



hunter water 2005-06 annual report



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## ABOUT US

Hunter Water is a State Owned Corporation (SOC) and the water and wastewater service provider for over half a million people in the lower Hunter region. There are 213,913 properties connected to the water network and 202,103 to the wastewater network.

Our area of operation covers 5,366km<sup>2</sup> with a population of 517,403 in the local government areas of Cessnock (48,314), Lake Macquarie (194,045), Maitland (61,155), Newcastle (149,001) and Port Stephens (64,888).

Bulk water is also supplied to Dungog Council and to small parts of Singleton and the Great Lakes area. We are also supplying an average six megalitres per day to the Central Coast. This will increase to an average 25 megalitres each day (depending on the Hunter's storage levels) once a new pipeline connection is completed in December 2006.

We also provide some stormwater services to the lower Hunter, with 100km of stormwater channels in Cessnock, Newcastle and Lake Macquarie.

We deliver on average 200 megalitres (one megalitre equals 1 million litres) of water a day using assets worth in excess of \$2 billion.

Our raw water sources are: Grahamstown Dam (190,000 megalitre capacity), Chichester Dam (21,500 megalitres), Tomago Sandbeds (60,000 megalitres) and Anna Bay Sandbeds (16,000 megalitres).

We collect, treat and then deliver drinking water to our customers and then transport, treat and dispose of the region's wastewater. Our water consistently meets the most recent guidelines for drinking water set by the National Health and Medical Research Council (NHRMC). Wastewater is treated to a very high standard and clear effluent is discharged to waterways or reused where it is economically and environmentally beneficial.



### SHOWCASING THE NEW HEAD OFFICE

*The new Hunter Water Head Office Building is a stark contrast to its former premises in Newcastle West. As well as being located in the vibrant Honeysuckle precinct, it features a range of water and energy efficient initiatives, making it a showcase building for future developments.*

*The building features a high efficiency air conditioning system which adjusts according to external weather conditions; light fitting controls which dim automatically as natural light increases; lights operated by motion detectors; a 100,000 litre rainwater tank which is used for toilet flushing and irrigating the surrounding gardens; solar power for water heating and water and energy efficient whitegoods.*

*Hunter Water worked closely with the Department of Energy, Utilities and Sustainability to achieve a 4.5 star Australian Building Greenhouse Rating, which is the first building in the Newcastle area to do so.*

## CHAIRMAN'S MESSAGE

On behalf of Hunter Water Corporation's Board of Directors, I am pleased to present the 2005-06 Annual Report. The Corporation has once again continued to maintain its strong commercial performance while providing the people of the lower Hunter with high quality water and sewerage services.



Revenue was higher than the previous year due to dry weather conditions, however we managed to keep operating costs down and ended the year well under our projected budget.

Based on these outcomes and Hunter Water's ongoing strong financial base, the Board of Directors is pleased to recommend a dividend of \$35 million which is in line with previous years.

As Chairman of the Board, I am proud to lead an organisation which has an established reputation in water industry reform, both at a national and international level. The Corporation's future focus will be to manage a significant program of capital development which will provide for the renewal of assets to meet higher standards and future growth in the region.

In particular, we will continue with our program to ensure the future security of water supply for the people of the lower Hunter. This will include a major review of our Integrated Water Resource Plan which will explore a raft of options to provide a sustainable water supply to the Hunter community for the next 50 years.

It has been very pleasing to have been able to continue helping out our southern neighbours on the Central Coast by supplementing their water supplies with 6 megalitres each day. This will increase to 25 megalitres by the end of 2006.

The Corporation's key goals for the future will be to continue to:

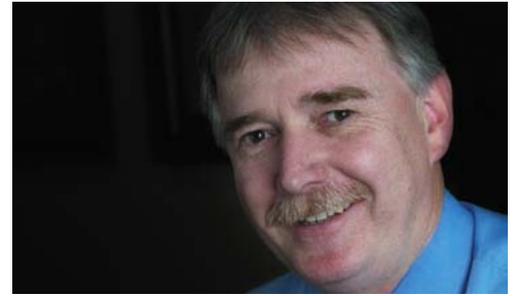
- Maintain high levels of customer service
- Operate in an environmentally responsible manner
- Develop a valued, skilled and competitive workforce
- Be a commercially successful, efficient and growing business

As always, I would like to take this opportunity to formally pass on my thanks and congratulations to my fellow Directors and the Corporation's management and staff for another successful year.

A handwritten signature in black ink, appearing to read 'R. Robson'. The signature is stylized and fluid.

