	Parent $000	Group $000
Surplus (deficit) before tax	(16,695)	(16,572)	11,790	11,787
Tax at 33%	(5,510)	(5,510)	3,891	3,891
Tax effect of non-deductible items	1,047	1,047	(1,598)	(1,598)
Adjustments to current tax - prior period refund	(896)	(896)	(336)	(336)
Adjustments to current tax - other	3,886	3,886	0	0
Impact of deferred tax as a result of reducing the tax rate	(24,189)	(24,189)	0	0
Tax expense (benefit)	**(25,663)**	**(25,663)**	**1,956**	**1,956**

Group includes Metrowater Community Trust, which is exempt from Tax. Adjustments to current tax prior period refund relates to a Tax refund from the IRD for the 2008/09 financial year.

	16 months ended 31 October 2010 Parent $000	16 months ended 31 October 2010 Group $000	12 months ended 30 June 2009 Parent $000	12 months ended 30 June 2009 Group $000
Deferred tax liability				
Reconciliation of deferred tax				
Balance at the beginning of the year	270,638	270,638	238,787	238,787
Charged/(credited) to surplus or deficit	(578)	(578)	2,293	2,293
Charged/(credited) to other comprehensive income	59,368	59,368	29,559	29,559
Impact of deferred tax as a result of reducing the tax rate	(49,758)	(49,758)	0	0
Balance at the end of the year	**279,670**	**279,670**	**270,638**	**270,638**
Movements in the deferred tax liability:				
	Provisions			
Opening balance	(339)	(339)	(269)	(269)
Charged/(credited) to surplus or deficit	(99)	(99)	(69)	(69)
Charged/(credited) to other comprehensive income	0	0	0	0
Impact of deferred tax as a result of reducing the tax rate	40	40	0	0
Closing balance	**(398)**	**(398)**	**(339)**	**(339)**
	Revaluation			
Opening balance	109,237	109,237	79,678	79,678
Charged/(credited) to surplus or deficit	0	0	0	0
Charged/(credited) to other comprehensive income	59,368	59,368	29,559	29,559
Impact of deferred tax as a result of reducing the tax rate	(25,569)	(25,569)	0	0
Closing balance	**143,035**	**143,035**	**109,237**	**109,237**
	Tax losses			
Opening balance	-	-	0	0
Charged/(credited) to surplus or deficit	(6,715)	(6,715)	0	0
Charged/(credited) to other comprehensive income	-	-	0	0
Impact on deferred tax as a result of reducing the tax rate	1,017	1,017	0	0
Closing balance	**(5,697)**	**(5,697)**	**0**	**0**
	Depreciation			
Opening balance	161,741	161,740	159,378	159,378
Charged/(credited) to surplus or deficit	6,236	6,236	2,362	2,362
Charged/(credited) to other comprehensive income	0	0	0	0
Impact of deferred tax as a result of reducing the tax rate	(25,246)	(25,246)	0	0
Closing balance	**142,730**	**142,730**	**161,741**	**161,740**
	Total			
Opening balance	270,638	270,638	238,787	238,787
Charged/(credited) to surplus or deficit	(578)	(578)	2,293	2,293
Charged/(credited) to other comprehensive income	59,368	59,368	29,559	29,559
Impact of deferred tax as a result of reducing the tax rate	(49,758)	(49,758)	0	0
Closing balance	**279,670**	**279,670**	**270,638**	**270,638**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

Metrowater is a trust for tax purposes. However the deferred tax balance has been calculated using the company tax rate to the transfer of Metrowaters' business on 1 november 2010 to Watercare Services Limited which is a company for tax purposes. The impact of this change is a reduction in the total deferred tax liability of $49,750k comprising of:

	$000
• the reduction from 33% to 30% from the integration of Metrowater's business (taxed at trust rate 33%) with Watercare Services Ltd (taxed at company rate 30%) as at 1 November 2010	29,948
• the reduction from the change in the company tax rate from 30% to 28% from 1 July 2011 as substantively enacted following the May 2010 NZ Government Fiscal Budget	19,810
The reduction in the deferred tax liability as a result of the change in tax rates has been recognised in the Statement of Comprehensive Income as:	
Credit to tax expense	24,189
Credited to other comprehensive income	25,569
	49,758

