



Watercare Operating Cost Efficiency Improvement Plan

Annual Report 2026

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Executive summary

Watercare's Operating Cost Efficiency Improvement Plan (the 'Plan'), prepared under Clause 20 of the Watercare Charter, defines Watercare's approach to delivering value for money. The plan is also known internally as the Driving Value Plan. The resulting Driving Value programme remains a key component of the organisation's commitment to delivering efficient, sustainable and affordable water services for Auckland while maintaining service levels, regulatory compliance, asset performance and customer outcomes.

During FY26, progress was achieved across all major value areas, with initiatives advancing through feasibility, business case development and implementation. This has provided greater clarity around delivery pathways, investment requirements and expected benefits.

Notably, in FY26 the programme delivered **\$9.5m of benefits, 7% above plan**, reflecting strong early performance across several initiatives and demonstrating the organisation's ability to translate identified opportunities into realised outcomes.

Key contributors to FY26 realised benefits included:

- **Digital:** optimisation of the Digital Operating Model, including improved workforce planning and a more sustainable mix of internal and external resources, together with rationalisation of licences and service agreements to eliminate duplication and reduce vendor costs
- **Other:** refinement of capitalisation practices and cost allocation efficiencies
- **Maintenance:** installation and optimisation of Smart Pressure Valves and monitoring sensors to reduce burst frequency and water loss
- **Operating Model:** changes to the operating model for strategy and planning work, rebalancing delivery towards internal resources
- **Procurement:** savings from strategic sourcing, supplier negotiations and improved contract management across chemicals and maintenance services
- **Operations:** insourcing of retail meter box cleaning activities
- **Customer:** increased adoption of e-billing, reducing physical letter delivery costs

This result was achieved despite several initiatives remaining in the early stages of development and prior to many of the larger, longer-term opportunities reaching full implementation.

Over the past year, detailed assessment and early implementation activity have helped validate some opportunities while reshaping expectations for others. As a result, forecasts have been updated where appropriate and resources increasingly focused on the initiatives with the strongest long-term potential.

The current FY32 forecast is **\$80.2m of annualised benefits**, compared with the original risk-adjusted Plan of **\$81.4m**. The variance is primarily attributable to lower-than-anticipated benefits from the Capitalisation Optimisation and contractor insourcing initiatives following reassessment of achievable outcomes. These reductions are partially offset by additional value identified across Energy, Maintenance and Operations initiatives. Despite these changes, the programme remains forecast to deliver most of the efficiency improvements identified in the Efficiency Improvement Plan.

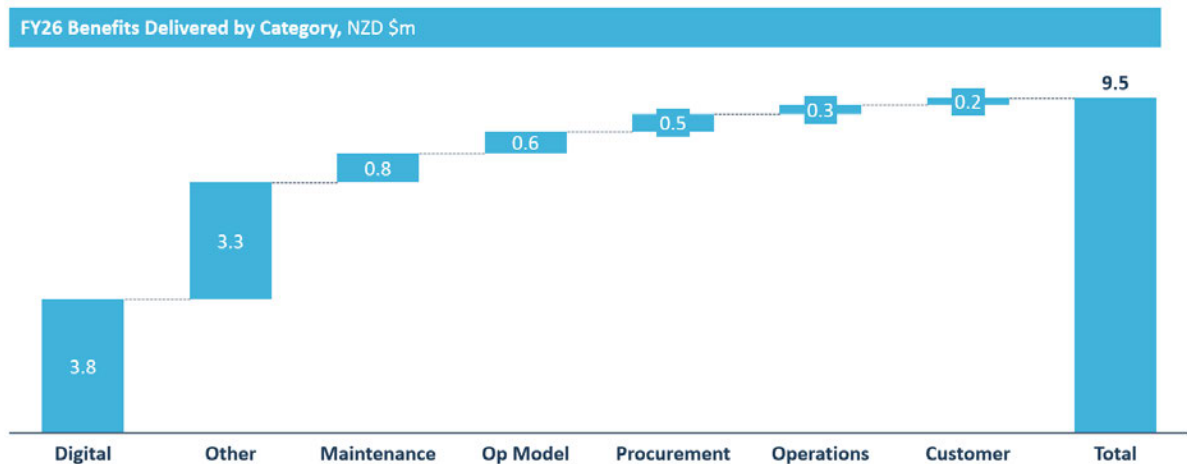
To support successful delivery and strengthen programme governance, Watercare has invested in dedicated programme capability, including the appointment of a Driving Value Efficiency Programme Manager and the recruitment of a Senior Cost Modelling Analyst is underway. These roles, together with executive sponsorship, initiative ownership, enhanced performance reporting, OPEX driver modelling and benefits tracking, provide greater oversight, accountability and focus across the portfolio.