RON ROBSON

## MANAGING DIRECTOR'S MESSAGE



The financial year 2005-06 was a year of great challenge for the organisation. The continuing drought saw our total storage levels drop from a comfortable 95% to less than 70% at the end of June.

Our neighbours, the Central Coast, had storage levels at record lows of 15% and we agreed to strategically link the areas with a new \$30 million pipeline which will allow water to flow in either direction depending on where the rain falls.

We had the upheaval of a shift to a new building at Honeysuckle and a complete revamp of the Corporation's major IT platforms (Electronic Document Management, Financial, Purchasing, and Human Resource systems, upgrade to our SCADA and substantial progress with a new Customer Information System).

We met these challenges well. Some highlights were:

- An improved focus on safety – a record low of zero lost time injuries
- Our Customer Survey indicated 93% of our customers think we are doing a good job – a record high
- We delivered \$105M of capital projects – again, a record high
- Excellent compliance with all of our Operating Licence requirements and Customer Service standards
- We started planning for the review of our Integrated Water Resource Plan and commenced discussion on increased recycling opportunities in the Hunter. Options such as the Kooragang Island Recycling Scheme and recycling highly treated effluent to the Tomago Sandbeds created some worthwhile community comments and discussion.

It is pleasing to make strong progress with the challenges we faced in 2005-06. But 2006-07 will be no different. Forecasts for rain are not good. In the next 12 months we need to revise our Water Resource Plan looking 50 years ahead. We have made a commitment that all options will be put on the table. The State Government has also announced that competition will be introduced into the water utility industry in Sydney and the Hunter.

Competition is generally good for customers and we welcome it. However, it will present challenges for Hunter Water. While we do well in customer focus and being innovative and dynamic, we will need to improve a lot more in these areas.

I know the team at Hunter Water is keen to take these challenges on. We are proud of the region and what can be achieved. We look forward to a strong year in 2006-07.

A handwritten signature in black ink, appearing to read 'K Young'.

KEVIN YOUNG

## CORPORATE HIGHLIGHTS

- The Grahamstown Dam Spillway was completed which provides for a 50% increase in the storage capacity of the dam. The project was named the 2006 Overall Winner of the Energy Australia Engineering Excellence Award.
- In January 2006 Hunter Water moved to new premises in the Honeysuckle precinct. The building features a range of water and energy efficient initiatives to achieve a 4.5 star Australian Building Greenhouse Rating, which is the first building in the Newcastle area to do so.
- With the move to the new Head Office our over-the-counter service delivery was enhanced by providing a one-stop-shop for customer and developer services.
- We achieved licence compliance on all major elements of the Operating Licence (water quality, pressure, continuity, and sewerage overflows).
- We continued to supply water to the drought stricken Central Coast. Construction began on a strategic link between the two water supply systems. The \$30 million scheme will be completed in December 2006 and will allow water to flow both ways depending on need.
- The Cessnock Wastewater Treatment Works was upgraded to accommodate future population growth while reducing the nutrients entering receiving waters. The upgrade included the construction of a tertiary treatment plant and other associated works.
- Works to upgrade the wastewater transportation system on the eastern side of Lake Macquarie progressed well with new pipelines laid in the Warners Bay and Valentine areas. This work will improve customer amenity and environmental protection in this major population centre.
- Work on the Priority Sewerage Program progressed well with construction work for the sewerage of Fern Bay and Kitchener nearing completion and planning and design works commencing for Ellalong, Millfield and Lochinvar.
- The Corporation updated a number of its IT platforms including moving to an electronic document management system and upgrading its purchasing, human resource and SCADA systems. Substantial progress has also been made on the new Customer Information System.
- The safety performance of Hunter Water was excellent with no lost time injuries (LTI's) sustained within the organisation for 12 months. This included the field based groups Electrical/Mechanical Maintenance and Civil Maintenance who have been LTI free for two years and one year, respectively. These are significant results given the nature of the activities undertaken by these groups supporting a 24/7 response.

- Results from the Customer Perception Survey are at a record high with 93% of customers saying our overall performance is very good.
- The NSW Independent Pricing and Regulatory Tribunal (IPART) set new prices for Hunter Water's water, sewer and stormwater services for the four years to June 2009. For the first time since independent price setting began in 1993, the new prices will see Hunter Water achieve a commercial rate of return on its asset base by 2008-09.
- Our Developer Service Plans (DSPs) were reviewed. The DSPs provide the development community with updated developer charges and an appreciation of the amount of water/wastewater works planned by Hunter Water over the next decade.
- A range of enhancements to complaint handling were implemented, particularly relating to the restoration of properties following maintenance or construction work.