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
8. Equity				
a. Share capital				
Opening Authorised and Issued 168,552,292 Shares at $1	168,552	168,552	168,552	168,552
Issued during period	-	-	-	-
Closing balance	**168,552**	**168,552**	**168,552**	**168,552**
b. Retained earnings				
Opening balance	371,437	371,446	384,743	384,755
(Deficit)/Surplus for the period after tax	8,968	9,091	9,834	9,831
Charitable payments to Auckland City	(12,126)	(12,126)	(23,140)	(23,140)
Closing balance	**368,279**	**368,411**	**371,437**	**371,446**
c. Asset revaluation reserve				
Opening balance	222,313	222,313	162,299	162,299
Infrastructure asset revaluation	179,816	179,816	89,573	89,573
Deferred Tax	(59,368)	(59,368)	(29,559)	(29,559)
Tax rate adjustment from 33% to 28%	368,331	368,331	-	-
Closing balance	**368,331**	**368,331**	**222,313**	**222,313**
Asset revaluation reserves consist of:				
Land	527	527	527	527
Water Infrastructure	218,554	218,554	123,251	123,251
Wastewater Infrastructure	292,284	292,284	207,772	207,772
Deferred Tax	(143,035)	(143,035)	(109,237)	(109,237)
Total Asset revaluation reserve	**368,331**	**368,331**	**222,313**	**222,313**

All issued shares are fully paid.

The asset revaluation reserve comprises gains and losses on the revaluation of PPE and the related deferred tax balance.

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
9. Cash and cash equivalents				
Cash at bank and on hand / (bank overdraft)	(5,604)	(5,561)	(2,040)	(2,021)
Short term deposits with maturities less than 3 mths	-	8	-	8
Total Cash and cash equivalents	**(5,604)**	**(5,553)**	**(2,040)**	**(2,013)**

The carrying value of cash at bank and term deposits with maturities less than three months approximate their fair value.

MW has a $7 million overdraft limit and the interest rate payable if the account is in debit (ie overdrawn) is OCR plus 0.5%.

Refer to Note 15 for weighted average effective interest rate for cash and cash equivalent.

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
10. Trade and other receivables				
Water and WW receivable	29,650	29,650	28,561	28,561
Other receivables	2,855	2,945	-	-
Amounts due from related parties	549	549	7,071	7,071
Prepayments	-	-	70	70
	33,054	33,144	35,702	35,702
Less: Impairment of receivables	(450)	(450)	(423)	(423)
Current Portion of trade receivables	**32,604**	**32,694**	**35,279**	**35,279**

The carrying value of trade and other receivables approximates their fair value.

Amounts due form related parties include amounts due from Auckland City Council and the subsidiaries.

As at 31 October 2010 and 30 June 2009, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

	2010			2009		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	30,751	-	30,751	31,917	-	31,917
Past due 0-30 days	617	(6)	611	1,176	(7)	1,169
Past due 31-60 days	276	(6)	270	661	(7)	654
Past due 61-90 days	199	(13)	186	330	(10)	320
Past due > 91 days	1,211	(425)	786	1,618	(399)	1,219
Total	**33,055**	**(450)**	**32,604**	**35,702**	**(423)**	**35,279**

The impairment provision has been calculated based on expected losses for Metrowater's pool of receivables. Expected losses have been determined based on an analysis of Metrowater's losses in previous periods, and review of specific receivables.

Movements in the provision for impairment of receivables is as follows:

	2010		2009	
	Parent $000	Group $000	Parent $000	Group $000
At 1 July	423	423	183	183
Receivables written off during the period	(253)	(253)	(94)	(94)
Increase in provision	280	280	334	334
At 31 Oct 2010	**450**	**450**	**423**	**423**

NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF ACCOUNTING ASSETS

11. Property, Plant and Equipment and Intangible assets

2009-10	Opening Cost/ Valuation 1 July 09 $000	Opening Provision 1 July 09 $000	Opening BV 1 July 09 $000	Additions 2009-10 $000	Reclassification 2009-10 $000	Revaluation Cost movement $000	Depreciation/ Amortisation 2009-10 $000	Impairment /Disposal 2009-10 $000	Revaluation adjustment: Accumulated Depreciation/ Disposal 31 October 10 $000	Closing Cost/ Valuation 31 October 10 $000	Closing Provision 31 October 10 $000	Closing BV 31 October 10 $000
Property, Plant and Equipment												
Infrastructure Assets												
Water Infrastructure	504,031	(10,370)	493,661	-	25,940	73,480	(15,379)	(580)	21,823	603,451	(4,506)	598,945
Wastewater Infrastructure	662,621	0	662,621	-	46,178	77,517	(8,987)	(580)	6,995	786,317	(2,572)	783,745
Land – Water	607	-	607	-	-	-	-	-	-	607	-	607
Land – Wastewater	434	-	434	-	-	-	-	-	-	434	-	434
Base Station	62	(40)	22	-	-	-	(21)	-	-	62	(61)	1
Water Units	107	(90)	17	-	-	-	(15)	-	-	107	(105)	2
Wastewater Units	144	(131)	13	-	-	-	(2)	-	-	144	(133)	11
Non Infrastructure Assets	-	-	-	-	-	-	-	-	-	-	-	-
Building Alterations	1,014	(641)	373	-	-	-	(135)	-	-	1,014	(776)	238
Computer Hardware	1,909	(1,685)	224	-	17	-	(166)	-	-	1,927	(1,851)	76
Equipment	1,285	(901)	384	-	288	-	(250)	-	-	1,572	(1,152)	421
Computer Software	291	(291)	0	-	-	-	-	-	-	291	(291)	-
Furniture & Fittings	844	(340)	504	-	4	-	(109)	-	-	848	(450)	398
Work In progress	33,159	-	33,159	41,495	(72,427)	-	-	-	-	2,227	-	2,227
	1,206,508	**(14,489)**	**1,192,019**	**41,495**	**-**	**150,998**	**(25,065)**	**(1,160)**	**28,818**	**1,399,001**	**(11,897)**	**1,387,105**
Intangible Assets												
Water Models	3,968	(3,202)	766	-	-	-	(637)	-	-	3,968	(3,839)	129
Wastewater Models	13,036	(10,735)	2,301	-	-	-	(2,051)	-	-	13,036	(12,786)	250
Resource Consents	6,339	(2,808)	3,531	-	34	-	(992)	-	-	6,373	(3,800)	2,573
ICS Data	14,397	(2,522)	11,875	-	2,871	-	(13,882)	-	-	17,268	(16,343)	925
ICS Model	3,538	(2,758)	780	-	878	-	(995)	-	-	4,416	(3,753)	663
Computer Software	9,087	(5,999)	3,088	-	-	-	(3,088)	-	-	7,347	(7,346)	0
Work In progress	3,873	-	3,873	167	(3,783)	-	-	-	-	257	0	257
	54,238	**(28,024)**	**26,214**	**167**	-	**-**	**(21,586)**	**-**	**-**	**52,665**	**(47,867)**	**4,798**
Total Property, Plant & Equipment	**1,206,508**	**(14,489)**	**1,192,019**	**41,495**	**-**	**150,998**	**(25,065)**	**(1,160)**	**28,818**	**1,399,001**	**(11,897)**	**1,387,105**
Total Intangibles	**54,238**	**(28,024)**	**26,214**	**167**	**-**	**-**	**(7,146)**	**-**	**-**	**52,665**	**(47,867)**	**4,798**
Total Fixed Assets	**1,260,746**	**(42,513)**	**1,218,233**	**41,662**	**-**	**150,998**	**(32,210)**	**(1,160)**	**28,818**	**1,451,666**	**(59,764)**	**1,391,903**

NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF ACCOUNTING ASSETS

2008-09	Opening Cost/ Valuation 1 July 08 $000	Opening Provision 1 July 08 $000	Opening BV 1 July 08 $000	Additions 2008-09 $000	Reclassification 2008-09 $000	Revaluation Cost movement $000	Depreciation/ Amortisation 2008-09 $000	Impairment /Disposal 2008-09 $000	Revaluation adjustment: Accumulated Depreciation/ Disposal 30 June 09 $000	Closing Cost/ Valuation 30 June 09 $000	Closing Provision 30 June 09 $000	Closing BV 30 June 09 $000
Property, Plant and Equipment												
Infrastructure Assets												
Water Infrastructure	477,023	-	477,023		28,014	-	(10,370)	(1,006)	-	504,031	(10,370)	493,661
Wastewater Infrastructure	546,841	-	546,841		34,262	81,518	(7,898)	(157)	8,055	662,621	-	662,621
Land – Water	607	-	607		-	-	-	-	-	607	-	607
Land – Wastewater	434	-	434		-	-	-	-	-	434	-	434
Base Station	62	(17)	45		-	-	(23)	-	-	62	(40)	22
Water Units	107	(45)	62		-	-	(45)	-	-	107	(90)	17
Wastewater Units	144	(73)	71		-	-	(58)	-	-	144	(131)	13
Non Infrastructure Assets									-	0	0	0
Building Alterations	979	(528)	451		36	-	(113)	-	-	1,014	(641)	373
Computer Hardware	1,837	(1,536)	301		71	-	(149)	-	-	1,909	(1,685)	224
Equipment	986	(743)	243		299	-	(158)	-	-	1,285	(901)	384
Computer Software	291	(291)	0		-	-	-	-	-	291	(291)	0
Furniture & Fittings	803	(260)	543		41	-	(80)	-	-	844	(340)	504
Work In progress	46,835	-	46,835	49,047	(62,723)	-	-	-	-	33,159	0	33,159
	1,076,949	**(3,493)**	**1,073,456**	**49,047**	**0**	**81,518**	**(18,894)**	**(1,163)**	**8,055**	**1,206,508**	**(14,489)**	**1,192,019**
Intangible Assets												
Water Models	3,968	(2,763)	1,205	-	-	-	(439)	-	-	3,968	(3,202)	766
Wastewater Models	13,036	(9,390)	3,646	-	-	-	(1,345)	-	-	13,036	(10,735)	2,301
Resource Consents	5,256	(2,120)	3,136		1,083	-	(688)	-	-	6,339	(2,808)	3,531
ICS Data	10,769	(1,472)	9,297		3,628	-	(1,050)	-	-	14,397	(2,522)	11,875
ICS Model	3,242	(2,078)	1,164		296	-	(680)	-	-	3,538	(2,758)	780
Computer Software	7,853	(4,939)	2,914		1,234	-	(1,060)	-	-	9,087	(5,999)	3,088
Work In progress	3,074	-	3,074	7,040	(6,241)	-	-	-	-	3,873	0	3,873
	47,198	**(22,762)**	**24,436**	**7,040**	**0**	**0**	**(5,262)**	**0**	**0**	**54,238**	**(28,024)**	**26,214**
Total Property, Plant & Equipment	**1,076,949**	**(3,493)**	**1,073,456**	**49,047**	**0**	**81,518**	**(18,894)**	**(1,163)**	**8,055**	**1,206,508**	**(14,489)**	**1,192,019**
Total Intangibles	**47,198**	**(22,762)**	**24,436**	**7,040**	**0**	**-**	**(5,262)**	**-**	**-**	**54,238**	**(28,024)**	**26,214**
Total Fixed Assets	**1,124,147**	**(26,255)**	**1,097,892**	**56,087**	**0**	**81,518**	**(24,156)**	**(1,163)**	**8,055**	**1,260,746**	**(42,513)**	**1,218,233**

In regards to Infrastructure assets, under the Local Government Act 2002 (Part 7, section 130: Obligation to maintain water services), Metrowater cannot sell or transfer its Water Services Assets except to another local government authority and cannot lose control, sell or dispose significant infrastructure necessary for providing water services in its region or district, unless doing so, it retains its capacity to meet its obligation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
12. Trade and other payables				
Trade payables	5,101	5,106	1,085	1,118
Accrued expenses	3,812	3,816	12,551	12,535
Amounts due to related party	8,722	8,723	10,854	10,855
Total trade and other payables	**17,635**	**17,645**	**24,490**	**24,508**

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximates their fair value.

Amounts due to related party includes payments due to Auckland City and its subsidiaries

Accrued expenses includes provisions for prompt payment discounts ($2m) at 31 October 2010.

	Parent $000	Group $000	Parent $000	Group $000
13. Retentions				
Comprising				
Current	310	310	1,064	1,064
Non-current	350	350	1,459	1,459
Total retentions	**660**	**660**	**2,523**	**2,523**
14. Employee benefits				
Accrued Pay	-	-	521	521
Annual leave	399	399	465	465
Long service leave	8	8	15	15
Other	369	369	-	-
Bonus	-	-	517	517
Total employee benefits	**776**	**776**	**1,518**	**1,518**
15. Borrowings				
Comprising				
Current	-	-	-	-
Non-current	215,000	215,000	190,000	190,000
Total Borrowings	**215,000**	**215,000**	**190,000**	**190,000**

Security

Metrowater has a funding facility with Auckland City to ensure funding is available to finance its activities at all times. The facility is 'evergreen' in nature which requires at least 366 days notice of intention to terminate the facility.

All the borrowings unsecured.

