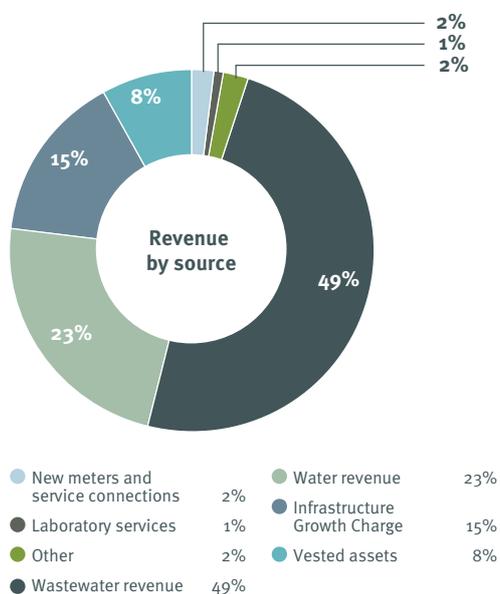




## Financial responsibility

### 1. Revenue

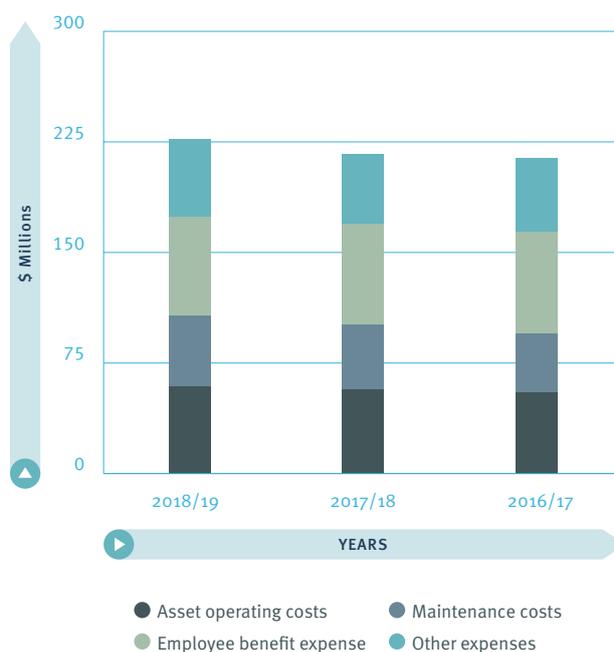
Total revenue at \$715.2 million in 2018/19 compared favourably with \$641.6 million in 2017/18. Water and wastewater revenues of \$515.6 million were \$25.1 million ahead of 2017/18 (a 5.1% increase) with \$13.3 million of the increase due to the 2.5% price increase on 1 July 2018 and \$11.8 million largely as a result of an overall volume increase. Infrastructure Growth Charge revenue totalled \$103.8 million compared to \$89.1 million in 2017/18 only recovering 37% of the \$278 million capital expenditure on growth projects in the year. Other key elements of revenue included \$62.2 million for the cost of physical assets funding by external parties and vested to Watercare ownership, and \$3.8 million of revenue recognised in respect of the sale of Watercare tax losses within the Auckland Council Group.



### 2. Operating expenses

Operating expenses of \$226.5 million were \$7.6 million higher than budget for the year. This was primarily due to an increase in unplanned maintenance expenditure.

Operating expenses increased 4.1% in 2018/19 compared to 2017/18 and have grown an average of 2.6% per annum over the past four years. The increase in maintenance costs is due to unplanned maintenance.



### 3. Finance costs

Total finance costs of \$86.2 million were incurred during the year, of which \$19.7 million was treated as a capital cost on large-scale, long-term capital projects. The remainder of \$66.5 million was expensed to the statement of revenue and expense.

The overall average interest rate was 5.26% compared with 5.94% in 2017/18.

### 4. Operating surplus from trading operations

An operating surplus from trading operations of \$176.4 million was achieved in 2018/19, with revenue \$64.1 million ahead of budget, and total expenses \$10.1 million lower than budget. The surplus will be reinvested in the business and used to repay debt as required.

### 5. Net surplus for the year

The reported operating surplus from trading operations was prior to a non-cash adjustment for the loss on disposal of property, plant and equipment and restructuring costs of \$13,216 million.

