



Manukau Water

Manukau Water Limited

Final Accounts

for the 16 month period ended 31 October 2010

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A word from our Chair

On behalf of the board of directors, I am pleased to present the audited report for Manukau Water Limited for the 16 month period ended 31 October 2010.

This is our fourth, and final, financial report as a council controlled organisation, as the Company became part of the integration of the Auckland water and wastewater activities into Watercare Services Limited on 1 November 2010. It, therefore, presents a good opportunity to reflect on the achievements of the company over the last sixteen months and the four and a half years.

The board decided to retain its water and residential wastewater prices for 2009/10 at the same level as they were in July 2008. It further resolved to reduce the fixed annual wastewater charges for non-residential customers. As a result of these changes and the slow economic recovery, the company had budgeted to operate at a substantial loss.

I am delighted to report that the company recorded a small after tax loss of \$0.438 million for the sixteen months ended 31 October 2010 despite having to bear considerable integration costs including substantial redundancy payments.

This excellent financial performance by Manukau Water Limited has had a major benefit for the people of Manukau. Manukau Water Limited customers enjoyed the lowest water and average wastewater prices in the Auckland region.

The company is proud of the fact that it has reduced the fixed annual wastewater charges for non-residential customers from \$1,040 in 2007 to \$352 in 2010. A review in 2007 had revealed that small businesses were subsidising residential wastewater customers. The subsidies have been progressively removed over the last three years.

Our decisions to hold prices have not constrained our ability to invest in capital replacement and growth projects. The company has built an asset replacement fund which stood at \$23.2 million at 31 October 2010.

The period under review was a challenging one. The decision by central government to integrate the water and wastewater activities for the Auckland region generated anxiety and uncertainties for staff. During the period, the company lost a number of senior managers and staff, but also had some executives appointed to very high level positions in the re-vamped Watercare Services Limited. This is a form of recognition for their performance in the management of this company.

Strong governance and leadership has steered the company to perform exceptionally well during a period of change. The efforts of our dedicated staff, lead by highly competent management, has provided demonstrable financial and non-financial benefits to the communities of Manukau.

I sincerely express appreciation to all our staff from the board of directors for a splendid result for the sixteen month period and a remarkable history of performance over the past four and a half years. We can all be proud of the successful company to which we all contributed.

A handwritten signature in blue ink, appearing to read 'James Hill', is written over the printed name and title.

James Hill
Chair

A word from our Chief Executive

The 2009/10 financial period has been challenging and exciting. In 2008, the company set four strategic goals for itself. These were to achieve a state that reflected the following:

- Our customer is our advocate;
- Councillors are proud of our company;
- We are a sustainable organisation; and
- We have positive brand recognition.

Our delivery horizon was three years, but the company ceased to exist effective from 1 November 2010. After four and a half years of operating as a council controlled organisation, Manukau Water Limited was well on its way to being a world-class water and wastewater company. The culture of the organisation has embedded itself in our mission to provide high quality and cost effective water and wastewater services to the people of Manukau.

We have focussed on reducing transactional costs in the organisation by optimising business processes across all groups. We have enhanced our response to protecting the environment and public health.

Manukau Water Limited completed the period in a strong financial position. It had a healthy balance sheet and strong cash flows.

Due to the integration of the Auckland water industry, a relatively higher number of staff left the company over the period to 31 October 2010. Staff turnover, including staff that are not replaced, has exceeded our statement of intent target. Despite this, a staff climate survey undertaken in March showed that only 3.3 per cent of staff were disengaged with the organisation. The staff satisfaction index exceeded the statement of intent target for the first time since 2006.

The company took the opportunity to build social capital and engage the whole organisation by assisting the New Zealand Aid project in Mauke, Cook Islands, where a water supply was being installed. Staff are also involved in a twinning initiative with the Tonga Water Board via the Asian Development Bank. The concept of working together to help others has positively contributed to the morale of staff during a very challenging period. This has been undertaken with a reduced staff complement and minimum need to engage contractors and consultants to cover the reduction. The quality of performance has been enhanced by our wellness programme, participation in events such as Round the Bays, the Oxfam Water for Survival Challenge and seminars and training.

Our major capital investment project is the Kawakawa Bay Wastewater Scheme, which is anticipated to be operational in early 2011. Construction of the wastewater treatment plant and effluent disposal field irrigation system is progressing well. The scheme will provide significant environmental benefits to the bay when completed.

Water is a valuable natural resource and responsible environmental management is a key strategic driver for us. We have promoted wise and efficient use of water and despite an extremely dry summer in early 2010, our total water demand was lower than the demand was prior to Manukau Water Limited being established. We maintained our non-revenue water volumes to less than eleven per cent.

Manukau City is relatively young and our infrastructure network does not currently require substantial replacement. However, our analysis of renewal requirements showed that a substantial proportion of our assets will require replacement in concentrated groups in future years. As part of our prudent approach to asset management and to address intergenerational equity, an asset growth and replacement fund has been created and this was over \$23 million in value at 31 October 2010.

Manukau Water Limited had a comprehensive resource consent process to operate its wastewater systems. As part of the requirement of the resource consent conditions, Manukau Water Limited had been undertaking catchment studies to identify and rectify capacity shortfalls that result in wastewater overflows during storm events when rainfall gets into the sewer pipes. There are 35 catchments and substantial progress had been made in getting two catchments per year studied, consulted on and submitted (in the past) to the Auckland Regional Council. This programme ensured the necessary investments and operational improvements were made to have infrastructure to meet the needs of a growing city, while improving the quality of our water environment.

Finally, I am proud of the culture that had been created at Manukau Water Limited to provide high quality service in a cost effective manner. Customers judge us on our service and our price. We have championed our position on price and quality of service. We have gone to great lengths to achieve our four strategic goals. I thank my board of directors for its support, commitment, direction and confidence and to the staff at Manukau Water Limited who make it all happen.

And, a special note of appreciation to all our customers who call us and give us feedback, so that we can reinforce what is good and change what is not so good.



Raveen Jaduram
Chief Executive

Our Legacy

The creation of Manukau Water Limited as a council controlled organisation to provide water and wastewater services from 3 July 2006 was a significant milestone. The value of direct governance by an independent board of directors selected for their skills, knowledge and experience, has been demonstrated over the four years of operations.

The company has benefited from the continuity of its six directors who have served for the entire duration of the company's existence.

The board of directors utilised various sub-committees, especially during the initial years of the company and ultimately consolidated to the Technical Advisory Committee on engineering and infrastructure matters and the Audit Committee which encompassed all financial and risk matters.

The board of directors appointed what proved to be a very competent chief executive and the focussed water company has built a unique culture of celebrating high performance results, thus attracting and retaining high-calibre staff.

Manukau Water Limited has developed relatively sophisticated and efficient business processes over the last four years to reduce costs and maximise the use of existing assets. It has a staff to customer ratio of 1:4000 and annual turnover of \$1.2 million per employee.

The company is proud of its risk-based approach to asset management so that non-critical assets are only replaced on a needs basis so long as a quick response process is in place. This has avoided unnecessary spend on renewals. To deal with future asset replacement needs, the company has spread its predicted bow-wave of funding requirements by accumulating funds in an asset replacement reserve. This reserve was \$23.2 million at 31 October 2010.

Manukau Water Limited is the only water entity in the Auckland region that has 35 year comprehensive resource consents to operate its wastewater system. The company has identified priority zones for upgrading its infrastructure to meet growth and environmental standards. The city has been divided into 35 catchments and comprehensive computer-based catchment studies to identify capacity constraints and infrastructure projects have been completed for 13 zones.

Manukau Water Limited appreciates that its customers do not have a choice about who provides them with water and wastewater services. To ensure best value is provided, the company

outsources many of its non-core functions. One of the most important functions is the maintenance of its water and wastewater networks. The company has achieved exceptional savings and efficiencies by entering into pain/gain share agreements with its contractor City Care Limited.

The savings achieved by Manukau Water Limited in many facets of its operations have been transferred directly to its customers in lower prices. Manukau Water Limited has retained its domestic water and wastewater charges at the same levels as at July 2008 and has significantly reduced its commercial wastewater annual charges from the high of \$1,040 per year in 2007 to \$352 for 2010/11.

When Manukau Water Limited was established in 2006, it was required to introduce a fixed plus volumetric wastewater tariff for non-residential (i.e. other than domestic) customers. The transparency of the wastewater charges led to some customer complaints. A comprehensive review of the charges in 2007 showed that small businesses were subsidising domestic customers. This subsidy has gradually been removed over a four year period, resulting in a fairer allocation of the revenue requirement across the customer groups.

The lack of ability to disconnect customers who do not pay for the services that they receive as a result of the change from a rating basis, has required the company to institutionalise robust credit management and cash flow disciplines. As a company that has not been set up to make profits, nor to pay dividends, it has been important to remind staff and customers that those that do not pay, place a greater burden on those that do. The robust systems introduced created a very high collection rate which provided equity for all.

Water demand management initiatives have been at the forefront of the company. The increased population and industrial growth within the city has been met by efficiencies in water use amongst existing customers. Manukau Water Limited's water demand has virtually remained at the same level as what it was prior to it being established. It has also maintained its non-revenue water levels at less than eleven percent, an extremely good result within the industry.

To reinforce the philosophy of wise use of water and to require customers to be more responsible and accountable for its private plumbing, the company has maintained that all water sold through the property meter must be paid for as leaks on private property could only be controlled by the property owner/occupier. While this policy initially attracted some criticism (some customers felt that someone other than them should pay for water that they had wasted), customer forums held with affected customers have confirmed that Manukau Water policy was correctly sending the appropriate behavioural change signals to its customers.

