

# Half yearly report 2018-19

The Hon Dominic Perrottet MP  
Treasurer and Minister for Industrial Relations  
52 Martin Place  
Sydney NSW 2000

The Hon Victor Dominello MP  
Minister for Finance, Services and Property  
52 Martin Place  
Sydney NSW 2000

31 January 2019

Dear shareholders

On behalf of the board and executive team we are pleased to present WaterNSW's financial results for the half year period ended 31 December 2018 for tabling in Parliament as required by section 23 of the *State Owned Corporations Act 1989*.

Our key focus over the last six months has been on drought management and the efficient operation of the state's bulk water supply systems, as well as surface and groundwater resources to maximise the reliability and availability of water to our customers as much as possible.

Whilst drought management has been a key focus for our business, we have still been able to achieve year to date targets for most the agreed key performance indicators included in our Statement of Corporate Intent.

We would be pleased to discuss any aspect of the half year results with you.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anne McDonald".

Anne McDonald  
Chair

A handwritten signature in blue ink, appearing to read "David Harris".

David Harris  
Chief Executive Officer

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# Overview of WaterNSW

## Who we are

WaterNSW is a State-Owned Corporation established under the *Water NSW Act 2014* that operates under an Operating Licence issued and monitored by the Independent Pricing and Regulatory Tribunal (IPART).

Our responsibilities include:

- **Source water protection** - protection of the Greater Sydney drinking water catchment to ensure safe water is supplied to Sydney Water, local councils and other distributors for treatment and distribution to their customers.
- **Bulk water supply** - supplying water from its storages to customers in the Greater Sydney drinking water catchment and in the state's regulated surface water systems.
- **System operator** - efficient management of the state's surface and groundwater resources to maximise reliability for users through the operation of the state's river systems and bulk water supply systems, in collaboration with the Murray-Darling Basin Authority which directs operations of the River Murray system.
- **Infrastructure planning, delivery and operation** - meet customer-defined levels of service consistent with NSW Government policy and priorities to increase the security and reliability of water supplies to customers and the communities of NSW.
- **Customer water transaction and information services** - providing efficient and timely services to customers for water licensing and approvals, water trades, billing and to meet their water resource information needs for surface and groundwater quantity and quality.

## Our vision

Our purpose is to improve the availability of water resources that are essential to the people of NSW.

## Our strategic goals



## Our strategic priorities

<p><b>Be Safe4Life</b> </p> <p>Achieve our safety-first commitment to zero harm (employees, contractors and the public) through decisions, behaviours and leadership actions that embed and continually improve our safety performance.</p>	<p><b>Be a Customer Centric Organisation</b> </p> <p>Focus on activities that prioritise our customers in our decisions and actions so that we improve the value customers receive along with the quality of their experience. Ensure by 2021 more than 70% of our customers rank our service delivery as seven or greater out of 10.</p>	<p><b>Deliver Reliable Performance in a Changing Environment</b> </p> <p>Achieve reliable and consistently improving performance and operational strength across all of our key functional areas by continuing to build our capability, flexibility and resilience.</p>	<p><b>Develop Our People and the Effectiveness of Our Team</b> </p> <p>Create the high-performance business we want to be by investing in and developing the competencies and leadership capabilities of our people, and by uniting them into one engaged and effective team that takes personal accountability for outcomes.</p>
<p><b>Improve Organisational Performance</b> </p> <p>Improve organisational performance by embedding a mindset of 'real-world' continuous improvement in all that we do, by embracing new ideas from national and global benchmarking research and by creating effective internal customer delivery chains that are commercial and meet evolving customer needs and shareholder requirements.</p>	<p><b>Support Performance Through and Adoption of New Technology and Scientific Advances</b> </p> <p>Through innovation and adoption of new technology and scientific advances ensure we do things safer, automate routine activity, reduce waste and costs, provide value adding information products to our customers and improve our performance.</p>	<p><b>Provide Strategic Solutions</b> </p> <p>Proactively collaborate and demonstrate thought leadership so that we anticipate, influence and strategically respond to our changing external environment and paradigms, including the water market and the implementation of the Murray-Darling Basin Plan, and develop innovative solutions that go beyond traditional thinking and span asset, operational, rule change and funding solutions.</p>	<p><b>Leverage our Water Quality and Water Information Expertise</b> </p> <p>Use our specialised knowledge, leverage our water quality and water information expertise to provide enhanced services for water quality causes and effects consistent with the aspiration of our communities to ensure water quality outcomes across the state; and water information applications and modelling to enable us to convert data into value added information applications for our customers and improve our performance in operating water supply systems.</p>