Weighted Average Interest Rates	2010	2009
Auckland City Council	6.55%	7.80%
Bank Overdraft	3.12%	5.71%

Metrowater has an overdraft facility with Westpac, which is unsecured. The maximum amount that can be drawn against the overdraft facility is $7m. There is no restriction on the use of the facility.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
16. Reconciliation of Net Surplus after Taxation with Net Cash Flow from Operating Activities Net surplus after taxation	8,968	9,091	9,834	9,831
Add/(less) non-cash items:				
Depreciation	46,651	46,651	24,156	24,156
Write off of PPE	1,160	1,160	1,163	1,163
Write off of Intangible	-	-		
Capitalised interest	(1,056)	(1,056)	(1,848)	(1,848)
Tax	(25,093)	(25,093)	2,988	2,988
Total non-cash items	**21,662**	**21,662**	**26,458**	**26,458**
Add/(less) movement in working capital items				
Receivables and prepayments	2,675	2,585	(957)	(957)
Payables and accruals	(408)	(453)	2,521	2,513
Employee provisions	(742)	(742)	(73)	(73)
Working Capital Movement – net	**1,525**	**1,390**	**1,491**	**1,483**
Net cash from operating activities	**32,155**	**32,143**	**37,784**	**37,772**
17. Commitments				
Non-cancellable operating lease commitments (as lessee):				
Less than one year	72	72	462	462
One to two years	32	32	374	374
Two to five years	57	57	922	922
Over five years	51	51	915	915
	213	**213**	**2,673**	**2,673**

Majority of the commitments relate to photocopiers.

Other non-cancellable contracts

Details of capital commitments under non cancellable contracts are as follows:

	Parent $000	Group $000	Parent $000	Group $000
Capital Commitments not later than one year	1,647	1,647	9,875	9,875
	1,647	**1,647**	**9,875**	**9,875**
Total Commitments	**1,860**	**1,860**	**12,548**	**12,548**

	October 2010 Actual $000	June 2009 Actual $000
18. Related Party Transactions and Balances		
(a) Inter-group transactions and balances		
Services provided to Auckland City	18,632	27,327
Services received from Auckland City	15,263	12,945
Charitable Payments made to Auckland City	12,126	23,140
Net interest paid to Auckland City	17,829	13,068
Amounts owing to Auckland City	378	3,281
Amounts owing from Auckland City	549	7,071
Net loans owing to Auckland City	215,000	190,000
Services provided to Watercare Services Limited	12	20
Services received from Watercare Services Limited	121,446	80,384
Amounts owing to Watercare Services Limited	8,344	7,573
Amounts accrued on behalf of MW Community Trust	5	30

All members of the Auckland City Council group are considered to be related parties of Metro Water Limited. This includes other associates such as Watercare Services Limited.

Services provided to Auckland City includes Stormwater management fees of $1.9million (2009: $2.8 million) and Firefighting fees nil (2009: $3.2million).

Metrowater also provide standard water and wastewater services to Auckland City Council, its subsidiaries and watercare Limited. These services are provided on a normal commercial basis on the same terms offered to other customers. The value of these transaction are not included in the related party transactions shown above.

(b) Key Management and Directors

No directors or senior management have entered into related party transactions with the company, other than in the normal course of the business of paying water and wastewater rates. No related party debts have been written off or forgiven.

No provision has been required, nor any expense recognised for impairment of receivables for any receivables from related parties (2009 $nil).

Key management personnel compensation	October 2010 Actual $000	June 2009 Actual $000
Salaries and other short term employee benefits	2,757	1,695
Post employment benefits	-	-
Other Long term benefits	-	-
Termination benefits	316	46

Key management personnel include the Chief Executive and executive personnel.

(c) Subsidiaries

The following entities form part of the consolidated Metrowater group :

- Metrowater Community Trust - a registered Charitable Trust wholly owned by Metrowater
- Auckland City Water Ltd - a non trading company incorporated under the Companies Act 1993

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

(d) Support services

Metrowater provided $270,000 (2009: $92,091) in support services for the Community Trust.

19. Capital Management

Metrowater's capital is its equity, which comprise retained earnings and reserves. Equity is represented by net assets.

Under the Local Government Act (2002), Metrowater operates as a Council Controlled Organisation(CCO) and is answerable to Auckland City, our 100% shareholder, via targets set in the annual Statement of Intent (SOI) that reflect the objectives of the shareholder. As a CCO, Metrowater is required to conduct its affairs in accordance with sound business practice and exhibit a sense of social and environmental responsibility with regard to the interests of the community in which it operates.