During the last four years, Manukau Water Limited has upgraded its Beachlands/Maraetai

wastewater treatment plant to increase its capacity from 5,000 people to being able to service 10,000 people and to ensure that the treated effluent discharged to the Te Puru stream complies with the plant's resource consent conditions. Following commissioning in 2009, the plan is now fully compliant with all of the resource consent conditions.

In order to improve water quality at Kawakawa Bay and to allow safe swimming and recreational use of the bay, Manukau Water Limited has made substantial progress on a new wastewater collection and treatment scheme to service the Kawakawa Bay community. The scheme consists of a vacuum collect system, a first in New Zealand, and a membrane filtration wastewater treatment plant. Treated effluent will be mainly discharged to land by slow spray irrigation in an adjacent forest owned by Manukau Water Limited. The scheme is scheduled for final commissioning in early 2011.

Benchmarking surveys confirmed the company's achievements in many aspects of water utility operations. These outside endorsements and the alignment of staff to the ideals of the company created a culture of pride in Manukau Water Limited.

As a service organisation, it is important to Manukau Water Limited that it has the best people in place to provide its services and support services. We aim to attract and retain those people by providing them with a great place to work. Our values are actively promoted to support and enhance a strong culture of collaboration. During our time, we have rewarded over 35 employees for living our values.

A Management Development Programme was implemented in our first year of operation. The programme, eight months in length, has assisted us to develop our leaders and nurture our talent. The Herrmann Brain Dominance Instrument (HBDI) has been cascaded throughout the company, which seeks to assist in understanding an individual's preferences to think, learn, communicate and make decisions. Using the HBDI has aided our people in becoming more self-aware, and helps them understand why not everyone thinks the same.

Our people are important to us. Our wellness programme, implemented soon after our inception, has developed to include annual health checks, daily fruit, lunchtime mental resiliency seminars and group fitness training, including the "Power of 3" weight loss programme.

The company has supported the First Foundation since 2007, a foundation whose vision is to assist academically talented and financially disadvantaged New Zealand students to achieve their potential through tertiary education. We have provided two students scholarships. We are pleased to support these students and proud of their achievements to date.

Manukau Water Limited has also sponsored the Water New Zealand Trainee of the Year Award. The award recognises a trainee who is currently involved in an NZQA approved course applicable to any

aspect of the water industry, who exhibits hard work, aptitude and a keen desire to advance a career in the water industry.

Our commitment to protecting the environment and operating in a sustainable manner has extended to our sponsorship of the Westpac Manukau Business Excellence Awards, Environmental Management award. The award recognises businesses that demonstrate the highest level of commitment to compliance and continuous improvement in environmental management.

The company has concluded four years of operations on a high note. It has accumulated bank funds of \$23.2 million for future asset replacement, it has held domestic water and wastewater prices for two consecutive years and has, on average, the lowest charges in the Auckland region. It has substantially reduced commercial wastewater charges and has maintained a lean and extremely efficient workforce. It has an exemplary record of health and safety, with nil accidents for any member of the public. With the Supercity changes, the company's resolve was to ensure that the excellent entity that had been created was merged into the enhanced Watercare Services Limited with all its positive attributes intact. The journey is now complete.

Statement of Accounting Policies

For the 16 month period ended 31 October 2010

REPORTING ENTITY

These Financial Statements are for Manukau Water Limited, a Council Controlled Organisation as defined by section 6 of the Local Government Act 2002. The company is wholly owned by Manukau City Council.

Manukau Water Limited was incorporated in New Zealand on 24 November 1997 but only commenced operations on 3 July 2006. The Company is domiciled in New Zealand. The reporting entity is Manukau Water Limited only, a company that provides water and wastewater services to the people of Manukau.

These Financial Statements of Manukau Water Limited are for the 16 month period ended 31 October 2010. These Financial Statements were authorised for issue by 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.

STATUTORY BASE

Manukau Water Limited is a company registered under the Companies Act 1993 and is a reporting entity as defined by the Financial Reporting Act 1993. These Financial Statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993, the Local Government Act 2002 and the Companies Act 1993.

STATEMENT OF COMPLIANCE

Manukau Water Limited is designated as a public benefit entity (PBE) as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

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.

CHANGE IN REPORTING PERIOD

The Local Government (Tamaki Makaurau Reorganisation) Act 2009 was enacted on 23 May 2009 and provides for the dissolution of Manukau Water Limited on 31 October 2010. It also instructs Manukau Water Limited to prepare accounts for the 16 month period to 31 October 2010.

Because of this requirement, these accounts cannot be entirely compared to the previous year.

MEASUREMENT BASE

These Financial Statements have been prepared on a historical cost basis, except that certain property, plant and equipment, and biological assets have been valued as described in the specific accounting policies below. All amounts are reported in New Zealand dollars, rounded to the nearest thousand dollars.

AUCKLAND REORGANISATION/GOING CONCERN ASSUMPTION

Schedule 4 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009, dissolved Manukau Water Limited on 31 October 2010. As a consequence of the dissolution of Manukau Water Limited, the Company ceased to exist from that date. Accordingly the financial statements have been prepared on a dissolution basis.

The dissolution of Manukau Water Limited requires the financial statements to be prepared on a dissolution basis, not the normal going-concern basis. All the assets and liabilities of Manukau Water Limited have been vested in Watercare Services Limited. Because the assets and liabilities of Manukau Water Limited are relevant to Watercare Services Limited, no adjustments have been made in the financial statements resulting from the dissolution of Manukau Water other than as set out in Notes 4 and 27.

ACCOUNTING POLICIES

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below. They have been applied consistently to all periods presented in these financial statements.

1. REVENUE RECOGNITION

Revenue shown in the Statement of Comprehensive Income is the amount received and/ or receivable for goods and services supplied to customers in the ordinary course of business. This includes the estimated amounts for unbilled consumption at year end. Revenue mainly comes from selling water as well as the provision of wastewater services within the Manukau area. Revenue is recognised as follows:

- i. **Sale of water and wastewater**
Sales of water and wastewater are recognised when invoiced. Unbilled sales, as a result of water passing through meters but meters not being read at year end, are accrued on an average usage basis.
- ii. **Provision of services**
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.
- iii. **Other income**
Interest and dividend revenue are recognised when received.

Financial contributions are recognised as revenue when they are received and Manukau Water Limited provides, or is able to provide, the service for which the contribution was charged.

2. BORROWING COSTS

Borrowing costs are recognised as an expense in the period they are incurred. Manukau Water Limited has elected to defer adoption of the revised NZ IAS23 Borrowing Costs (Revised 2008) in accordance with the transitional provisions of NZ IAS23 that are applicable to public benefit entities.

3. INCOME TAX

Income tax expense comprises both current and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable on the taxable income for the current year, plus any adjustment to income tax payable in respect of previous years. Current Tax is calculated using tax rates (and laws) that have been 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.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

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.

Current tax and deferred tax is charged or credited to the statement of comprehensive income.

4. GOODS AND SERVICES TAX (GST)

These financial statements are stated exclusive of GST, with the exception of receivables and payables. The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is disclosed separately 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 flow. Commitments and contingencies are disclosed exclusive of GST.

5. LEASES

The company leases certain property, plant and equipment under an operating lease arrangement as the lessor effectively retains substantially all the risks and benefits of ownership. Amounts payable under the terms of these leases are recognised as an expense on a straight line basis.

6. RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development expenditure on individual projects is capitalised and recognised as a development asset when it is probable that the company will receive future economic benefits from the project. Any development assets are amortised on a straight-line basis over the period of expected benefit.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdraft.

8. TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful receivables.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off as an expense in the Statement of Comprehensive Income. A provision for doubtful receivables is established when there is objective evidence that Manukau Water Limited will not be able to collect the entire amount owing in accordance with the original terms of the receivable.

9. FINANCIAL ASSETS

Currently, Manukau Water Limited holds only one category of financial asset, Loans and Receivables, which are shown as trade and other receivables on its Statement of Financial Position.

Loans and receivables are both non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category of financial asset is initially recognised at fair value plus transaction costs. After initial recognition it is measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Comprehensive Income.

10. IMPAIRMENT OF FINANCIAL ASSETS

Impairment of a loan or a receivable is established when there is objective evidence that the company will not be able to collect amounts due according to the original terms. For debtors and other receivables, the carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or fair value less accumulated depreciation and impairment losses. Items of property, plant and equipment are initially recognised at cost. Cost includes the purchase price plus directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Major asset classes will be revalued on a regular basis not exceeding three years.

Classes of assets

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

Operating assets

- › Land (Freehold Properties)
- › Building- lease improvements
- › Motor vehicles
- › Computer hardware
- › Office furniture & equipment

Infrastructure assets

Water System

- › Water Pipes
- › Valves and Hydrants
- › Water Meters
- › Water Machinery

Wastewater system

- › Wastewater pipes
- › Manholes
- › Pump stations
- › Treatment plants
- › Wastewater Machinery

Work in progress

Additions

Constructed assets are initially recorded at cost, including the costs of obtaining Resource Management Act consents. The costs are recorded as work in progress until the asset is ready for productive use. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

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

Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Revaluation

Land has been valued by independent valuers every three years on a market value basis.

Pipelines, meters, pump stations and treatment plants are also carried at fair value, which is deemed to be ODRC (optimised depreciated replacement cost) because of the specialised nature of these assets. The depreciated replacement costs has been determined on the basis of an independent valuation prepared by external valuers at least every three years to ensure that their carrying amount does not differ materially from fair value. The revaluation process will involve assessing the current replacement cost and remaining useful lives of the recognised property, plant and equipment.