#### HOW OUR STORAGES WORK

*Our total water storage levels were at 67% at the end of June 2006. It's important to note that our three main storages (Chichester Dam, Grahamstown Dam and Tomago Sandbeds) can deplete quite quickly but also fill very quickly.*

*Chichester fills from streamflows in the Chichester River and Grahamstown fills when we pump from the Williams River, or from runoff in its own catchment. The Sandbeds fill as a result of direct rainfall. Two of our storages are relatively coastal (Grahamstown Dam and Tomago Sandbeds) and that means they often receive rainfall when storages further inland do not. Chichester Dam is also located in the Barrington Tops area and attracts above average rainfall.*

*This means that when we don't get flows in our streams and rivers, our storages can diminish quite rapidly. On the other hand, while our storages can drop very quickly, they can also recover quickly following good rainfall.*



## WATER SUPPLY NETWORK

### Water Supplied From

Grahamstown Dam	42,109 ML
Chichester Dam	28,011 ML
Tomago Sandbeds	8,384 ML
Anna Bay Sandbeds	2,166 ML
Lemon Tree Passage	825 ML

### Water Network

Treatment Works	6
Water Connections	213,913
Water Reservoirs	76
Pumping Stations	84
Watermains	4,548 km



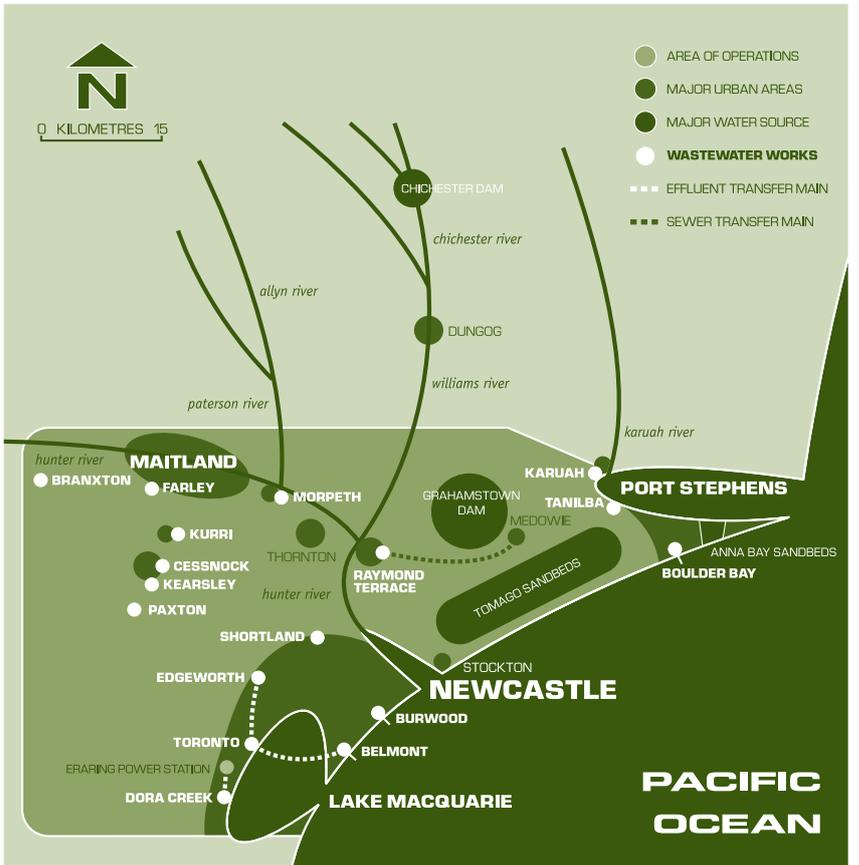
## WASTEWATER NETWORK

### Population Served by Major WWTWs

Burwood Beach	180,000
Belmont	93,000
Edgeworth	61,000
Morpeth	51,000
Toronto	34,000
Boulder Bay	31,000
Shortland	28,000
Raymond Terrace	25,000
Cessnock	24,000
Farley	24,000
Kurri	20,000

### Wastewater Network

Treatment Works	17
Sewer Connections	202,103
Sewer Mains System	4,477 km
Pumping Stations	380