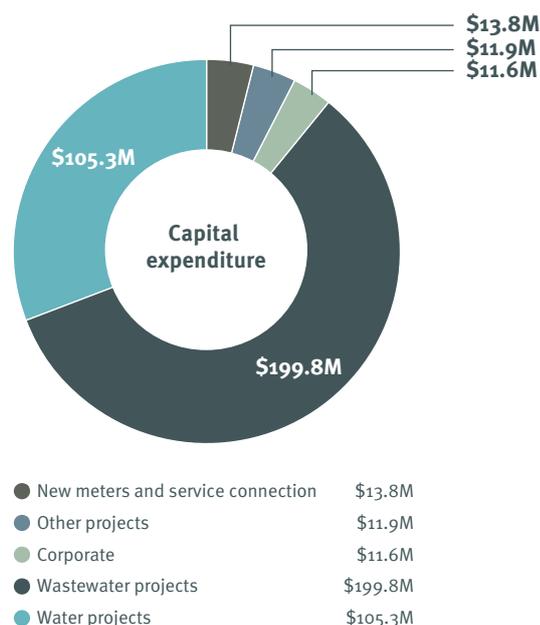
Net surplus after tax was \$107.6 million for the year ending 30 June 2019.



## 6. Net new debt

In 2018/19 \$83.9 million of net new debt was entered into by Watercare. Consistent with our agreement with Auckland Council's centralised treasury, all new debt is provided by Auckland Council to maximise efficiency from group borrowings.

Debt is used to fund capital expenditure that is directed at improving the quality of services provided by Watercare and also a share of the capital expenditure required to service the effects of population and construction growth in Auckland.



## 7. Total assets

Total Watercare assets grew from \$10.09 billion to \$10.39 billion in 2018/19. The increase related to the cost of new infrastructure asset spending being capitalised during the year.

## 8. Customer debt

Our primary performance measure for the management of debtors is the value of payments outstanding for 31 days or more from due date. This year, the outstanding customer debt was \$7,501,517, a decrease of 6% compared to 2017/18.

The average amount of outstanding debt was \$383 this year compared to \$287 in 2017/18.

|  |             | % of total |
|--|-------------|------------|
| Debit balances 31+ days (end of June 2019) | \$7,501,517 | 12.9%      |
| # of accounts with 31+ days debt           | 19,595      | 6.4%       |
| Average debt (31+ days)                    | \$383       |            |

Excluding council group and Infrastructure Growth Charges

## 9. Supply chain and savings

Watercare's supply chain team has focused on the development and implementation of the new finance and purchase to pay system (LN). Watercare has also participated in a number of group sourcing initiatives with Auckland Council, Auckland Transport and other CCOs to the benefit of our company.

In 2018/19, opex savings of \$1.9 million were achieved, mainly in the procurement of waste chemicals, including lime and polymers. Capex cost avoidance savings of \$23.4 million was also achieved across a number of projects.

### Top 15 suppliers

| No. | Supplier                                       | Value                |
|-----|--|----------------------|
| 1   | Fulton Hogan Ltd                               | \$60,900,145         |
| 2   | Downer New Zealand Limited                     | \$32,672,646         |
| 3   | McConnell Dowell Constructors Ltd              | \$28,016,347         |
| 4   | McConnell Dowell – Heb Joint Venture           | \$27,122,922         |
| 5   | Ghella Ltd & Abergeldie Complex Infrastructure | \$26,086,957         |
| 6   | Brian Perry Civil                              | \$22,251,887         |
| 7   | City Care Limited                              | \$21,335,876         |
| 8   | The Fletcher Construction Company Ltd          | \$18,912,188         |
| 9   | Pipeline & Civil Limited                       | \$16,429,656         |
| 10  | Aon New Zealand                                | \$12,260,482         |
| 11  | Steelpipe Limited                              | \$10,262,036         |
| 12  | Ixom Operations Pty Ltd                        | \$9,827,792          |
| 13  | March Cato Ltd                                 | \$9,262,697          |
| 14  | Trustpower Limited                             | \$8,997,796          |
| 15  | Beca Limited                                   | \$7,414,823          |
|     | <b>Total</b>                                   | <b>\$311,754,250</b> |