The Company accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluation are credited or debited to an asset revaluation reserve for that class of asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the income up to the amount previously expensed, and then credited to the revaluation reserve for that class of asset.

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

Disposals

Gains and losses on disposal are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent costs

Costs incurred subsequent to initial capitalisation are recognised only when it is probable that future economic benefits or service potential, associated with the asset, can be measured reliably.

Impairment

Asset carrying values are reviewed at the end of each year to determine whether there is any indication that the assets have suffered an impairment loss or increase in fair value. If any such indication exists, the fair value of the asset is estimated in order to determine the extent of the impairment loss or gain (if any).

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 balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

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 Statement of Comprehensive Income a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, at rates calculated to allocate their cost or revalued amounts over their estimated useful lives. All property, plant and equipment except motor vehicles are depreciated to a nil residual value.

Land and Capital works in progress are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Asset class	Range of useful lives in years
Water Pipes	40-95
Valves & Hydrants	40-95
Meters	20-25
Wastewater Pipes	65-110
Manholes	65-110
Machinery	12-80
Pump stations	15-80
Treatment Plant	12-100
Building-lease improvements	6
Motor vehicles	5
Computer hardware	3
Office furniture & equipment	5

12. INTANGIBLE ASSETS

Software acquisition and development

The costs of developing software tools, for example network models comprising data and proprietary software packages, are capitalised where the data collected is new data and the data will have future benefits over more than one financial year.

Acquired computer software and software licenses are capitalised on the basis of the costs incurred to acquire, and bring to use, the specific software.

Costs that are directly associated with the production of identifiable and unique software products (controlled by Manukau Water Limited), that are expected to generate economic benefits exceeding one year, are recognised as intangible assets.

Costs associated with developing or maintaining computer software are recognised as an expense when incurred. Computer software development costs recognised as assets are stated at cost less accumulated amortisation and impairment losses.

Computer software is amortised on a straight line basis at rates estimated to write off the cost over the useful life of the software ranging from three to six years.

Resource consents

Costs incurred in obtaining resource consents are capitalised when the consent is granted for greater than one year, otherwise the cost is expensed to the Statement of Comprehensive Income. Resource consents are amortised on a straight line basis over the term granted by the resource consent which ranges from five to thirty years and are stated at cost less amortisation and impairment losses.

Impairment

Intangible assets that have an indefinite useful life, or not yet available for use, are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for indicators of impairment at each balance date. When there is an indicator of impairment the asset's recoverable amount is estimated. An impairment loss is recognized in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

13. FORESTRY ASSETS

Forestry assets are predominantly standing trees which are managed on a sustainable yield basis. These are independently revalued annually at fair value less estimated costs to sell for one growth cycle. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined post-tax rate. The costs to establish and maintain the forest assets are included in the Statement of Comprehensive Income together with the annual change in fair value.

14. TRADE AND OTHER PAYABLES

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

15. PROVISIONS

Provisions are recognised when the company has a present legal or constructive obligation, as a result of a past event, and the amount of the provision can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at year-end.

Provisions are not recognised for future operating losses.

16. EMPLOYEE ENTITLEMENTS

The company provides for the cost of employees' entitlements on a basis consistent with the terms of their current employment contracts. These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date. These entitlements expected to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

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

Superannuation schemes

Obligations for contribution to defined contribution schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

The company does not belong to any defined benefit schemes.

17. CONTRACT RETENTIONS

Certain construction contracts entitle the company to retain specified amounts to ensure the performance of contract obligations. These retentions are recognised as a liability, and either used to remedy contract performance or paid to the contractor at the end of the retention period.

18. BORROWINGS

Borrowings comprise Shareholder loans that are both interest bearing and interest on demand. Interest is charged at market rates for both the interest bearing and interest on demand loans. As such, the carrying amounts of these loans approximate their fair value. Borrowings are initially recorded at fair value and subsequently at amortised cost using the effective interest method.

The 'interest-on-demand' loans are recognised as current liabilities in the Statement of Financial Position due to the 'on demand' features for both interest and principal.

The interest bearing loans are recognised as non-current liabilities in the Statement of Financial Position.

19. FINANCIAL INSTRUMENTS

Financial instruments include bank accounts, call investments, term investment within 3 months, trade and other receivables, trade and other payables and loans from our Shareholder. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All financial instruments are recognised in the Statement of Financial Position. All revenues and expenses in relation to financial instruments are recognised in the Statement of Comprehensive Income.

20. EQUITY

Equity is the shareholder's interest in the company and is measured as the difference between total assets and total liabilities. The components of equity are

- Share Capital
- Retained earnings
- Property, plant and equipment reserves

21. STATEMENT OF CASH FLOWS

'Cash' refers to amounts held in financial institutions. It includes cash balances, short-term deposits held as part of day-to-day cash management and bank overdrafts.

'Operating activities' are amounts received for the supply of products and services, and payments made to employees and suppliers necessary to support those goods and services (including borrowing costs). Operating activities also include any transactions or events that are not investing or financing activities.

'Investing activities' are the acquisition/ purchase and disposal/ sale of property, plant and equipment and investments.

'Financing activities' are the receipt and repayment of the principal on borrowings, and contributions from, and/ or distributions to, the Shareholder.

22. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS:

In preparing these financial statements, under the auspices of Watercare Services Limited, Manukau Water Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgments 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.

Infrastructure assets

There are a number of assumptions and estimates used when performing depreciated replacement cost (DRC) valuations over infrastructure assets. These include:

- The replacement cost is derived from recent construction contracts of similar assets.
- Age and remaining useful life based on construction date/total useful life for each component (defining condition standards and affect of condition in remaining useful life of the assets)
- Assessment of optimization and obsolescence (e.g. Redundant assets, abandoned, removed, replaced, overcapacity)
- Consideration of any residual value
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the 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. The accrual is based on customers' historic consumption levels.

23. CHANGES IN ACCOUNTING POLICIES

The financial statements for the 16 months to 31 October 2010 have been prepared on a dissolution 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 Manukau Water Limited has resulted in adjustments to the carrying amounts of certain assets and additional expenses have been recognised, as outlined in Notes 4 and 27.

Manukau Water 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. Manukau Water 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.

Manukau Water Ltd

Statement of Service Performance

Performance Indicators and Targets

For 16 months ending 31 October 2010

Relationships

- 1 Undertake an annual review with the council on the health of the relationship and identify areas for improvement**

As the existing relationship has been working well and the fact that both entities are to transfer to the Auckland Council or Watercare Services Limited, the scheduled review meeting was cancelled so relevant officers could continue their work on the transition.

Governance

- 2 All reports and information required under the LGA and the SOI are delivered to Council on time and to the standard specified in the LGA and SOI. 90% of special requests are delivered on time and to the standard specified.**

The final statement of intent for the 2010/11 financial year and associated funding plan was delivered to the council by the end of June, and in accordance with the requirements of the statement of intent. All other financial and statutory reports have been delivered as required and on time.

- 3 Board representatives attend Council's CCO Review Panel meetings as required, to present required information.**

The chair and the chief executive attended meetings held by the council as requested, and presented all required information.

- 4 All material and restricted transactions are approved by Council.**

There were no material or restricted transactions to be approved

Economic

		Actual 4 months	SOI Targets 4 months	Actual 12 months	SOI Targets 12 months	Last Year
5	Funds from Operations (FFO) Interest Cover (EBITDA/Interest Payable)	2.93	2.7-3.8	3.27	2.7-3.8	2.86
6	Total debt to total assets	0.13	0.08-0.15	0.52	0.50-0.60	0.52
	The large reduction in target for total debt to total assets was related to the conversion of debt to equity in July 2010.					
7	Interest bearing debt to total assets	Removed from SOI		12.7%	8%-15%	13.9%
8	Ratio of shareholder's funds to total assets	0.87	0.40-0.50	0.48	0.40-0.50	0.48

	See 6 above – Conversion of debt to equity increased the total shareholders funds without a change in assets, increasing the ratio.				
9	Review of Funding Plan to be carried out every three years in conjunction with similar reviews of Watercare.				
		There was little value in undertaking this review considering the imminent integration with Watercare Services Limited; accordingly the Board agreed not to do so as Watercare was were undertaking a similar review as part of the integration process.			
10	Successful contribution and participation in the process to ensure the council retains appropriate oversight of pricing policy.				
		Council requested that our SOI be amended to reflect a nil increase in water and residential wastewater prices for 2010/11 year due to cost containment and the economic conditions.			
11	Price increases will not exceed Consumer Price Index unless required to meet bulk price increases imposed by Watercare.				
		Manukau Water Limited has had a nil increase in its water and wastewater charges for 2009/10 financial year. Further, it reduced the annual fixed wastewater charges for non-residential customers as the process of removing cross subsidisation between the different customer groups was progressed.			
12	Prices for Water and Residential Wastewater services will be set at 2009/10 levels or below for 2010/11 year				
			2010/11	2009/10	2008/09
	Water (\$/m3)(GST inclusive) As from 1 October the increase in GST increased the cost to \$1.308 while the base price did not change.		\$1.28	\$1.28	\$1.28
	Wastewater Res (\$/Property)(GST Inclusive) As from 1 October the increase in GST increased the cost to \$407.87 while the base price did not change.		\$399.00	\$399.00	\$399.00
13	Maintain controllable costs to CPI-1%, excluding one-off items, new compliance requirements and items that are funded by corresponding revenues.				
			Actual 12 months	SOI Targets 12 months	
			2.64% below cpi	1% below cpi	
		With the imminent transfer to Watercare, staff who left were not replaced and investigative work was not undertaken unless urgent.			
Operational Capability					
14	Annual staff turnover rate – annual staff turnover will not be greater than 12.5% and 10% progressively over the succeeding two years.				
		Actual 4 months	SOI Targets 4 months	Actual 12 months	SOI Targets 12 months
					Last Year