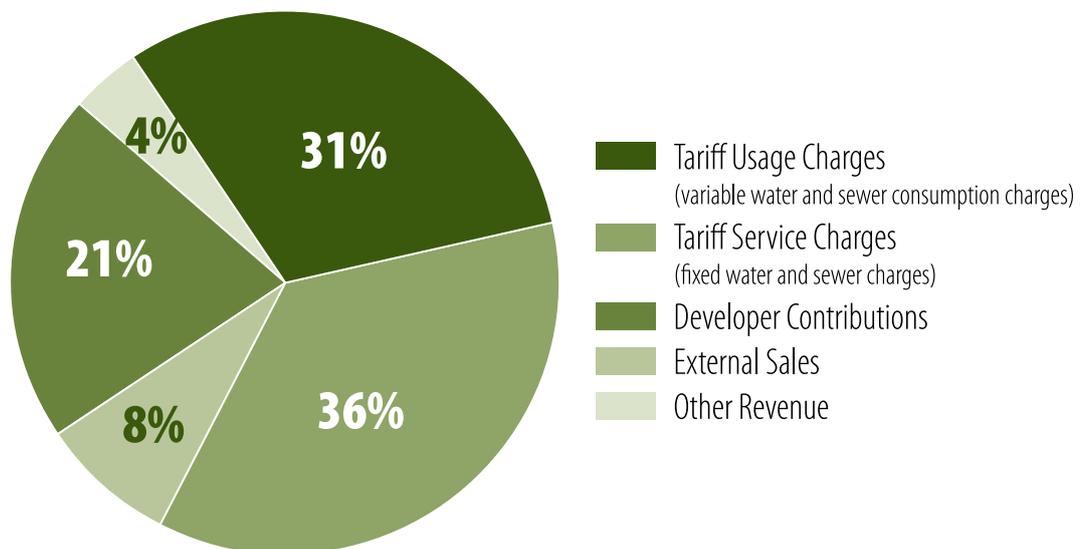
# FINANCIAL PERFORMANCE

## FINANCIAL OVERVIEW

### ECONOMIC ENTITY

	<b>2005-06</b>	<b>2004-05</b>
	<b>\$M</b>	<b>\$M</b>
Total Revenue	<b>209.10</b>	185.30
Operational Costs	<b>86.33</b>	77.43
Net Operating Profit before Tax	<b>95.51</b>	55.82
Net Cashflow from Operating Activities	<b>68.69</b>	51.13
Dividend	<b>35.10</b>	33.80
Community Service Obligations (eg pension rebates)	<b>9.10</b>	10.24
Total Fixed Assets	<b>2,259.04</b>	2,303.70
Financial Assets	<b>29.62</b>	17.04
Financial Liabilities	<b>236.26</b>	168.03
Net Debt/(Investment)	<b>206.64</b>	150.99
Capital Expenditure	<b>105.03</b>	76.24
Working Capital Ratio (Times)	<b>0.62</b>	0.43
Real Rate of Return	<b>2.02</b>	1.38
Real Cost Reductions/(Increases) per customer as %	<b>5.38</b>	6.96

*Revenue base 2005-06  
(Excludes Interest)*



## OPERATING LICENCE PERFORMANCE

Hunter Water delivers services under an Operating Licence granted by the NSW Government. The Licence protects consumers by prescribing minimum standards of service that Hunter Water must meet in relation to:

- **Drinking water quality**  
supplying customers with safe drinking water
- **Water continuity**  
providing customers with a reliable supply of water
- **Water pressure**  
providing customers with water pressure as specified in the Licence
- **Wastewater transport**  
providing the reliable transport of sewerage

The Operating Licence also sets out conditions relating to:

- Community consultation
- Customer and consumer rights
- Customer complaint and dispute handling
- Managing water demand and supply
- Environmental management
- Publication of environmental and ESD indicators
- Independent auditing of operational performance

A full copy of our Operating Licence 2002-07 is available from our website at [www.hunterwater.com.au](http://www.hunterwater.com.au)

### INDEPENDENT AUDIT

Each year an independent audit of Hunter Water's operations is conducted to assess our compliance with the Operating Licence. The audit assesses Hunter Water's performance against service standards and associated conditions of the Licence.

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for the annual operational audit, periodic reviews of our operating licence and pricing. In August 2006, IPART commissioned GHD Consultants to conduct the operational audit for Hunter Water for the period 1 July 2005 to 30 June 2006.

IPART will make the results of our audit available to the community once GHD has completed their investigations.