Auckland City established the company to ensure that the city's water and wastewater networks are managed in a cost effective, environmentally sound and sustainable manner.

Metrowater also provides asset management and maintenance expertise to assist Auckland City to manage the stormwater infrastructure.

As a CCO, Metrowater supports Auckland City's Long Term Council Community Plans (LTCCP) through development of long term asset management plans (AMP) in consultation with its shareholder. The sources and levels of funding are set out in Metrowater's funding plan and SOI. Our revised plans have been updated to include the City's approved Drainage Strategic Plan that significantly increases the level of capital management and spend requirements over the life of the AMP.

Metrowater does not have at present any specific benefit reserves, self-insurance reserves or trust and bequeath reserves.

20. Financial Instruments

20A. Financial instruments categories

Financial Assets

Financial assets are initially recognised at fair value plus transaction costs. Purchase and sale of financial assets are recognised on trade date, the date on which Metrowater commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Metrowater has transferred substantially all the risks and rewards of ownership. Metrowater classifies its financial assets as loans and receivables.

Loans and Receivables

Loans and receivables are non- derivative financial assets with fixed or determinable payments that are not quoted in the active market. They are included in current assets, except for maturities greater that 12 months after the balance date, which are included in non-current assets. Metrowater's loans and receivables comprise cash and cash equivalents and debtors and other receivables. After initial recognition they are measured at amortised costs using the effective interest method less impairment. gains and losses when the asset is impaired or derecognised are recognised in the net surplus/(deficit).

Impairment of financial assets

At each balance date Metrowater assesses whether there is any objective evidence that the financial asset or group of financial assets is impaired. Any impairment losses are recognised in the net surplus/(deficit).

Loans and other receivables

Impairment of a loan or a receivable is established when there is objective evidence that Metrowater will not be able to collect amounts due according to the original terms. Significant financial difficulties of debtor/issuer, probability that the debtor/issuer will enter into bankruptcy, and default in payments are considered indicators that the assets is impaired. The amount of the impairment is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted using the the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance. When the receivable is uncollectable, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

20B. Financial instruments risks

Metrowater is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, accounts receivable, trade creditors and loans. There is an agreement between Auckland City Council and Metrowater which allows for interest swaps between the City and Metrowater.

The company seeks to minimise exposure from its treasury activities. Its policies do not allow any speculative transactions to be entered into.

The fair value of the financial instruments equates to their net book value.

The interest rates on the company's investments for the period were:	2010	2009
Short term deposits	2.5% - 3.0%	2.5% - 8.25%
Weighted average	2.62%	5.20%

Currency Risk

Metrowater has no exposure to currency risk.

Interest Risk

The interest rates on Metrowater's investments is disclosed above and on Metrowater's borrowings in Note 15. Interest rates on borrowings for ACC are fixed at the start of each year. The interest rate fixed for year ending 30th June 2011 is 6.4% (2010: 6.6%). This will result in a reduction in interest costs on term loan of $430,000 based on the term loan at balance date.

The interest rate on Bank Overdrafts is OCR + 0.5% within the $5m facility and +2.5% on any agreed extension.

Sensitivity analysis

Interest rate sensitivity analysis has been done based on the interest rate exposures in existence for the reporting period. For the 16 month period to 31 October 2010 a 1% increase or decrease in interest rates would have the following impact.

	2010	2009	2010	2009
	Post tax surplus $m		Equity $m	
1% higher interest rates	-1.94	-1.22	-1.94	-1.22
1% lower interest rates	1.94	1.22	1.94	1.22

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates expose Metrowater to fair value interest rate risk.

All borrowings are funded and managed by Auckland City Council within Group guidelines and Metrowater's agreed fixed/floating target ranges. Auckland City Council Treasury manages any interest rate swaps and assumes any associated interest rate risks.

In addition, investments at fixed interest rates expose Metrowater to fair value interest rate risk. Metrowater invests its surplus funds into the money market on call. The fluctuation of interest rates by plus or minus 0.5% on investments at 31 October 2010 is immaterial. (30 June 2009 was also immaterial).

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the company, causing the company to incur a loss.