	Turnover for the year was	22.7%	12.5%	17.5	12.5%	8.5%
	Turnover for the 4 months to Oct 2010 was above target because of staff made redundant as part of the integration with Watercare Services Ltd					
15	Annual staff survey using the John Robertson & Associates Workplace Survey – weighted mean score of 70% or more.					
	Survey score was			71%	70.0%	68%
16	Compliance with all relevant legislation.					
	The executive has confirmed to the board each month that as far as they are aware, all relevant legislation had been complied with. No non-compliance with legislation has been detected.					
17	Lost time injury frequency rate for staff will not be greater than 15, 10 and 8 hours per 1,000,000 hours, progressively over the next three years.					
		Actual 4 months	SOI Targets 4 months	Actual 12 months	SOI Targets 12 months	Last Year
	The lost time injury frequency rate was	0	2.3	0	15	6.8
Asset Management						
18	The council confirm that the AMP is consistent with the council's growth management strategy for the rural and urban areas.					
	Council has confirmed that Manukau Water's AMP is appropriately providing for the current and future needs of the city.					
19	Progressive removal of restrictions on new connections to the urban wastewater collection system, completed by 2015.					
	Design of the improvement works in the Otara and Manurewa catchments commenced in the latter half of the year. Manukau Water Limited has accepted applications for the addition of a minor household unit or one additional dwelling per property. Full removal of the wastewater connection restrictions will happen in 2012 when the works in these catchments have been completed.					
20	Issue the AMP by 21 December each year for the council's approval and ensure it is available for the council's Long-Term Council Community Plan (LTCCP)/Annual Plan consultation process					
	Manukau Water Limited's Asset Management Plan for the 20-year period 2011 to 2030 was issued to the council prior to its dissolution on 31 October 2010 and is thus available to be incorporated into the SOI of Watercare Services for 2012.					
21	90% of projects over \$1M completed on time and within budget - to be measured via report on achievements					
	There were three projects over \$1 million					
	a) Kawakawa Bay Wastewater Scheme works restarted in September 2009, after the company obtained the last outstanding consent. Service is expected to be available to the community in early 2011. The approval of the consents resulted in a new programme of works, specifically requiring the building of a new pump station at a new location and other minor improvements. Progress and expenditure during the year is within the					

		revised budget and programme parameters. The company has received a commitment from all but one property to connect to the scheme.
		b) The Sutton Crescent sewer replacement project was delayed due to the late delivery of pipes from overseas however it has now progressing and will be completed within budget.
		c) The Kerwyn Avenue sewer failed as a result of a slip. The implementation of a permanent solution has been delayed while methods of stabilising the land are investigated.
22	Asset management planning process and procedures meet industry best practice.	
		Manukau Water Limited participated in the Water Services Association of Australia (WSAA) asset management process benchmarking project in 2008. The benchmarking report concluded that "Manukau Water has achieved well with a number of its key areas operating near the top of the achievement range". A review of the asset register, resulting in addition of missing data or correction of data will result in improved asset information for future modelling.
23	External review of Asset Management Plan to be carried out every three years.	
		The Asset Management Plan for the 20-year period 2009 to 2028 was reviewed by Halcrow Pacific Pty Limited in 2008. It is intended that this plan will be integrated into the Watercare Asset Management Plan.
Social and Cultural		
24	Full compliance with the Drinking Water Standards for New Zealand 2005 for potable reticulated water and Health (Drinking Water) Amendment Act 2007	
		The company has fully complied with the Drinking Water Standards for New Zealand 2005 (revised 2008) and the Health (Drinking Water) Amendment Act 2007.
25	Operate water reticulation system to maintain the Ministry of Health "a" grading.	
		Manukau Water Limited received an "a" grading from the Auckland Regional Public Health Service. The latest formal notification was received on 29 October 2010.
26	The council confirm that it is satisfied with the implementation of the protocols that enable Manukau Water to consult with mana whenua.	
		Mana whenua are involved in key projects, such as the Kawakawa Bay Wastewater Scheme, and are consulted with on the wastewater catchment consenting programme. Manukau City Council has had no issues with the company in its compliance with the protocols established with mana whenua.
27	Hold one face to face meeting with mana whenua representatives each year.	
		The chair and chief executive attended the Mana Whenua Forum in May. Both parties reflected on the positive interactions that they have had and expressed a desire to continue a similar relationship with the integrated water entity and other council controlled organisations.
Environmental		
28	All resource consents complied with.	

All conditions of resource consents issued to Manukau Water Limited have been complied with. Some exceedances have occurred at the Beachlands/Maraetai Wastewater Treatment Plant. The Beachlands/Maraetai Wastewater Treatment Plant upgrade, which was completed in June 2009, has significantly improved the performance of the treatment process. As expected some exceedances were experienced during the optimisation in the first year. The treatment plant now treats the wastewater from the two seaside communities reliably and concentrations are well below the consent limits.

29 No successful prosecutions arising from breaches of consents issued pursuant to the Resource Management Act 1991.

There were no infringement notices or prosecutions issued pursuant to the Resource Management Act 1991.

Customer Service

		Actual 4 months	SOI Targets 4 months	Actual 12 months	SOI Targets 12 months	Last Year
30	Less than five water quality customer complaints per 1000 customers.	1.1	1.7	3.4	5.0	5.7
31	95% of all enquiries and complaints are responded to in a meaningful way within ten working days.	98%	95%	98%	95%	94%
32	Restore 90% of water shutdowns within five hours.	100%	90%	99%	90%	99%
33	Respond to 98% of wastewater blockages within one hour.	100%	98%	100%	98%	99%
34	Less than 30 watermain breaks per 100km of pipe annually.	6	10	25	30	18
35	Less than 60 wastewater blockages per 100km of pipe annually.	13	20	47	60	50

STATUTORY INFORMATION

FOR THE 16 MONTH PERIOD ENDED 31 OCTOBER 2010

DIRECTORS' REMUNERATION

16 MONTHS ENDING 31 OCT 2010	12 MONTHS ENDING 30 JUNE 2009
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The following are the amounts paid to each director or their representatives:

Current Directors

James Hill	\$74,708	\$55,825
Kevin Johnson	\$38,033	\$28,420
Ron Pearson	\$38,033	\$28,420
Rabin Rabindran	\$38,033	\$28,420
Peter Drummond	\$38,033	\$28,420
Alan Bickers	\$38,033	\$28,420

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 OCT 2010	12 MONTHS ENDING 30 JUNE 2009
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Total remuneration and other benefits

Number of Employees

\$100,000-110,000	3	4
\$120,000-130,000	2	3
\$130,000-140,000	1	2
\$150,000-160,000	1	0
\$170,000-180,000	0	1
\$180,000-190,000	2	0
\$200,000-210,000	0	1
\$210,000-220,000	0	1
\$240,000-250,000	1	0
\$330,000-340,000	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 period.

DONATIONS

Donations for the period totalled \$1,222 (2009 nil)

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 \$135k other services nil (2009: \$80k).

Director's Interests

- On 21 September 2010 P Drummond declared an interest in Auckland Tourism, Events and Economic Development and Watercare Services Limited
- On 21 September 2010 A Bickers declared an interest in New Zealand Plumbers, Gas fitters and drain layers Board

Statement of responsibility

Watercare Services Limited, as the receiving entity of Manukau Water, is responsible for the preparation of the financial statements and the judgements used in preparing them.

Watercare Services Limited confirms that Manukau Water established and maintained a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of Watercare Services Limited, Manukau Water's annual financial statements for the 16 month period ended 31 October 2010, fairly reflect the financial performance, financial position and service performance of Manukau Water.

Manukau Water Limited
Statement of Comprehensive Income
for the 16 month period ended 31 October 2010

		16 months ended 31 October 2010	12 months ended 30 June 2009
	Note	\$000	\$000
Income			
Water and wastewater charges	<u>1</u>	116,373	85,916
Other revenue	<u>2</u>	13,445	7,714
Other gains	<u>3</u>	12	4
Total income		129,831	93,634
Expenditure			
Employee benefit expenses	<u>4</u>	8,388	5,929
Depreciation and amortisation	<u>10 & 11</u>	28,238	19,363
Other expenses	<u>5</u>	82,563	59,406
Finance costs	<u>6</u>	11,746	10,051
Total operating expenditure		130,935	94,750
Operating loss before tax		(1,105)	(1,115)
Change in fair value of forestry	<u>12</u>	235	(775)
Loss before tax		(870)	(1,890)
Taxation	<u>7</u>	432	1,937
Profit/(Loss) after tax		(438)	47
Other Comprehensive Income			
Movement in Asset Revaluation Reserve revaluation/(impairment)	<u>16</u>	(2,344)	89,044
Tax effect of impairment taken against Asset Revaluation Reserve	<u>16</u>	703	(26,409)
Tax Rate Reduction (30% to 28%)	<u>16</u>	1,714	-
Total Comprehensive Income		(365)	62,682


The accompanying notes form an integral part of, and should be read in conjunction with, these Financial Statements.