## 2005-06 OPERATING LICENCE PERFORMANCE

PARAMETER	TARGET	PERFORMANCE 2005-06
<b>Drinking Water Quality</b>	Supply of safe drinking water based on National Health and Medical Research Council (NHMRC) guidelines.	Hunter Water complied with the requirements of the Operating Licence and exceeded the NHMRC guidelines. The results were the best achieved on microbiological parameters since the organisation was first corporatised in the early 1990's.
	More than 98% of samples free of eColi.	99.6% of samples were free of eColi.
<b>Drinking Water Continuity</b>	No more than 14,000 properties served will incur discontinuity of water services for more than five hours duration annually.	Hunter Water complied with the requirements of the Licence, with 13,133 properties experiencing interruption of water services for more than five hours.
<b>Water Pressure</b>	No more than 4,800 customers per annum will experience a verified low-pressure incident of less than 20 metres head as measured at the point of connection to Hunter Water's watermain.	Hunter Water complied with the requirements of the Licence, with 1,663 properties experiencing verified low pressure.
<b>Wastewater Transport</b>	No more than 6,500 sewage overflows per annum in our area of operations.	Hunter Water complied with the requirements of the Licence with 3,359 sewerage overflows. Generally, these overflows were localised and had minimal impact on the environment.
<b>Environment</b>	Discharges from the wastewater treatment works shall meet the discharge standards set by the Department of Environment and Conservation (DEC).	Hunter Water operated 17 wastewater treatment works during the year and 13 of these works fully complied with DEC licences. Minor exceedances at Burwood, Belmont, Farley and Branxton had no significant environmental impact.
	Prepare a Catchment Management Report.	A catchment management report was prepared and is available on our website.
	Participate in the Energy Smart Business Program (ESBP) with the Sustainable Energy Development Authority (SEDA).	Hunter Water continued to carry out initiatives as part of the ESBP until it ceased during the year.
	Publish progress against the Environmental and ESD Indicators.	A progress report was prepared and is available in the appendices attached to this report and also from our website.
<b>Customer Management</b>	Effective customer service in the provision of good quality drinking water and wastewater services.	Hunter Water complied with the requirements of the Licence.

**Footnote:** The above information on our Operating Licence performance has yet to be audited.



## OUR BUSINESS

The framework for our business operations comes from two key instruments:

- 1 The Statement of Corporate Intent (SCI), which sets out our strategic objectives and business performance targets.
- 2 The NSW Government's regulatory framework for metropolitan water utilities, which protects consumers and the environment through a set of licences and other controls.

### STATEMENT OF CORPORATE INTENT

The foundations of the Statement of Corporate Intent (SCI) are our mission statement, values and goals.

#### OUR MISSION

Continuous improvement in being commercially successful while delivering value for money water, wastewater and associated services in an environmentally responsible and safe manner.

#### OUR VALUES

- Ensuring safety comes first
- Striving for continuous improvement and innovation
- Caring for our community through high levels of service



*Spillway overflow - pristine water from the Barrington Tops cascades over Chichester Dam north of Dungog*

- Caring for the environment
- Acting responsibly, honestly and ethically
- Fostering a motivated, skilled and efficient workforce
- Operating an efficient and outward looking business

#### **OUR GOALS**

##### ***Workplace and community safety:***

- Create and maintain a safe work place for all employees, contractors and the community

##### ***Customers and the community:***

- Maintain a high level of customer satisfaction, service quality and value for money
- Be responsive to customer and community expectations about service standards
- Actively inform the customers and the community about the water cycle, water quality and water efficiency
- Adopt a business-wide approach to service delivery, to recognise that all parts of the business are necessary to ensure high quality and cost-effective service delivery to the community

***The environment:***

- Be responsive to customer and community expectations about our environmental performance
- Promote sustainable business practices by considering environmental, economic and social factors in our business activities
- Closely monitor and be aware of emerging environmental issues

***Managing and looking after our people:***

- Maximise the potential of our staff
- Encourage an outward looking approach among all staff through learning from other organisations and by undertaking relevant external work
- Support learning and development that benefits both individuals and Hunter Water
- Maintain a strong core of expertise within Hunter Water to ensure that services are provided with the most cost-effective technologies and processes

***Running the business:***

- Comply with primary regulatory requirements (the Operating Licence, Wastewater System Licences and Water Management Licences)
- Maintain strong pressure on controlling operating costs and achieve the business outcomes committed to the Government in the Statement of Corporate Intent
- Promote and encourage innovations to achieve better service delivery and cost efficiencies
- Develop an outward-looking culture so we can learn from others and find external business opportunities that make our business stronger
- Keep abreast of changing technologies to meet the future challenges of e-business, asset management and customer service

The Statement of Corporate Intent also serves as a formal agreement on business performance targets with our shareholders. Hunter Water is wholly owned by the NSW Government, represented by two shareholding ministers. At 30 June 2006, the shareholding ministers were the NSW Treasurer and the Minister for Commerce.