## Progress against key performance indicators

	FY19 target	YTD target	YTD actual
Total shareholder return <sup>1</sup>	\$61.1 million	\$19.1 million	\$20.6 million
Core opex	\$155.3 million	\$80.0 million	\$77.2 million
Core capex WaterNSW	\$124.4 million	\$63.4 million	\$55.7 million
Core capex W2BHP (total project cost)	\$471.1 million	\$416.7 million	\$398.4 million
Target credit rating	Baa2	Baa2	Baa2
Net debt to RAB	59%	58%	56%
Core EBITDA	\$171.1 million	\$83.3 million	\$88.4 million
Non-core EBITDA	\$6.9 million	\$2.9 million	\$1.3 million
Zero harm: lost time injuries	No more than 3 LTIS		2 LTIs
Visible safety leadership activities	10 by each Executive Manager over the 2018-19 financial year		5.9 (average across all Executive Managers)
Safety culture	5% improvement on the FY18 safety culture index		Assessed by survey once a year in Q4 FY19
Skyline	By 2021 more than 70% of our customers rank our service delivery as greater than 7 out of 10		Assessed by survey once a year in Q4 FY19
Customer service	Customer service index of 66%		Assessed by survey once a year in Q4 FY19
Quality of relationship	Quality of relationship index of 66.2%		Assessed by survey once a year in Q4 FY19
Quality of water provided to Sydney Water	Meets standards under the raw water supply agreement > 95%		100% compliance with standards
Organisational customer focus	3.94 out of 5		3.85 out of 5
Leadership and development	Development plans delivered for 100% of the leadership group		Assessed once a year in Q4 FY19
Employee engagement	5% improvement in employee engagement / culture survey results		Assessed by survey once a year in Q4 FY19
Asset projects overall measure of delivery	250 points	196 points	180 points
Asset projects maintaining capability program	> 90% of maintaining capability projects planned for completion in FY19 are delivered		12% of projects completed. Several projects are expected to be finalised in the next six months, which will see the FY19 result being closer to target.

<sup>1</sup> The Annual shareholder return target comprises current income tax, government guarantee fee and declared dividend. The YTD target and result does not include the declared dividend. The dividend is not declared until a recommendation by the WaterNSW Board is accepted by the Voting Shareholders, which occurs before 30 June each financial year.

# Financial statements

## Statement of profit and loss

As at 31 December 2018

	Dec 2018 Actual	Dec 2018 SCI	Dec 2018 Variance	FY19 Forecast	FY19 SCI	FY19 Variance
<b>Revenue</b>						
Greater Sydney	107.4	106.3	1.1	214.1	212.3	1.8
Rural valleys	22.0	26.6	(4.7)	45.2	53.3	(8.1)
WAMC	6.2	14.2	(8.0)	16.3	28.3	(12.0)
Government contribution	28.5	15.5	13.0	53.6	31.0	22.6
Operating subsidy	0.7	0.7	0.0	1.4	1.4	0.0
Non-regulated	46.3	30.8	15.5	77.1	61.6	15.5
	<b>211.1</b>	<b>194.1</b>	<b>17.0</b>	<b>407.8</b>	<b>388.0</b>	<b>19.8</b>
<b>Operating expenditure</b>						
Administration	(12.7)	(14.1)	1.4	(26.1)	(27.6)	1.5
Salary & wages	(53.4)	(50.2)	(3.2)	(102.9)	(96.5)	(6.4)
Other employee related	(3.5)	(1.2)	(2.3)	(4.6)	(2.3)	(2.3)
Contractors	(42.5)	(32.6)	(9.8)	(73.2)	(63.0)	(10.2)
Consultancies	(4.5)	(4.5)	(0.0)	(8.9)	(9.0)	0.1
Materials, plant & equipment	(9.8)	(8.0)	(1.9)	(18.8)	(16.3)	(2.5)
Capital WIP write off	0.1	0.0	0.1	0.1	0.0	0.1
Capitalised overhead	4.8	2.6	2.2	7.1	4.8	2.3
	<b>(121.5)</b>	<b>(108.0)</b>	<b>(13.5)</b>	<b>(227.2)</b>	<b>(210.0)</b>	<b>(17.2)</b>
<b>Earnings before interest, tax, depreciation and amortisation</b>	<b>89.6</b>	<b>86.2</b>	<b>3.4</b>	<b>180.6</b>	<b>178.1</b>	<b>2.6</b>
Depreciation and amortisation	(28.6)	(35.6)	7.0	(58.2)	(71.2)	12.9
Net financing cost	(31.7)	(37.8)	6.1	(70.7)	(79.8)	9.2
	<b>(60.2)</b>	<b>(73.4)</b>	<b>13.2</b>	<b>(128.9)</b>	<b>(151.0)</b>	<b>22.1</b>
<b>Net profit before tax</b>	<b>29.4</b>	<b>12.8</b>	<b>16.6</b>	<b>51.7</b>	<b>27.0</b>	<b>24.7</b>
Current tax	(8.8)	(4.0)	(4.8)	(15.6)	(8.9)	(6.8)
Deferred tax	0.0	0.6	(0.6)	0.2	1.2	(1.0)
<b>Net profit after tax</b>	<b>20.6</b>	<b>9.4</b>	<b>11.2</b>	<b>36.2</b>	<b>19.3</b>	<b>16.9</b>