Financial instruments which potentially subject the company to risks consist principally of cash, short term investments and trade receivables.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

The accounting policies for financial instruments have been applied to the line items below:

	October 2010		June 2009	
	Parent $000	Group $000	Parent $000	Group $000
Financial Assets				
Loans and Receivables				
Cash and cash equivalents	-	-	-	-
Trade and other receivables	32,604	32,694	35,279	35,279
Total loans and receivables	**32,604**	**32,694**	**35,279**	**35,279**
Financial Liabilities				
Financial liabilities at amortised cost				
Creditors and other payables	17,635	17,645	24,490	24,508
Retentions	660	660	2,523	2,523
Borrowings				
- Bank overdraft	5,604	5,553	2,040	2,013
- Unsecured loans	215,000	215,000	190,000	190,000
Total financial liabilities at amortised cost	**238,898**	**238,857**	**219,053**	**219,044**

There is no concentration of credit risk with respect to receivables outside the group, as the group has a large number of customers.

Ongoing debt which is still unpaid, after collection and legal process can be secured by Metrowater by obtaining a charging order on the debtors property through the district court.

Debtors and other receivables mainly arise from Metrowater's statutory functions, therefore there are no procedures in place to monitor or report the credit quality of debtors and other receivables with reference to internal or external credit rating.

Credit quality of financial assets

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to Standard and Poor's credit ratings where available as follows:

	31 October 2010		30 June 2009	
	Parent $000	Group $000	Parent $000	Group $000
Counterparties with credit ratings				
Trade and other receivables – "AA" rating	549	549	7,071	7,071
Counterparties without credit ratings				
Trade and other receivables	32,055	32,145	28,208	28,208
Total trade and other receivables	**32,604**	**32,694**	**35,279**	**36,279**

Liquidity Risk

Liquidity risk is the risk that Metrowater will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed facilities.

In meeting its liquidity requirements Metrowater has a letter of arrangement with Auckland City Council. The overarching principal of this arrangement is that Auckland City Council will ensure that Metrowater has the funding it requires at all times.

Contractual Maturity analysis of financial liabilities

The table below analyses Metrowater's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date.

	Carrying Amount $000	Contractual cash flows $000	Less than 1 year $000	1-2 years $000
Parent 2010				
Creditors and other payables	17,635	17,635	17,635	-
Bank overdraft	5,604	5,604	5,604	-
Borrowings	215,000	228,760	13,760	215,000
Total	**238,239**	**251,999**	**36,999**	**215,000**
Group 2010				
Creditors and other payables	17,645	17,645	17,645	-
Bank overdraft	5,553	5,553	5,553	-
Borrowings	215,000	228,760	13,760	215,000
Total	**238,198**	**251,958**	**36,958**	**215,000**
Parent 2009				
Creditors and other payables	24,490	24,490	24,490	-
Bank overdraft	2,040	2,040	2,040	-
Borrowings	190,000	202,540	12,540	190,000
Total	**216,530**	**229,070**	**39,070**	**190,000**
Group 2009				
Creditors and other payables	24,508	24,508	24,508	-
Bank overdraft	2,013	2,013	2,013	-
Borrowings	190,000	202,540	12,540	190,000
Total	**216,521**	**229,061**	**39,061**	**190,000**

21. Charitable payment

Under regulation 3.1 of Metrowater's Constitution, the company must return profits not reinvested in the business to Council as a charitable payment. During the period, Metrowater made a charitable payment to Auckland City Council of $12m on 18th Jan 10 in respect of the 2008/09 financial year per the Board resolution.

There are no proposed charitable payments in respect of the 16 month period ending 31 October 2010.

22. Events after Balance Sheet Date

There were no significant events after the balance date. (2009 - Nil)

23. Auckland Transition Agency and Local Government (Tamaki Makaurau Reorganisation) Act 2009

The Reorganisation has impacted upon the entities within the group as follows:

- all property belonging to Metrowater will vest in Watercare
- all money payable to or by Metrowater will become payable to or by Watercare Services Limited
- all rights, liabilities, contracts, entitlements and engagements of Metrowater become the rights, liabilities, contracts, entitlements and engagements of Watercare
- Watercare is delivering the services previously delivered by Metrowater.

Metrowater Community Trust and Auckland City Water continue in their existing forms as subsidiaries of Watercare Services Limited.

24. Contingent Liabilities

Metrowater offers discretionary refunds of a portion of water and wastewater charges incurred as the result of a leak. Unidentified leaks and unsettled leak remission refund claims represent a contingent liability at balance date and it is not possible to quantify the amount of any liability.