**REGULATORY FRAMEWORK**

Hunter Water's operations are regulated by the NSW Government through a number of regulatory instruments including an Operating Licence. The Operating Licence is administered by the Minister for Water Utilities. Performance against the Operating Licence is outlined on pages 10 and 11. The Minister also has powers to direct Hunter Water in certain matters of public interest.

**Other regulators and their roles are:**

- The Independent Pricing and Regulatory Tribunal (IPART), which advises the Minister for Water Utilities on the conditions for the Corporation's Operating Licence. The Licence specifies customer service standards, including drinking water quality. IPART arranges an annual audit of the Corporation's performance against the conditions in the Operating Licence. IPART also sets the prices we charge for our services.
- The Department of Environment and Conservation (DEC), which licences the operations of our wastewater pipe network and wastewater treatment plants.

**Regulatory and Operating Framework**

LEGISLATIVE FRAMEWORK	STATE OWNED CORPORATIONS ACT (1989) HUNTER WATER ACT (1991)
REGULATORY FRAMEWORK	DEC DNR NSW Health  IPART Pricing & Licence Regulation
OBLIGATION TO SHAREHOLDERS & CUSTOMERS	Statement of Corporate Financial Intent  Operating Licence & Customer Contract
OPERATIONAL MANAGEMENT	Hunter Water Corporation - Board Hunter Water Corporation - CEO Hunter Water Corporation - Staff



**CENTRAL COAST PIPELINE**

*Hunter Water and the Central Coast agreed in 2005 to construct a strategic link between the two supply systems. The \$30 million scheme has been under construction during 2006 and will be completed by December 2006. It will allow for up to 25 megalitres of water to be supplied each day to the Central Coast - depending on the Hunter's storage levels.*

*This project has a range of benefits for both communities because it is reversible. It will also provide an alternate supply to the southern part of Lake Macquarie which will allow Hunter Water greater capacity to maintain supply to that area in the event of some operational issues.*

*The project is jointly funded by Hunter Water, Wyong Council and Gosford Council with a Federal Government grant of \$6.6m in recognition of its innovative use of existing infrastructure and efficient use of water resources.*



- The Department of Natural Resources (DNR), which licences the extraction of water from natural surface and groundwater sources for supply to Hunter Water's customers.
- The Department of Health (DoH), which through a Memorandum of Understanding, establishes scope of the Corporation's drinking water monitoring plan and procedures for communicating results of water quality monitoring programs.

### ***Wastewater systems***

The Department of Environment and Conservation issues licences under the Protection of the Environment Operations Act (1997) for Hunter Water's wastewater pipe network and treatment systems.

The licences stipulate both quality and quantity conditions for discharge from each wastewater treatment works and are reviewed every three years under the legislation. The licences also specify operational controls and reporting for the pipe network and pump stations.

### ***Access to water***

Hunter Water extracts water from the Williams River and groundwater sources under stringent conditions set out in licences issued by the Department of Natural Resources (DNR) under the Water Act 1912 and Water Management Act 2000.

These licences underwent major review by DNR in 2003 and updated licences came into force in 2004. Further information about the water access licensing arrangements can be obtained from DNR's website, [www.naturalresources.nsw.gov.au](http://www.naturalresources.nsw.gov.au)

DNR can direct Hunter Water to carry out remedial work should water extraction activities be determined by DNR to have caused any adverse environmental impacts. Penalties of up to \$500,000 can be imposed for failing to comply with remedial directions or licence conditions.

### **PRICING IN 2005-06**

Hunter Water's water and sewer charges are made up of:

- A small fixed charge for water service access.
- A water usage charge applied to all water used by an individual customer. Usage charges generally comprise the greater proportion of an individual customer's bill and so serve to encourage customers to use water wisely.
- A fixed service charge for sewer, which covers most of the costs of operating the sewer system.
- A small usage charge for sewer.
- Drainage charges to cover the maintenance and up keep of the stormwater networks managed by Hunter Water. Only businesses and residential properties within the catchments of Hunter Water's stormwater drains pay drainage charges.
- An Environmental Improvement Charge (EIC) which contributes to the cost of providing sewerage to some established, but unsewered, areas in the lower Hunter.

The prices that Hunter Water charges its customers for water, sewer services, stormwater drainage and trade waste are all set by the NSW Independent Pricing and Regulatory Tribunal (IPART). IPART is an independent body that sets prices for a range of Government monopoly services including water, public transport and aspects of gas and electricity services.