Looking ahead, the focus will be on progressing the larger opportunities now moving into delivery, maintaining momentum across the existing portfolio and translating forecast benefits into sustained operating cost improvements. Supported by dedicated programme capability, active executive oversight and appropriate capital investment, Watercare remains confident in its ability to achieve the programme's long-term efficiency objectives and deliver enduring value for customers through to FY32 and beyond.

Section 1.0: Efficiency Programme Performance

1.1 FY26 Progress Overview

FY26 benefits of \$9.5m exceeded plan by \$0.5m



FY26 Initiatives Contributing to Realised Benefits:

Digital (\$3.8m)

- Delivered efficiencies through the optimisation of the Digital Operating Model, included improved workforce planning and a sustainable mix of internal and external resources
- Rationalised Licences & Service Agreements to eliminate duplication and reduce vendor costs.

Other (\$3.3m)

- Delivered refined capitalisation practices and cost allocation efficiencies

Maintenance (\$0.8m)

- Installed Smart Pressure Valves and Monitoring Sensors to reduce frequency of burst pipes and water loss, as well as optimising performance in other areas.

Op Model (\$0.6m)

- Changed operating model for strategy and planning work, rebalancing delivery towards internal resources

Procurement (\$0.5m)

- Savings through strategic sourcing, supplier negotiations and improved contract management in chemicals and maintenance services

Operations (\$0.3m)

- Insourced retail meter box cleaning activities

Customer (\$0.2m)

- Increased adoption of e-billing, driving lower physical letter deliveries

FY26 Key Achievements:

- Delivered \$9.5m of realised benefits, exceeding the FY26 target by \$0.5m, with contributions across Digital, Maintenance, Procurement, Customer, Operations and Operating Model initiatives.
- Progressed the programme from planning into delivery, advancing initiatives through feasibility assessment, business case development, procurement, implementation and benefit realisation activities across all major value areas.
- Established the foundations for sustained efficiency delivery, including strengthened governance, executive sponsorship, initiative ownership, benefit tracking, performance reporting and development of OPEX cost-driver modelling capability.
- Maintained a credible pathway to delivering long-term efficiency targets, with the FY32 forecast remaining largely aligned to the original Efficiency Improvement Plan despite refinements to individual initiatives.

1.2 FY27-FY32 Efficiency Run-Rate Update

FY27-32 run-rate continues to demonstrate a credible pathway to delivering \$80.2m of annualised benefits by FY32



- The \$1.2m variance primarily reflects lower-than-anticipated benefits from the Capitalisation Optimisation and contractor insourcing initiatives, partially offset by additional value identified elsewhere in the portfolio.
- Outside of these movements, forecast performance remains broadly consistent with the assumptions underpinning the original Efficiency Improvement Plan.

- As initiatives progress through development and implementation, some movement in the timing of benefits is expected. At this stage, these adjustments are not expected to have a material impact on overall programme value.
- The programme continues to maintain a balanced mix of opportunities across multiple value areas, reducing dependence on any single initiative or workstream.
- Performance, forecast benefits, risks and dependencies are actively monitored through fortnightly Business Unit reviews, monthly Steering Committee oversight and programme reporting, enabling emerging issues to be identified and addressed early.

The programme is being actively managed, with opportunities regularly reviewed, refined and reprioritised as implementation progresses. While the current forecast is modestly below the original target, the overall programme remains broadly consistent with the efficiency assumptions underpinning Watercare's financial forecasts. Many significant initiatives are still progressing through delivery, providing further opportunity for forecast benefits to strengthen as implementation advances and realised outcomes become clearer.

Management therefore continue to regard the FY32 target as achievable and remain confident in the programme's ability to deliver its intended long-term outcomes.

Section 2.0: Efficiency Portfolio Update

2.1 Progress Against Approved Initiatives

The programme continues to mature across all initiatives included within the Efficiency Improvement Plan, with progress achieved through feasibility, business case development, implementation and benefit realisation activities. As work has progressed, Watercare has been able to test original assumptions, confirm where benefits are being realised and develop a clearer understanding of the initiatives with the greatest potential to contribute over time.

The table below compares the current FY32 forecast against the original Efficiency Improvement Plan for each initiative. Variances primarily reflect one of the below factors:

Portfolio Realignment – reclassification of initiatives to better align benefits with delivery ownership.