## Statement of financial position

As at 31 December 2018

	Dec 2018 Actual	Dec 2018 SCI	Dec 2018 Variance	FY19 Forecast	FY19 SCI	FY19 Variance
<b>Current assets</b>						
Cash & cash equivalents	24.0	5.0	19.0	2.6	5.0	(2.4)
Trade receivables	33.1	50.8	(17.7)	53.3	46.1	7.2
Other receivables	47.2	47.8	(0.5)	47.2	47.8	(0.5)
Other non-financial assets	9.5	35.3	(25.8)	9.5	35.3	(25.8)
	<b>113.9</b>	<b>138.9</b>	<b>(25.0)</b>	<b>112.7</b>	<b>134.2</b>	<b>(21.5)</b>
<b>Non-current assets</b>						
Property, plant & equipment	2,735.9	2,721.5	14.4	2,861.4	2,899.1	(37.6)
Intangible assets	10.0	12.3	(2.3)	9.1	11.6	(2.5)
Other non-financial assets	0.0	0.1	(0.1)	0.0	0.1	(0.1)
	<b>2,745.9</b>	<b>2,733.9</b>	<b>12.0</b>	<b>2,870.5</b>	<b>2,910.8</b>	<b>(40.2)</b>
<b>Total assets</b>	<b>2,859.8</b>	<b>2,872.8</b>	<b>(13.0)</b>	<b>2,983.2</b>	<b>3,044.9</b>	<b>(61.7)</b>
<b>Current liabilities</b>						
Trade & other payables	(72.9)	(56.7)	(16.2)	(69.2)	(73.1)	3.9
Other liabilities	(22.8)	(41.6)	18.9	(6.8)	(41.6)	34.9
Borrowings	(53.0)	(53.7)	0.7	(470.5)	(432.0)	(38.6)
Current tax liabilities	5.2	(7.5)	12.6	11.8	(8.9)	20.7
Current provisions	(46.0)	(41.0)	(5.0)	(61.1)	(61.5)	0.3
	<b>(189.5)</b>	<b>(200.5)</b>	<b>11.0</b>	<b>(595.9)</b>	<b>(617.1)</b>	<b>21.2</b>
<b>Non-current liabilities</b>						
Borrowings	(1,556.2)	(1,588.3)	32.1	(1,208.5)	(1,301.3)	92.8
Other non-current liabilities	(1.6)	(5.8)	4.2	(4.1)	(5.8)	1.7
Deferred Government grants	(92.2)	(103.6)	11.4	(104.9)	(100.4)	(4.5)
Non-current provisions	(77.9)	(74.7)	(3.2)	(75.4)	(74.7)	(0.7)
Deferred tax liabilities	(181.7)	(177.7)	(4.0)	(198.2)	(194.0)	(4.2)
	<b>(1,909.5)</b>	<b>(1,950.1)</b>	<b>40.6</b>	<b>(1,591.0)</b>	<b>(1,676.2)</b>	<b>85.1</b>
<b>Total liabilities</b>	<b>(2,099.0)</b>	<b>(2,150.6)</b>	<b>51.6</b>	<b>(2,186.9)</b>	<b>(2,293.2)</b>	<b>106.3</b>
<b>Net assets</b>	<b>760.8</b>	<b>722.2</b>	<b>38.6</b>	<b>796.3</b>	<b>751.7</b>	<b>44.6</b>
<b>Equity</b>						
Retained earnings	(180.1)	(126.1)	(54.1)	(176.6)	(116.0)	(60.5)
Contributed equity	(390.9)	(403.0)	12.2	(390.9)	(403.0)	12.2
Asset revaluation reserve	(189.8)	(193.1)	3.3	(228.8)	(232.6)	3.8
<b>Total equity</b>	<b>(760.8)</b>	<b>(722.2)</b>	<b>(38.6)</b>	<b>(796.3)</b>	<b>(751.7)</b>	<b>(44.6)</b>