IPART issued a new price determination for Hunter Water on 2 September 2005 and Hunter Water fully implemented the new charges as prescribed by the determination. The determination set Hunter Water's prices for the period from 1 November 2005 to 30 June 2009. The 2004-05 prices remained in force for the period from 1 July 2005 to 31 October 2005.

The 2005 IPART price determination made two important changes to the structure of Hunter Water's prices:

- *Water usage prices:* The existing lower second tier price, applying to a customer's water use over 1,000 kilolitres per year, will be phased out over the four-year price period.
- *Stormwater charges:* The existing system of property-based charges for non-residential stormwater customers will be phased out and replaced by a fixed charge based on property area. The new area-based charges will apply from 1 July 2006.

The basic charges applying in 2005-06 are shown below.

#### *Pricing in 2005-06*

	1 July 2005 - 31 October 2005	1 November 2005 - 30 June 2006
Water service (\$/annum)	\$25.37	\$32.22
Water usage (\$/kL) <sup>1</sup>	\$1.01	\$1.09
Up to 1000 kL/year		
Over 1000 kL/year	\$0.93	\$1.03
Sewer service base(\$/annum) <sup>2</sup>	\$478.69	\$535.10
Sewer service (separate residential property) <sup>3</sup>	\$239.35	\$267.56
Sewer usage (\$/kL) <sup>2</sup>	\$0.42	\$0.43
Drainage residential <sup>4</sup>	\$42.31	\$43.37
Environmental Improvement Charge	\$48.95	\$50.17

*1. kL = kilolitre 2. These sewer service and usage charges are subject to a discharge factor. 3. Sewer service charge for residential separate houses only. No discharge factor applies to this charge. 4. Drainage charges for non-residential customers may also be subject to a property value charge. See tariff structure tables in the annual report appendix for details.*

IPART's September 2005 price determination also set new charges for trade waste and miscellaneous services such as special meter readings, standpipe hire and services related to development applications. Details of these charges are available on Hunter Water's website [www.hunterwater.com.au](http://www.hunterwater.com.au)

# OUR GOVERNANCE STRUCTURE

## BOARD OF DIRECTORS

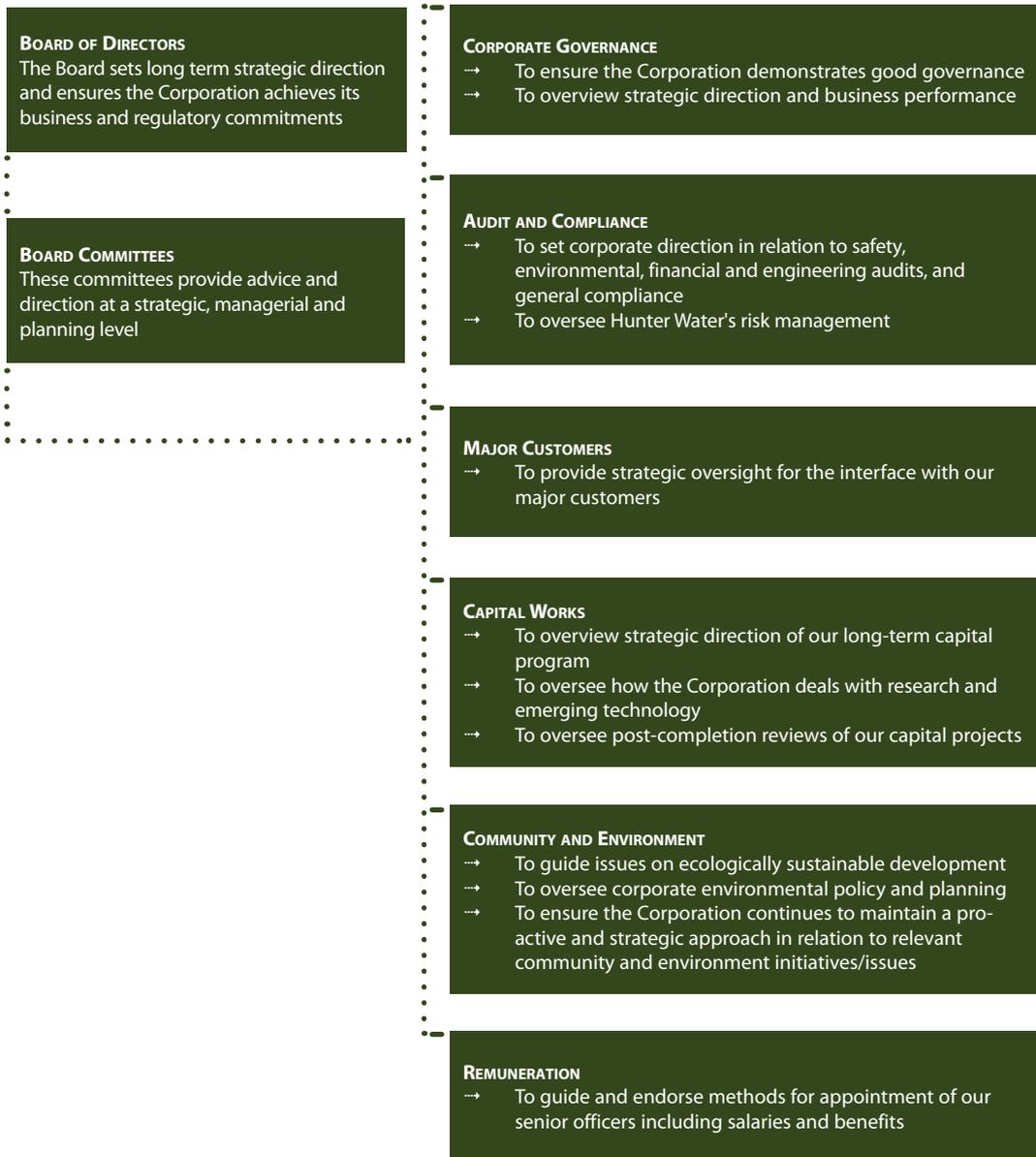
Hunter Water's Board comprises the Managing Director and a maximum of eight people, one of whom is the chairperson, appointed by the shareholders.