Manukau Water Limited
Statement of Financial Position
as at 31 October 2010

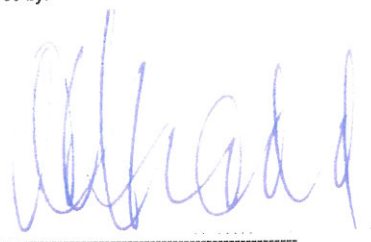
	Note	31 October 2010 \$000	30 June 2009 \$000
Assets			
Current assets			
Cash and cash equivalents	<u>8a</u>	3,768	5,510
Asset growth and replacement fund	<u>8b</u>	23,185	7,750
Total cash and cash equivalents		26,953	13,260
Trade and other receivables	<u>9</u>	17,189	17,428
GST receivable		757	-
Total current assets		<u>44,899</u>	<u>30,688</u>
Non-current assets			
Other financial assets	<u>8b</u>	-	5,000
Property, plant and equipment	<u>10</u>	1,021,125	1,026,771
Intangible assets	<u>11</u>	2,368	2,109
Forestry assets	<u>12</u>	736	580
Total non-current assets		<u>1,024,229</u>	<u>1,034,460</u>
Total Assets		<u>1,069,128</u>	<u>1,065,148</u>
<i>Represented by:</i>			
Liabilities			
Current liabilities			
Trade and other payables	<u>13</u>	12,186	11,918
Employee benefit liabilities	<u>14</u>	503	664
Borrowings	<u>15</u>	19,368	465,145
GST payable		-	389
Total current liabilities		<u>32,058</u>	<u>478,116</u>
Non-current liabilities			
Borrowings	<u>15</u>	115,000	75,000
Deferred tax liability and imputation credits	<u>7</u>	22,139	24,472
Total non-current liabilities		<u>137,139</u>	<u>99,472</u>
Total Liabilities		<u>169,196</u>	<u>577,588</u>
Equity			
Share Capital	<u>16</u>	846,173	433,436
Accumulated Losses	<u>16</u>	(8,949)	(8,511)
Asset Revaluation Reserve	<u>16</u>	62,708	62,636
Total Equity		<u>899,932</u>	<u>487,560</u>
Total Equity and Liabilities		<u>1,069,128</u>	<u>1,065,148</u>

The accompanying notes form an integral part of, and should be read in conjunction with, these Financial Statements.

Signed on behalf of the Board of Watercare Services Limited as the receiving entity in terms of Schedule 4 of the Local Government (Tamaki Makaurau Reorganisation) Act 2009 by:



 Ross Keenan, Chairman



 Jeff Todd, Director

Date 27 January 2011

Manukau Water Limited
Statement of Changes in Equity
for the 16 month period ended 31 October 2010

	16 months ended 31 October 2010	12 months ended 30 June 2009
Note	<u>\$000</u>	<u>\$000</u>
Equity at the beginning of the period	487,560	424,877
Total comprehensive income	<u>(365)</u>	<u>62,682</u>
Total comprehensive income/(expense) for the period	(365)	62,682
Issue of Shares	<u>16</u> 412,737	-
Equity at the end of the period	<u>16</u> <u>899,932</u>	<u>487,560</u>
Attributable to:		
Manukau City Council (100% Shareholder)	899,932	487,560

The accompanying notes form an integral part of, and should be read in conjunction with, these Financial Statements.

Manukau Water Limited

Statement of Cash Flows

for the 16 month period ended 31 October 2010

	16 months ended 31 October 2010	12 months ended 30 June 2009
Note	\$000	\$000
Cash flows from operating activities		
Receipts from customers	132,062	91,765
Interest received	787	804
Dividends received	82	45
Payments to suppliers and employees	(94,291)	(64,015)
Interest paid	(10,656)	(10,051)
Net cash from operating activities	17 <u>27,984</u>	18,548 <u>18,548</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	12	52
Redemption (Purchase) of debenture stock	5,000	(5,000)
Purchase of intangible assets	(1,118)	-
Purchase of property, plant and equipment	(18,186)	(6,638)
Net cash used in investing activities	(14,291) <u>(14,291)</u>	(11,586) <u>(11,586)</u>
Cash flows from financing activities		
Net cash from financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	13,693	6,961
Cash and cash equivalents at the beginning of the period	13,260	6,299
Cash and cash equivalents at the end of the year	8 <u>26,953</u>	13,260 <u>13,260</u>
Comprising		
Cash at bank and in hand	3,768	5,510
Asset Renewal and Replacement Fund	<u>23,185</u>	<u>7,750</u>
	26,953	13,260

The accompanying notes form an integral part of, and should be read in conjunction with, these Financial Statements.

The cash flows from operating activities reflect GST exclusive amounts.

Manukau Water Limited
Notes to the Financial Statements
for the 16 month period ended 31 October 2010

1 Water and wastewater charges

	16 months ended 31 October 2010 \$000	12 months ended 30 June 2009 \$000
Water sales	47,966	35,293
Wastewater sales	68,407	50,719
	<u>116,373</u>	<u>86,012</u>
Less - Wastewater rebates for schools in Manukau	-	(96)
Total revenue from water and wastewater sales	<u>116,373</u>	<u>85,916</u>

Water and wastewater revenue includes unbilled water and wastewater accruals.

2 Other revenue

	16 months ended 31 October 2010 \$000	12 months ended 30 June 2009 \$000
Revenue from activities		
Network growth charge	5,040	2,945
Network growth charge Kawakawa Bay	1,777	-
Network connection	1,355	962
Network development	172	492
Interest received	1,323	836
Dividends received	82	45
Miscellaneous revenue	3,696	2,435
Total other revenue	13,445	7,714

3 Other gains

	16 months ended 31 October 2010 \$000	12 months ended 30 June 2009 \$000
Gain on sale of property, plant and equipment	<u>12</u>	<u>4</u>
Total gains	<u><u>12</u></u>	<u><u>4</u></u>

4 Employee benefit expenses

	16 months ended 31 October 2010 \$000	12 months ended 30 June 2009 \$000
Salaries and wages	8,122	5,936
Severance and redundancy payments	756	-
Capitalised on water and wastewater construction projects	(349)	(357)
Defined contribution plans - employer contribution	197	149
Increase/(decrease) in employee benefit liabilities	(339)	200
Total employee benefit expenses	8,388	5,929

Project time directly attributable to construction projects was capitalised on predetermined hourly rates.

Employer contributions to defined contribution plans include contributions to KiwiSaver (maximum 4% of employees' salaries) and the Supertrust Superannuation Schemes (maximum 5% of employees' salaries).

Employee benefit expenses include \$605,000 (2009: nil) of redundancies arising from the dissolution of Manukau Water, paid in accordance with the Local Government (Auckland Transitional Provision) Act 2010.

5 Other expenses

The loss after tax is stated after charging the following:

	16 months ended 31 October 2010 \$000	12 months ended 30 June 2009 \$000
Water and wastewater wholesale costs	61,292	43,755
External audit fees	136	80
Internal audit fees	21	22
Other assurance services	56	-
Fees for tax services	-	-
Directors' fees	265	195
Movement in provision for receivables	(118)	441
Bad Debts written off	143	-
Lease payments under operating leases	661	381
Land rates	3,610	2,193
Asset Writeoff	330	-
Donations	1	-
Other operating expenses	16,166	12,339
Total other expenses	82,563	59,406

Manukau Water received a six month rent holiday when they moved into their new offices. This has been amortised over the period that Manukau Water has occupied these offices.

Manukau Water has increased its estimate of the proportion of accounts receivable past their due date that require an impairment provision. This has increased the provision for receivables and the related expense by \$85,000.

6 Finance costs

	16 months ended 31 October 2010	12 months ended 30 June 2009
	\$000	\$000
Interest on Manukau City Council loans	11,744	10,051
Interest on bank overdraft	2	-
Total finance costs	11,746	10,051

7 Tax

	31 October 2010	30 June 2009
	<u>\$000</u>	<u>\$000</u>
Current tax expense	-	-
Deferred tax expense	(1,211)	(1,937)
Deferred tax - impact of change in tax rate (30% to 28%)	779	-
Income tax expense	<u>(432)</u>	<u>(1,937)</u>

Relationship between tax expense and accounting deficit

	31 October 2010	30 June 2009
Loss before tax	870	1,890
Tax at 30% (2009: 30%)	(261)	(567)
Non-deductible expenditure	7	4
Prior period adjustment	(958)	-
Unused tax losses and tax offsets not recognised as deferred tax assets	-	(1,374)
Deferred tax - impact of change in tax rate (30% to 28%)	779	-
Tax expense	<u>(432)</u>	<u>(1,937)</u>

Deferred tax assets/(liabilities)	Property, plant and equipment	Employee entitlements	Other provisions	Tax Loss	Total
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July	(69,641)	94	454	44,620	(24,472)
Adjustment to 2009 tax losses	700	-	-	258	958
Charged to statement of comprehensive income	(19,758)	(28)	(35)	-	(19,822)
Tax loss for the period	-	-	-	20,074	20,074
Loss offset with Council	-	-	-	(582)	(582)
Charged to equity	703	-	-	-	703
Adjustments relating to change in tax rate recognised in the deficit for the period	3,512	-	-	(4,291)	(779)
Adjustments relating to change in tax rate recognised in comprehensive income	1,714	-	-	-	1,714
Balance at 31 October 2010	<u>(82,770)</u>	<u>66</u>	<u>419</u>	<u>60,079</u>	<u>(22,206)</u>

Imputation credit account

	16 months ended 31 October 2010	12 months ended 30 June 2009
	<u>\$000</u>	<u>\$000</u>
Balance at the start of the period	41	27
Credit attached to dividend received	25	14
Balance at the end of the period	<u>67</u>	<u>41</u>

2009

Deferred tax assets/(liabilities)	Property, plant and equipment	Employee entitlements	Other provisions	Tax Loss	Total
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July	(32,612)	92	322	32,197	-
Difference between accounting and tax	(10,620)	2	132	12,423	1,937
Charged to equity	(26,409)	-	-	-	(26,409)
Balance at 30 June 2009	<u>(69,641)</u>	<u>94</u>	<u>454</u>	<u>44,620</u>	<u>(24,472)</u>

The Tax Rate adjustment results from the reduction in the corporate tax rate from 30% to 28% from 1 July 2011, as substantively enacted following the May 2010 NZ Government fiscal budget.