25. Amortisation of intangible assets

The useful lives of certain intangible assets have been reassessed as they will not be required for the ongoing operation of Watercare Services Limited from 1 November. Accordingly, the amortisation of these assets has been increased to write off their remaining carrying value over the revised useful lives. The change in useful lives has increased amortisation charges for 2010 in note 11 by $14.4 million and increased the net deficit before tax by the same amount.

	$000s
Network and ICS models	1,167
Network data	11,534
Computer software	1,740
Total acceleration of amortisation	**14,441**

GLOSSARY OF TERMS

'Aa' Ministry of Health awarded grade for the Auckland City water supply. For each zone, a two letter grading is designated, such as Aa, Cb, Ed, etc. The upper-case letter (A) represents the quality of the water coming into the zone, while the lower-case letter (a) indicates the quality of the water received at the customer's gate. Typically, if one tends to be high (A or B), so will be the other (a or b) but any combination is possible. Grades below C are considered not suitable for drinking (unpotable).

The Source and Plant grading (Watercare)	The Distribution Grading (Metrowater)
A = Completely satisfactory, extremely low level of risk	a = Completely satisfactory, extremely low level of risk
B = Satisfactory, very low level of risk when the water leaves the treatment plant	b = Satisfactory, very low level of risk
C = Marginally satisfactory, low level of microbiological risk when the water leaves the treatment plant, but may not be satisfactory chemically	c = Marginally satisfactory, moderate level of risk
D = Unsatisfactory level of risk	d = Unsatisfactory level of risk
E = Unacceptable level of risk	e = Unacceptable level of risk

ACC – Accident Compensation Corporation.

AMP – Asset Management Plan.

CPI – Consumer Price Index.

Chokes – Blockage of the wastewater network.

Combined Sewer – A system of wastewater pipe reticulation designed to take wastewater and stormwater flow.

Dry Weather Overflow – Blockage or break in the wastewater network resulting in sewage spills.

IP – Intellectual property.

m3 – Cubic metres (kilolitres) – a volumetric measurement of water or other liquids.

Meter – The device used to measure the volume of water supplied to a property by Metrowater.

NUC – Network Upgrade Charge.

NZWWA – New Zealand Water and Wastewater Association.

Sewer Separation – Separation of combined wastewater and stormwater system.

Shareholder – Auckland City Council (Metrowater's 100% shareholder).

SoI – Statement of Intent – Metrowater's published commitment to the shareholder.

Sustainability – Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs. (UN Brundland Commission 1990).

Three Waters – Potable (drinking) water, wastewater (sewage) and stormwater (uncollected rainwater).

Watercare Services – (Watercare) Auckland region's water and wastewater wholesaler. Its shareholders are Auckland city,
Waitakere city, Manukau city, and North Shore city, and Rodney and Papakura district councils.

WSAA – Water Services Association of Australia.

WW – Wastewater.

DIRECTORY OF INFORMATION

ExecutiveTeam
Tim Hammond, Acting Chief Executive
Linda Danen, Head of Strategy and Marketing
Brian Sharman, Acting General Manager Service Operations
Anin Nama, General Manager Asset Management and Investments
Stana Pezic, Chief Financial Officer

Board of Directors
Ross Keenan, Chairman
Peter Brothers
Margaret Devlin
George Green
Alison Paterson
Dennis Pickup
Bryan Taylor

Remuneration Committee
Bryan Taylor, Chair
Ross Keenan

Finance and Audit Committee
George Green, Chair
Peter Brothers
Ross Keenan
Alison Paterson

Risk Health and Safely Committee
Margaret Devlin, Chair
Ross Keenan
Dennis Pickup
Bryan Taylor

Company Secretary
Stana Pezic

Auditors
Audit New Zealand
Level 10, Wollongong University College House,
155 Queen Street
Private Box 1165
Auckland

Registered Office (up to 31 October 2010)
Corner Mt Eden and Mt Albert Roads
Three Kings 1042
Auckland

Matters relating to the electronic presentation of the audited financial statements and performance information

This audit report relates to the financial statements and performance information of Metrowater Limited for the 16-month period ended 31 October 2010 included on Watercare Services Limited's website. Watercare Services Limited's Board is responsible for the maintenance and integrity of Watercare Services Limited's website. We have not been engaged to report on the integrity of the Watercare Services Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements and performance information since they were initially presented on the website.

The audit report refers only to the financial statements and performance information named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements and performance information. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and performance information and the related audit report dated 27 January 2011 to confirm the information included in the audited financial statements and performance information presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.