Scope and Execution Variance – revised benefit forecasts based on implementation experience and feasibility outcomes.

New Opportunities – additional value identified through operational reviews and business case development.

Value Area	Initiative	FY32 Plan (\$m)	FY32 Fcast (\$m)	Variance (\$m)	Status Update
Energy	BTM Generation-Solar	\$8.4m	\$9.8m	\$1.4m	• BESS (Battery Energy Storage System) opportunities reclassified into the Solar portfolio to align complementary initiatives. • Variance reflects portfolio realignment only, with no change to overall programme value. • Watercare has identified viable Solar and BESS opportunities and is progressing detailed evaluation. • Assessment is being undertaken alongside long-term energy sourcing decisions.
	BTM Generation-Gas	\$1.1m	\$1.4m	\$0.3m	• Identified additional biogas utilisation opportunities across Watercare sites. • Improved resource efficiency expected to deliver greater value than originally forecast.
	Energy Efficiency Water & Wastewater	\$3.0m	\$3.0	\$0m	• Business case nearing completion, with minor refinements being incorporated. • Initiative remains on track and aligned with original forecast benefits
	Energy Sourcing	\$6.0m	\$4.6m	-\$1.4m	• Evaluating long-term electricity supply options following RFP issuance. • Variance reflects BESS reclassification into the Solar

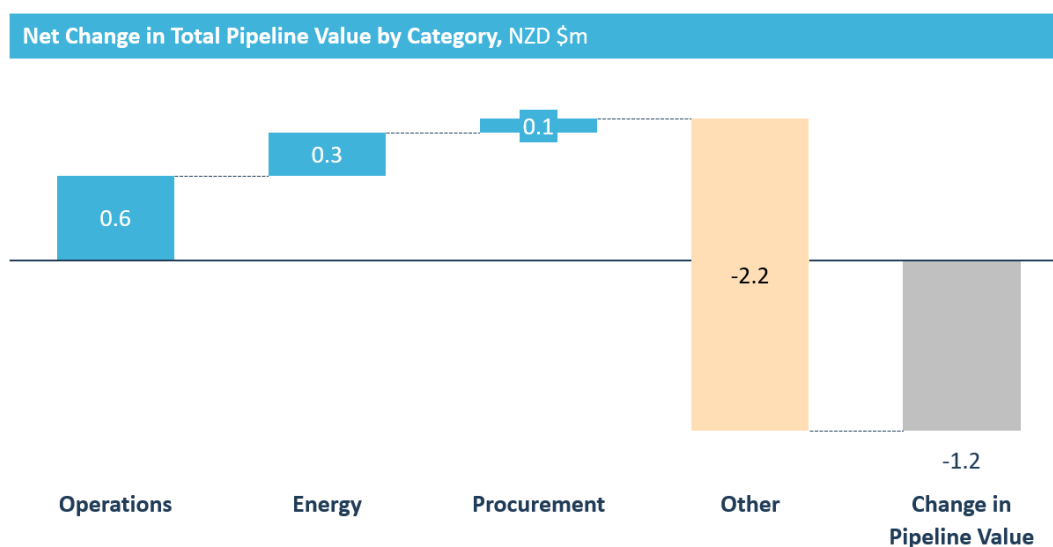
					portfolio, not a reduction in programme value.
Maintenance	Re-Building RCM	\$6.9m	\$6.9m	\$0m	- Reliability Centred Maintenance roadmap development is progressing. - Focused on increasing planned maintenance and reducing reactive intervention for complex assets.
	Contracting & Insourcing Efficiencies	\$3.5m	\$3.2m	-\$0.3m	- Optimising delivery models across internal and contractor-delivered services. - Lower-than-anticipated insourcing opportunities have modestly reduced forecast benefits.
	Smart maintenance and AI	\$2.5m	\$2.8m	\$0.3m	- Expanded Smart Pressure Valve deployment has demonstrated additional network value. - Forecast benefits now exceed original assumptions.
	Policy, Process and Change	\$2.2m	\$2.2m	\$0m	- Key opportunities validated and associated benefits confirmed. - Focus has shifted to commercial arrangements and implementation planning
Operations	Chemical substitution and on-site production	\$2.9m	\$2.9m	\$0m	- Feasibility activities underway following business case approval. - Validating opportunities and supporting investment decisions. - Initiative remains on track.
	Sludge Recovery and Re-use	\$2.1m	\$2.6m	\$0.5m	- Early consenting work progressing to support alternative sludge disposal pathways. - Additional value identified through reduced sludge transport and tankering costs.
	Sludge Dryness and Treatment Optimisation	\$1.0m	\$1.0m	\$0m	- Business case completed and currently under review. - No material risks to benefit delivery identified.
	Chemical Process and Dosage Optimisation	\$0.7m	\$0.7m	\$0m	- Optimisation opportunities have been identified and are currently being evaluated. - Focused on validating benefits and implementation requirements.
	Site Consolidation	\$0.5m	\$0.6m	\$0.1m	- Site optimisation assessment has identified additional efficiencies. - Opportunities identified to bring selected externally delivered activities in-house.
	Water Recovery & Re-Use	\$0.2m	\$0.2m	\$0m	- Early-stage assessment activities underway to confirm opportunities and delivery pathways. - No material risks to benefit realisation identified.
	Process Improvement	\$0.2m	\$0.2m	\$0m	- Initiative remains in the assessment phase. - Opportunities are being evaluated and prioritised.