## Statement of cash flows

As at 31 December 2018

	Dec 2018 Actual	Dec 2018 SCI	Dec 2018 Variance	FY19 Forecast	FY19 SCI	FY19 Variance
<b>Cash flows from operating activities</b>						
Receipts from customers & other	277.9	199.5	78.4	457.5	402.7	54.8
Payments to suppliers & employees	(139.9)	(140.1)	0.1	(275.5)	(250.2)	(25.2)
Interest received	0.6	0.1	0.5	0.7	0.2	0.5
Interest paid	(25.3)	(26.0)	0.7	(33.0)	(33.6)	0.5
Receipts of grants & subsidies	11.3	0.0	11.3	11.3	0.0	11.3
Income tax (paid) / refunds received	(18.4)	(3.5)	(14.9)	(32.3)	(6.9)	(25.3)
<b>Net cash from operating activities</b>	<b>106.1</b>	<b>30.0</b>	<b>76.1</b>	<b>128.7</b>	<b>112.1</b>	<b>16.6</b>
<b>Cash flows from investing activities</b>						
Payments for property, plant & equipment	(230.4)	(162.7)	(67.7)	(328.9)	(318.7)	(10.2)
Proceeds from sale of property, plant & equipment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash used in investing activities</b>	<b>(230.4)</b>	<b>(162.7)</b>	<b>(67.7)</b>	<b>(328.9)</b>	<b>(318.7)</b>	<b>(10.2)</b>
<b>Cash flows from financing activities</b>						
Repayment of borrowings	(123.9)	0.0	(123.9)	(167.0)	(44.1)	(122.9)
Proceeds from borrowings	349.5	230.7	118.8	447.2	348.7	98.5
Dividends	(98.1)	(98.1)	0.0	(98.1)	(98.1)	0.0
<b>Net cash used in financing activities</b>	<b>127.5</b>	<b>132.6</b>	<b>(5.1)</b>	<b>182.1</b>	<b>206.6</b>	<b>(24.5)</b>
<b>Net increase / (decrease) in cash &amp; cash equivalents</b>	<b>3.3</b>	<b>(0.0)</b>	<b>3.3</b>	<b>(18.1)</b>	<b>(0.0)</b>	<b>(18.1)</b>
Cash at beginning of period	20.8	5.0	15.7	20.8	5.0	15.8
<b>Cash at end of period</b>	<b>24.0</b>	<b>5.0</b>	<b>19.0</b>	<b>2.7</b>	<b>5.0</b>	<b>(2.3)</b>

## Statement of capital expenditure

As at 31 December 2018

	Dec 2018 Actual	Dec 2018 SCI	Dec 2018 Variance	FY19 Forecast	FY19 SCI	FY19 Variance
<b>Resources</b>						
Administration	(4.2)	(4.1)	(0.1)	(2.6)	(2.7)	0.1
Salary & wages	(2.5)	0.0	(2.5)	(12.7)	(8.1)	(4.6)
Other employee related	(5.7)	(4.6)	(1.1)	(2.1)	0.0	(2.1)
Contractors & consultancies	(158.4)	(201.8)	43.4	(266.3)	(294.7)	28.4
Materials, plant & equipment	(2.4)	(1.4)	(1.0)	(18.4)	(8.6)	(9.8)
Allocated indirect cost	(4.7)	(2.6)	(2.1)	(10.9)	(4.8)	(6.1)
Other (interest etc)	(1.5)	0.0	(1.5)	(1.4)	0.0	(1.4)
<b>Total resources</b>	<b>(179.5)</b>	<b>(214.5)</b>	<b>35.0</b>	<b>(314.4)</b>	<b>(318.9)</b>	<b>4.4</b>
<b>Capability</b>						
Augmenting	(7.9)	(2.2)	(5.7)	(15.0)	(4.2)	(10.8)
Maintaining	(36.7)	(44.5)	7.7	(109.8)	(77.6)	(32.2)
New	(2.1)	(6.4)	4.4	(12.5)	(16.5)	3.9
Regulatory	(9.0)	(10.2)	1.1	(24.9)	(26.1)	1.2
Wentworth to Broken Hill Pipeline	(123.7)	(151.2)	27.5	(152.2)	(194.5)	42.3
<b>Total capability</b>	<b>(179.5)</b>	<b>(214.5)</b>	<b>35.0</b>	<b>(314.4)</b>	<b>(318.9)</b>	<b>4.4</b>