8 a Cash and cash equivalents

Cash and cash equivalents include the following:

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Cash at bank and in hand	3,768	5,510
Total cash at bank and in hand	3,768	5,510

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

8 b Asset Growth and Replacement Fund

The Asset Growth and Replacement Fund includes the following:

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Current -cash at bank and in hand	8,185	7,750
Current - other financial asset -held to maturity	15,000	-
Non-current - other financial asset -held to maturity	-	5,000
Total Asset Renewal and Replacement Fund	23,185	12,750
Cash and cash equivalents at the end of the year	26,953	13,260
Non-current - other financial asset -held to maturity	-	5,000

The asset growth and replacement fund is set aside for future capital expenditure commitments necessary to address the aging profile of the water and wastewater infrastructure, and growth related works in the asset management plan. This fund addresses delays in capital expenditure, such as the Kawakawa Bay Wastewater Scheme, as well as the peak capital expenditure required for replacement and renewals of the water and wastewater network. \$15 million of the fund has been invested for optimal return with \$10 million with Watercare Services Limited and \$5 million with Bank of New Zealand.

9 Trade and other receivables

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Water and wastewater receivables	5,891	9,961
Other receivables	834	460
Related party receivables (refer note 21)	448	211
Unbilled water and wastewater accrued	11,411	8,259
Prepayments	-	51
	<u>18,584</u>	<u>18,941</u>
Less provision for impairment of receivables	(1,395)	(1,513)
Total trade and other receivables	<u><u>17,189</u></u>	<u><u>17,428</u></u>

Trade and other receivables are non-interest bearing and receipt is normally on 21-day terms, therefore the carrying value of trade and other receivables approximates their fair value.

Unbilled water and wastewater accrued represents the value of water meters unread, and as such unbilled, at the period end. The increase at the end of this period was because billing stopped on 20 October 2010 to facilitate data transfer to the Watercare billing system.

All overdue receivables have been assessed for impairment and an appropriate provision has been applied, as detailed below:

	2010			2009		
	Gross \$000	Impairment \$000	Net \$000	Gross \$000	mpairment \$000	Net \$000
Not past due	15,241	28	15,213	14,943	79	14,864
Past due 31-60 days	1,206	88	1,118	958	78	880
Past due 61-90 days	503	56	447	818	47	771
Past due > 90 Days	1,634	1,223	411	2,221	1,309	913
Total	<u><u>18,584</u></u>	<u><u>1,395</u></u>	<u><u>17,189</u></u>	<u><u>18,940</u></u>	<u><u>1,513</u></u>	<u><u>17,428</u></u>

Specific provisions of \$964k have been provided for Tradewaste debtors. The remaining provision of \$431k is a collective provision for doubtful debts based on the ageing profile of the remaining debtors.

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

	Actual 2010 \$000	Actual 2009 \$000
Balance at the start of the period	1,513	1,072
Additional provisions made during the year	-	441
Provisions reversed during the year	(118)	-
Balance at the end of the period	<u><u>1,395</u></u>	<u><u>1,513</u></u>

Manukau Water Limited holds no collateral as security or other credit enhancements over receivables that give rise to credit risk, including those that are either past due or impaired.

10 Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

	Cost/ revaluation 01-Jul-09	Accumulated depreciation and impairment charges 1-Jul-09	Carrying amount 01-Jul-09	Current Period additions	Current Period Reclassification	Current Period disposals	Current period disposals Depn Written back	Current period depreciation	Revaluation surplus	Cost/ revaluation 31-Oct-10	Accumulated depreciation and impairment charges 31-Oct-10	Carrying amount 31-Oct-10
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Operational assets												
Land	9,655	0	9,655	5	0	0	0	0	0	9,660	0	9,660
Buildings-leasehold improvements	51	(49)	3	928	0	(63)	49	(370)	0	916	(369)	546
Motor Vehicles	243	(66)	177	0	0	0	0	(34)	0	243	(100)	143
Other Plant and Equipment	480	(215)	264	297	26	(82)	56	(182)	0	720	(375)	345
Office Furniture and Fittings	102	(73)	30	354	(26)	(0)	0	(130)	0	429	(168)	262
Total operational assets	10,531	(402)	10,128	1,578	0	(146)	106	(715)	0	11,968	(1,012)	10,956
Infrastructure assets												
Water Supply	333,784	0	333,784	2,484	2,734	(1,336)	114	(10,610)	0	337,666	(10,496)	327,170
Wastewater Reticulation	665,825	0	665,825	2,798	3,837	(1,635)	26	(16,110)	0	670,825	(16,085)	654,740
Capital Work in Progress	17,033	0	17,033	18,006	(6,779)	0	0	0	0	28,259	0	28,259
Total infrastructure assets	1,016,642	0	1,016,642	23,288	(207)	(2,972)	139	(26,720)	0	1,036,751	(26,582)	1,010,169
Total property, plant & equipment	1,027,173	(402)	1,026,770	24,866	(207)	(3,117)	245	(27,435)		1,048,719	(27,593)	1,021,125

Total water and wastewater assets added for the 16 month period ending 31 October 2010 totalled \$11.8 million and included the self-constructed assets of \$5.5 million and the vested assets purchased from Manukau City Council for \$6.3 million.

Work in Progress

The capital work in progress figure includes intangible assets work in progress. When an intangible asset is capable of operating in the manner intended by management, it is reclassified from property, plant and equipment WIP to intangible assets. The total of intangible transfers shown above is therefore the same as the amount reclassified into intangible assets in note 11.

Valuation

The land value is shown at fair value as determined from market based evidence by an independent valuer. The most recent valuation was performed by Property Valuations Limited, and the valuation was effective as at 30 June 2009.

The infrastructure assets are shown at fair value determined on a depreciated replacement cost basis by an independent valuer. The most recent valuation was performed by AECOM and the valuation as effective as at 30 June 2009

Impairment

An impairment test has been applied to all categories of assets, and an impairment adjustment has been accounted for in the statement of comprehensive income.

10 Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

	Cost/ revaluation 01-Jul-08	Accumulated depreciation and impairment charges 1-Jul-08	Carrying amount 01-Jul-08	Current year additions	Current year Reclassification	Current year disposals	Current year impairment charges	Current year depreciation	Revaluation surplus	Cost/ revaluation 30-Jun-09	Accumulated depreciation and impairment charges 30-Jun-09	Carrying amount 30-Jun-09
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Year ended 30 June 2009												
Operational assets												
Land	8,636		8,636		5			(58)	1,014	9,655	(49)	9,655
Buildings-leasehold Improvements	184	(116)	68		16	(6)		(25)		51	(66)	3
Motor Vehicles	233	(41)	192		243	(2)		(102)		243	(215)	177
Other Plant and Equipment	253	(128)	125		2	(3)		(28)		480	(73)	264
Office Furniture and Fittings	108	(49)	59		266	(19)		(213)	1,014	10,531	(402)	10,129
Total operational assets	9,414	(334)	9,080		266	(19)		(213)	1,014	10,531	(402)	10,129
Infrastructure assets												
Water Supply	319,484	(15,256)	304,228	610	2,116		(7,399)		34,229	333,784		333,784
Wastewater Reticulation	636,999	(23,866)	613,133	1,145	9,070	(29)	(11,296)		53,801	665,825		665,825
Capital Work in Progress	20,259		20,259	9,385	(12,611)				17,033	17,033		17,033
Total infrastructure assets	976,742	(39,122)	937,620	11,140	(1,425)	(29)	(18,694)		88,030	1,016,642		1,016,642
Total property, plant & equipment	986,156	(39,456)	946,700	11,140	(1,159)	(48)	(18,907)		89,044	1,027,173	(402)	1,026,771

Total water and wastewater assets added for the 2009 financial year totalled \$12.9 million and included the self-constructed assets of \$11.1 million and the vested assets purchased from Manukau City Council for \$1.8 million.

Work in Progress

The capital work in progress figure includes intangible assets work in progress. When an intangible asset is capable of operating in the manner intended by management, it is reclassified from property, plant and equipment WIP to intangible assets. The total of intangible asset additions shown above is therefore the same as the amount reclassified out of WIP in note 10.

Valuation

The land value is shown at fair value as determined from market based evidence by an independent valuer. The most recent valuation was performed by Property Valuations Limited, and the valuation is effective as at 30 June 2009.

The infrastructure assets are shown at fair value determined on a depreciated replacement cost basis by an independent valuer. The most recent valuation was performed by AECOM and the valuation is effective as at 30 June 2009.

Impairment

An impairment test has been applied to all categories of assets, and no impairment loss has occurred.