Customer	Residential & Commercial Smart meters	\$4.2m	\$4.2m	\$0m	• Preparations for large-scale commercial smart meter deployment are progressing. • Rollout activities expected to commence shortly.
	Retail Operations Efficiency	\$1.6m	\$1.6m	\$0m	• Increased digital customer communication adoption has improved forecast benefits. • Includes greater uptake of e-billing and automated reminders.
Digital	Operating Model Reset	\$10.0m	\$10.0m	\$0m	• Digital operating model changes continue to be embedded. • Benefits achieved to date are tracking slightly ahead of plan.
	Platform simplification	\$4.5m	\$4.5m	\$0m	• Platform Simplification activities are progressing as planned. • Focused on reducing complexity and rationalising applications
	Licence Rationalisation and Cloud Governance	\$0.7m	\$0.7m	\$0m	• Benefit modelling and assessment activities continue. • Validating optimisation opportunities across licensing and cloud services.
	Service Management & Outsourcing	\$0.5m	\$0.5m	\$0m	• Work is focused on confirming sourcing options and validating forecast • No material delivery risks identified to date.
Procurement	Procurement & Sourcing	\$2.9m	\$2.9m	\$0m	• Procurement initiatives remain focused on targeted spend categories. • Sourcing, negotiation and demand management activities are underway.
	Insurance Coverage & Premium Optimisation	\$1.0m	\$1.1m	\$0.1m	• Insurance negotiations have delivered outcomes ahead of original assumptions. • Forecast benefits have increased modestly.
Other	Future Operating Model	\$9.5m	\$9.3m	-\$0.2m	• Future Operating Model development continues as planned. • Lower-than-anticipated contractor insourcing benefits have reduced forecast value.
	Capitalisation Optimisation	\$5.3m	\$3.3m	-\$2.0m	• Actual delivery experience has clarified achievable capitalisation outcomes. • Forecast benefits reduced compared with the original plan.
Total		\$81.4m	\$80.2m	-\$1.2m	

2.2 Portfolio Changes and Emerging Opportunities

As initiatives have progressed, a few forecast movements have emerged across the portfolio. Some opportunities have delivered less value than originally anticipated, while others have strengthened as further work has identified additional efficiencies.

The chart below illustrates the combined impact of these movements, resulting in a modest reduction of \$1.2m in forecast programme value.



Most of this movement relates to a small number of initiatives rather than widespread underperformance across the programme.

The changes identified to date have not altered management's overall view of the programme or its ability to deliver.

2.3 Portfolio Evolution

The work completed to date has established the core capabilities required to support the programme over the long term. The focus now is on maintaining delivery momentum while continuing to develop the next generation of efficiency opportunities.

Watercare has established the governance, oversight and performance management framework required to support the programme over the long term, providing clear accountability and a disciplined approach to identifying, prioritising and delivering.

Established Foundations

The following capabilities have been implemented and are now supporting ongoing programme management and delivery:

- **Dedicated programme leadership and accountability** through executive sponsors, programme leadership, initiative owners and the appointment of a dedicated **Driving Value Efficiency Programme Manager**. Recruitment is also underway for a **Senior Cost Modelling Analyst** to further strengthen forecasting, analytics and benefit tracking capability.
- **Performance dashboards** are now being used to monitor benefit delivery, track emerging variances and support decision-making across the programme.
- **The OPEX driver model** is helping the business better understand the factors that influence operating costs and where future efficiency opportunities are most likely to exist.
- **KPI tracking and external benchmarking** are providing greater visibility of performance and helping identify additional improvement opportunities. For

example, the Pressure Management initiative is monitored using burst rates within targeted District Metered Areas (DMAs), measured as bursts per 100km of network.