11 Intangible assets

Movements for each class of intangible asset are as follows:

	Network Models \$000	Computer Software \$000	Resource Consents \$000	TOTAL \$000
Balance at 1 July 2009				
Cost	1,911	445	1,082	3,438
Accumulated amortisation and impairment	(1,094)	(97)	(137)	(1,329)
Opening carrying amount	817	348	944	2,109
Changes during the period				
Additions	657	144	317	1,118
Disposals	(995)	(171)	0	(1,167)
Accelerated amortisation charge	(341)			(341)
Amortisation written back	995	115	0	1,110
Amortisation charge	(175)	(214)	(73)	(462)
Total changes during the period	140	(125)	244	259
Balance at 31 October 2010				
Cost	1,572	418	1,399	3,389
Accumulated amortisation and impairment	(615)	(196)	(210)	(1,021)
Closing carrying amount	957	223	1,188	2,368
	Computer Models \$000	Computer Software \$000	Resource Consents \$000	TOTAL \$000
Balance at 1 July 2008				
Cost	1,043	170	1,065	2,279
Accumulated amortisation and impairment	(744)	(36)	(91)	(872)
Opening carrying amount	299	134	974	1,407
Changes during the period				
Additions / (Disposals)	867	275	16	1,159
Amortisation charge	(350)	(61)	(46)	(457)
Total changes during the period	518	214	(29)	702
Balance at 30 June 2009				
Cost	1,911	445	1,082	3,438
Accumulated amortisation and impairment	(1,094)	(97)	(137)	(1,329)
Closing carrying amount	817	348	944	2,109

There are no restrictions over the title of the Company's intangible assets, nor are any intangible assets pledged as security for liabilities.

Work in Progress

Capitalised intangible assets work in progress is shown initially in the property, plant and equipment WIP line in note 10. When an intangible asset is capable of operating in the manner intended by management, it is reclassified from property, plant and equipment WIP to intangible assets. The total of intangible asset transfers shown above is therefore the same as the amount reclassified out of WIP in note 10.

12 Forestry assets

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Balance at the start of the period	580	1,355
Gains/(Losses) arising from changes in fair value less estimated point of sale costs attributable to physical changes	42	(785)
Gains/(Losses) arising from changes in value less estimated point of sale costs attributable to price changes	193	10
Decreases due to sales	-	-
Decreases due to harvest	(79)	-
Balance at the end of the period	<u><u>736</u></u>	<u><u>580</u></u>

The 118 hectares of forestry assets at Kawakawa Bay were purchased from Manukau City Council at 3 July 2006. The primary purpose of the forest is for effluent irrigations of the Kawakawa Bay Treatment Plant.

Harvesting began in March 2010 and will continue until December 2010

Independent registered valuers Chandler Fraser Keating Limited have performed NZIAS41 compliant tree crop valuation of the forestry as at 30 June 2010. A post-tax discount rate of 6.7% has been used in discounting the net present value of the projected net cash flow. The net present value include the 2008 planting which is valued on a replacement cost basis.

The following assumptions were made in the forest valuation:

- consistent with NZIAS41, only the current existing crop is valued.
- each period's cash flow occurs on average in the middle of the period.
- the cash flow projection is post-tax and pre-funding costs. It is assumed the forest is 100% equity funded.
- land tenure is freehold. A notional annual rental is included in the valuation to reflect the cost of use of the land.

13 Trade and other payables

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Trade payables	4,546	680
Deposits and bonds	6	14
Accrued expenses	717	4,204
Amounts due to related parties (refer note 21)		
Manukau City Council	1,111	1,779
Others	4,615	4,045
Revenue in advance	1,192	1,198
Total trade and other payables	12,186	11,918

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.

Revenue in advance relates to water meters that have been charged but not installed and network growth charges that have been charged but not given effect to at 31 October. Also included is the amount customers have overpaid Manukau Water and so have a credit balance in their account.

14 Employee Benefit Liabilities

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Accrued pay	-	200
Provision for redundancy	178	-
Annual leave	325	464
Total employee benefit liabilities	503	664
Comprising:		
Current	503	664
Non-current	-	-

Manukau Water Limited has an unspecified sick leave policy.

15 Borrowings

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Current portion		
"Interest-on-demand" loans from Manukau City Council	19,368	465,145
Total current portion	19,368	465,145
Non-current portion		
Interest bearing loans from Manukau City Council	115,000	75,000
Total non-current portion	115,000	75,000
Total borrowings	134,368	540,145

The "interest-on-demand" loans comprise \$19,368,385 being the additions over the past four financial periods for the purchase of vested assets from Manukau City Council. The additions are \$6,960,261 and \$2,069,000 for the current and prior financial periods respectively. These new water and wastewater assets are currently being funded by way of raising additional "interest-on-demand" loans with Manukau City Council.

Given the demand feature and the expectation that Manukau City Council charges market interest rates at 6.8% (2009 6.8%), the "interest-on-demand" loan was recorded initially at face value, and will continue to be recognised at face value, being the amount that could be demanded by Manukau City Council. During the financial period Manukau City Council demanded the interest cost on \$59 million of "interest-on-demand" loans (2009, \$70 million).

On 30 September 2010, Manukau City Council converted \$412,737,225 of Interest on Demand debt into Share Capital. At the same time, \$40,000,000 of Interest on Demand loan was converted into normal interest bearing debt.

Fair values of non-current borrowings

The carrying amounts and the fair values of non-current borrowings are as follows:

	Carrying amounts 31 October 2010 \$000	Carrying amounts 30 June 2009 \$000
Unsecured loans (Manukau City Council)	115,000	75,000
Total	115,000	75,000

The fair value of the interest bearing loans is \$115 million from the Manukau City Council. The carrying amounts approximate their fair values. The average interest rate paid on the loan for the 16 month period ended 31 October 2010 was 6.8% (2009 7.1%)

16 Equity

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Share Capital		
Balance at the start of the period	433,436	433,436
Shares Issued 30 September to Manukau City Council	412,737	-
Balance at the end of the period	<u>846,173</u>	<u>433,436</u>
Accumulated Loss		
Balance at the start of the period	(8,511)	(8,559)
Profit/(Loss) after tax	(438)	47
Balance at the end of the period	<u>(8,949)</u>	<u>(8,511)</u>
Asset revaluation reserves		
Balance at the start of the period	62,635	-
Movement in Asset Revaluation Reserve revaluation/(impairment)	(2,344)	89,044
Tax charged to the statement of comprehensive income resulting from -		
tax effect of impairment (revaluation) of property, plant and equipment	703	(26,409)
tax rate reduction (30% to 28%)	1,714	-
Balance at the end of the period	<u>62,708</u>	<u>62,635</u>
Total equity	<u><u>899,932</u></u>	<u><u>487,560</u></u>
Asset revaluation reserves consist of:		
Operational assets		
- Land	1,014	1,014
Infrastructural assets:		
- Water Supply System	24,314	24,328
- Wastewater System	37,380	37,293
Total revaluation gain (loss)	<u>62,708</u>	<u>62,635</u>

Share capital is 846,172,809 fully paid ordinary shares at \$1 each. The sole shareholder is Manukau City Council.

17 Reconciliation of profit after tax to net cash flow from operating activities

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Profit/(Loss) after tax	(438)	47
Add/(less) non-cash items:		
Depreciation and amortisation	28,238	19,363
Impairment charges	(118)	441
(Gain)/Loss in fair value of forestry assets	(235)	775
Deferred tax	(432)	(1,937)
Revenue from gifted assets	(467)	-
Total non-cash items	26,987	18,642
Add/(less) items classified as investing activities		
Gains on disposal of property, plant and equipment	(12)	(4)
Losses on disposal of Infrastructure Assets	330	-
Losses on disposal of Infrastructure Assets from Revaluation Reserve	-	-
Capitalised salaries	(349)	(357)
Total classified as investing activities	(31)	(361)
Add/(less) movement in working capital items		
Receivables and prepayments	357	(466)
Payables and accruals	1,270	776
Employee entitlements	(161)	(90)
Working capital movement - net	1,467	220
Net cash inflow from operating activities	27,984	18,548

18 Capital commitments and operating leases

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Capital commitments		
Approved and Committed:		
Capital expenditure contracted for at period end, but not yet incurred, for property, plant and equipment	3,674	14,996

The major projects are listed below:

Projects	Project Value \$000	Balance in WIP at 31 October 10 \$000	Committed but not yet incurred
Kawakawa Bay Wastewater Scheme	24,595	21,083	3,512
Sutton Crescent	796	743	53
Watermain Renewal Package	257	148	109
Total Committed		21,974	3,674

Operating leases as lessee

Manukau Water Limited leases property, plant and equipment in the normal course of business. The only significant lease is for the company's office building for a period of 6 years commencing July 2009.

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Non-cancellable operating leases as lessee		
Not later than one year	477	259
Later than one year and not later than five years	1,716	1,872
Later than five years	-	468
Total non-cancellable operating leases	2,193	2,599

No contingent rents have been recognised in the statement of comprehensive income during the period.

19 Contingencies

Manukau Water Limited does not have any contingent liabilities at 31 October 2010. (2009 - A potential contingent liability relating to trade waste was disclosed - with the likelihood of any financial impact being judged as remote)

20 Events after the balance date

Manukau Water Ltd was merged with Watercare Services Ltd on 1 November 2010 on the basis described in note 25. (2009 nil)

21 Related party transactions

Manukau City Council is the ultimate shareholder of Manukau Water Limited. All related parties of Manukau City Council are considered to be related parties of Manukau Water Limited. Manukau Water Limited has not entered into related party transactions with any subsidiaries of Manukau City Council other than in the normal course of business.

The following schedule shows transactions carried out with related parties and amounts payable and receivable at the end of the period:

	Actual 31 October 2010 \$000	Actual 30 June 2009 \$000
Manukau City Council		
"Interest-on-demand" loans to Manukau Water Limited	19,368	465,145
Interest bearing loans to Manukau Water Limited	115,000	75,000
Debenture stock issued to Manukau Water Limited	-	5,000
Sale of Vested Assets to Manukau Water Limited	6,178	1,840
Interest received from Manukau Water Limited	11,744	10,051
Land rates received from Manukau Water Limited	3,609	2,193
Services provided to Manukau Water Limited	1,877	2,021
Services provided by Manukau Water Limited	3,097	2,456
Amounts receivable by Manukau Water Limited	97	211
Amounts payable by Manukau Water Limited	1,111	1,779
Tax loss offset provided by Manukau Water Limited	582	-
Shares issued to Manukau Water Limited - (see note 26)	412,737	-
Services provided by Manukau Water Limited include water and wastewater charges of \$1,065,000 and stormwater management fees of \$916,000. (2009 - water and wastewater charges of \$829,000 and stormwater management fees of \$1,100,000.)		
Manukau Leisure Services Limited		
Service provided from Manukau Water Limited	498	469
Watercare Services Limited		
Services provided to Manukau Water Limited	61,292	43,755
Interest receivable by Manukau Water Limited	352	-
Term Investment from Manukau Water Limited	10,000	-
Amounts receivable from Manukau Water Limited	4,615	4,045
Waste Disposal Services		
Services provided to Manukau Water Limited	2	1
South Auckland Health Foundation		
Services provided to Manukau Water Limited	4	-

Key management and directors

No directors or senior management have entered into related party transactions with Manukau Water Limited, other than in the normal course of the business of paying water and wastewater charges.

Key management personnel compensation and directors

	16 months ended 31 October 2010	12 months ended 30 June 2009
	\$000	\$000
Salaries and other short term employee benefits		
Senior Management Personnel	1,255	1,239
Directors Fees	265	195
Post employment benefits	-	-
Other long term benefits	-	16
Termination benefits	75	-

Key management personnel includes the Directors, Chief Executive Officer (CEO) and other senior management personnel.

22 Financial instruments
22A Financial instrument categories

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

	31 October 2010	30 June 2009
	<u>\$000</u>	<u>\$000</u>
FINANCIAL ASSETS		
Loan and receivables		
Cash and cash equivalents	26,953	13,260
Trade and other receivables	<u>17,189</u>	<u>17,428</u>
Total loan and receivables	44,142	30,688
Held to maturity		
Other financial assets		
- local authority stock	<u>-</u>	<u>5,000</u>
Total held to maturity		5,000
FINANCIAL LIABILITIES		
Financial liabilities at amortised cost		
Creditors and other payables	12,186	11,918
Borrowings:		
- Interest on demand loans from Manukau City Council	19,368	465,145
- Interest bearing loans from Manukau City Council	<u>115,000</u>	<u>75,000</u>
Total financial liabilities at amortised cost	146,555	552,064

22B Financial instrument risks

Manukau Water Limited has policies to manage the risks associated with financial instruments. The Company is risk adverse and seeks to minimise exposure to treasury risks. These policies do not allow any transactions that are speculative in nature to be entered into.

Interest rate risk

Interest rate risk is the risk that Manukau Water Limited will suffer a financial loss due to adverse movements in interest rates on borrowings or investments.

All external borrowings is with Manukau City Council. \$115 million of the debt is interest bearing. The average interest rate paid on this debt during 2009/10 was 6.8% (2008/09: 7.1%). The interest rate payable is determined by Manukau City Council based on its borrowing costs. If the interest rate changes by 1%, interest payable for this debt in a year would change by \$1,150,000 (2009, \$750,000)

The remainder of the debt is subject to interest on demand. Both the interest rate payable and the amount of debt that interest is charged on are determined by Manukau City Council. A total interest payable of \$4,379,866 (2009:\$4,753,000) was charged on \$59 million (2009,\$70 million) of this debt at 6.8% (2009, 6.77%).

The Manukau Water's held to maturity investments are invested with: Watercare Services Limited (\$10 million), \$5 million at a fixed interest rate of 4.85% and the other \$5 million at a fixed rate of 4.75% and Bank of New Zealand \$5 million at a fixed rate of 4.85%. With fixed interest rate, the interest receivable on these investments is not subject to interest rate risk.

The cash and cash equivalents balance is held in Bank of New Zealand bank accounts at a variable rate of interest. If interest rates on the bank account change by 1%, interest receivable in a year will change by \$12,000 based on the cash balance held at the balance date (2009: \$133,000).

Currency risk

Manukau Water Limited is not exposed to the currency risk.

Credit risk

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

Debtors and other receivables mainly arise from Manukau Water'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.

Manukau Water Limited has no significant concentrations of credit risk, as it has a large number of credit customers, mainly water and wastewater customers and only invests funds with registered banks and other organisations with specified credit ratings. The Company has vigorous debt collection system in place, which include restriction of water supply, use of debt collection agencies and recovering debts from solicitor after sale of property.

The Company's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash equivalents, and trade receivables. There is no collateral held as security against these financial instruments, including those instruments that are overdue or impaired.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to Standard and Poor's credit ratings where available as follows:

Counterparties with credit ratings	31 October 2010	30 June 2009
Cash and cash equivalents - AA rating	16,953	13,260
Cash and cash equivalents - A- rating	10,000	-
Trade and other receivables - AA rating	216	1
Trade and other receivables - A- rating	347	-
Counterparties without credit ratings		
Other non-current financial assets	-	5,000
Trade and other receivables	16,626	17,427

Liquidity risk

Liquidity risk is the risk that Manukau Water Limited will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Manukau Water Limited aims to maintain flexibility in funding by keeping committed credit lines available.

Financial assets held for managing liquidity risk include cash and cash equivalents and trade and other receivables. All such assets are expected to be received within one year of the balance date.

Contractual maturity analysis of financial liabilities

	Carrying Amount	Contractual cash flows	Less than 1 year	1-2 years
	\$000	\$000	\$000	\$000
2010				
Creditors and other payables	12,186	12,186	12,186	-
Unsecured loan-current	19,368	19,368	19,368	-
Unsecured loan-non-current	115,000	115,000	-	115,000
Total	146,554	146,554	31,554	115,000
	\$000	\$000	\$000	\$000
2009				
Creditors and other payables	11,918	11,918	11,918	-
Unsecured loan-current	465,145	465,145	465,145	-
Unsecured loan-non-current	75,000	75,000	-	75,000
Total	552,063	552,063	477,063	75,000

The unsecured loans totalling \$134.4 million are from Manukau City Council. (see note 15 for further detail)

The company monitors rolling forecasts of liquidity reserves on the basis of expected cash flow. At 31 October 2010 the company had an undrawn bank overdraft facility with the Bank of New Zealand of \$10 million available for its immediate use. Any additional liquidity requirements would be sourced from Manukau City Council.

23 Capital management

Manukau Water Limited's capital is represented as equity, which comprises share capital, retained earnings and reserves. Equity is represented by net assets.

The constitution requires the Board of Directors to manage the company's revenue, expenses, assets, liabilities, investments, and general financial dealings prudently. Manukau Water Limited's equity is largely managed as a consequence of managing revenues, expenses, assets, liabilities, investments, and general financial dealings.

24 Prior period comparative

The local government (Tamaki Makaurau Organisation Act 2009) was enacted on 23 May 2009 and provides for dissolution of Manukau Water Limited on 31 October 2010. It also instructs Manukau Water to prepare accounts for the 16 month period to 31 October 2010. As a result the current periods result cannot be entirely compared to the previous year.

The prior year comparatives have been reclassified where required to conform to current years presentation.

25 Reorganisation of Local Government in Auckland - transfer of assets, liabilities and operations

The reorganisation has impacted on Manukau Water as follows:

- All property owned by Manukau water has been vested in Watercare
- All money payable to or by Manukau water has become payable to or by Watercare
- All rights, liabilities, contracts, entitlements and engagements of Manukau Water have become rights, liabilities, contracts, entitlements and engagements of Watercare.
- Watercare is delivering the services previously delivered by Manukau Water

26 Interest to Equity Conversion

Manukau City Council voted to convert Manukau Water Limited's \$471,404,689 interest on demand debt to \$58,667,464 of interest bearing debt and \$412,737,225 of equity. This transaction was processed on 30 September 2010.

27 Adjustments to Financial Statements

The useful lives of certain intangible assets have been reassessed as they will not be required for the ongoing operation of Watercare 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 \$0.34 million and increased the net deficit before tax by the same amount.

	\$000
Network Models	<u>341</u>

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 Manukau Water 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.

Audit Report

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

The Auditor-General is the auditor of Manukau Water Limited. 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 Manukau Water Limited for the 16-month period ended 31 October 2010.

Manukau Water Limited'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 Manukau Water Limited on pages 1 to 40 that are prepared on a dissolution basis:
 - comply with generally accepted accounting practice in New Zealand; and¹
 - give a true and fair view of:
 - Manukau Water Limited'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 Manukau Water Limited on pages 41 to 43 give 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 Manukau Water Limited kept proper accounting records.

The audit was completed on 27 January 2010, 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 Manukau Water 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 Manukau Water 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 Manukau Water 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 dissolution in notes 4, 25 and 27.

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

Responsibilities of Manukau Water Limited, Watercare Services Limited and the Auditor

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

Therefore, Watercare Services Limited is responsible to ensure that the report of Manukau Water Limited 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 Manukau Water Limited 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 Manukau Water Limited.



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