- **Strengthening the Pipeline**

To maintain a strong pipeline of future opportunities and support ongoing efficiency improvement, Watercare will continue to strengthen its approach to opportunity generation through:

- **Quarterly Efficiency Challenge Workshops** commencing in November 2026 to identify and assess new opportunities and refresh the programme pipeline.
- **Efficiency Ideation Sprints and "Stop Doing" Reviews** commencing in October 2026 and thereafter undertaken quarterly to identify productivity improvements, simplify processes and eliminate low-value activities.
- **Frontline Innovation Campaigns** to be launched during Q2 FY27, including a digital ideas portal, team-based challenges and recognition programmes, to encourage innovation and continuous improvement from employees across the organisation.

Collectively, these activities provide a practical pathway for replenishing and strengthening the programme over time. As opportunities are completed, refined or reassessed, new initiatives can be identified and developed, helping maintain the overall scale and ambition of the Efficiency Improvement Plan.

Provision of Capital Expenditure

Watercare has included any capital expenditure required to deliver the pipeline of initiatives in its capital expenditure forecast, aligned to the delivery timeframes for initiatives in the plan.

Capital requirements continue to be refined as initiatives progress through assessment and business case development. Investment is subject to Watercare's normal prioritisation, business case and governance processes, with expenditure only committed where the expected efficiency benefits and broader outcomes justify the investment. The net present value of initiatives will be assessed through the business case process to ensure investments are justified.

Where the timing or scope of capital investment changes, the associated benefit forecasts are also reviewed and rephased to maintain alignment between investment and expected savings.

Section 3.0: Outlook

The next phase of the programme will focus on moving the larger initiatives from assessment into delivery and converting forecast benefits into sustained operating cost improvements. Over the next 12 months, Watercare will maintain delivery momentum while using performance insights, benchmarking, targeted opportunity reviews and employee-led innovation to identify further sources of value.

Many of the programme's larger opportunities require upfront investment to unlock enduring operating efficiencies. Capital funding has been provided for these initiatives where appropriate, with investment remaining subject to robust business cases, due diligence and Watercare's established approval processes. This ensures funding is directed towards opportunities that demonstrate clear, sustainable value for customers rather than short-term cost reductions.

Although the current forecast is modestly below the original plan, Watercare continues to regard the FY32 target as achievable. Several material opportunities are yet to complete development and implementation, leaving scope for the forecast to strengthen as delivery progresses and benefits begin to be realised. Management remains committed to closing the current gap and is confident that the programme can achieve its long-term efficiency objectives while maintaining service performance, regulatory compliance, asset resilience and customer outcomes.

Approvals

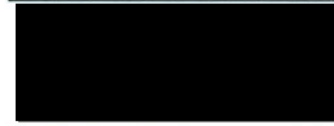
Management approvals

Prepared and reviewed by the following Watercare executive team members:

Angela Neeson – Chief Financial Officer



Jamie Sinclair – Chief Executive Officer



Board approvals

Approved by the Board on 29 September 2026.

Statutory declaration

I, Geoffrey Stewart Hunt, Director and Chair of Watercare Services Limited board, of Takapuna, Auckland, solemnly and sincerely declare:

That the following information in this report is true and accurate;

- all historical information disclosed in this report; and
- all historical information from which that disclosed information is derived; and

That all forecasts and estimates in this report are demonstrably reasonable.

I make this solemn declaration conscientiously believing the same to be true and by virtue of the Oaths and Declarations Act 1957.



Geoffrey Stewart Hunt, Declared at Auckland, 29/9/2026

Before me:



Barrister and Solicitor of the High Court of New Zealand, 29/9/2026

Matthew Stephen Hill
Solicitor
Auckland

Appendix A: Charter Reporting Compliance Summary

The table below summarises how the requirements of Clause 21 of the Watercare Charter have been addressed within this Annual Review.

Clause 21 Reporting Requirement	Report Reference
Description of efficiency improvements for FY26	Section 1.1 FY26 Progress Overview
Forecast efficiency improvements through to FY32	Section 1.2 FY27-FY32 Efficiency Run-Rate Update
Explanation of any gap between planned and achieved improvements	Section 2.1 Progress Against Approved Initiatives
Explanation of changes to forecast programme value	Section 2.2 Portfolio Changes and Emerging Opportunities
Progress against approved efficiency initiatives	Section 2.1 Progress Against Approved Initiatives
Programme governance and monitoring arrangements	Section 2.3 Portfolio Evolution
Outlook for future efficiency improvements	Section 3.0 Outlook