In 2005-06 our Board of Directors were Mr Ron Robson, Chairman, Mr Kevin Young, Managing Director, Mr Ross Knights, Deputy Chairman, Mr Gary Kennedy, Mr David Boyd, Mr Warren Elliott, Ms Barbara Crossley and Mr Alan Chappel.

The Board oversees the Corporation's policies, management and performance. It sets strategic direction for the organisation and ensures the Corporation achieves its business and regulatory commitments.

Hunter Water also has two subsidiary companies, Hunter Water Australia Pty Limited (HWA) and the Regional Land Management Corporation Pty Ltd (RLMC), that operate autonomously and each have their own Boards.

### Board of Directors





*Hunter Water's Board of Directors: Seated (L-R) Kevin Young (Managing Director) and Ron Robson (Chairman). Back row ((L-R) Warren Elliott, Alan Chappel, Ross Knights (Deputy Chairman), Barbara Crossley, David Boyd, Gary Kennedy and John O'Hearn (Company Secretary).*

## CORPORATE GOVERNANCE

The two key governance committees of the Board are the Corporate Governance Committee and the Audit and Compliance Committee.

### CORPORATE GOVERNANCE COMMITTEE

The objective of the Corporate Governance Committee is to overview the Board's strategic direction and business performance. It provides a mechanism for ensuring that good governance protocols and policies are in place for dealing with matters arising from an internal or external nature relating to directors and senior management.

The Committee's responsibilities include staying abreast of developments in Corporate Governance issues and changes in relevant legislation and ensuring that Directors and Officers of Hunter Water are adequately advised in this regard. It is also the Committee's responsibility to maintain a Code of Conduct applicable to directors and senior management.

### AUDIT AND COMPLIANCE COMMITTEE

The role of the Audit and Compliance Committee is to assist the Board in fulfilling its responsibilities for:

- The integrity of Hunter Water's financial statements
- Compliance with legal and regulatory requirements
- The external auditor's independence
- Performance of the internal audit function and the external auditors

The Committee meets four times per year and comprises:

- Mr D Boyd - Director/Committee Chairman
- Mr R Robson - Chairman of the Board
- Mr W Elliott - Director
- Mr R Knights - Deputy Chairman

The Committee operates to a Charter which sets out its authority, role and responsibilities as delegated by the Board. This Charter is subject to periodic review and was most recently updated in June 2006.

In assessing the integrity of the financial statements, the Audit and Compliance Committee considers the appropriateness of accounting policies and principles and their application. The Committee:

- Assesses the reasonableness of significant estimates and judgements in the financial statements
- Reviews the processes for ensuring and monitoring compliance with laws, regulations and other requirements relating to the external reporting of financial and non-financial information
- Assesses information arising from internal and external audits that may affect the quality of the financial reports

The Board has also delegated to the Committee the oversight of Hunter Water's risk management processes. The Committee is responsible for assessing Hunter Water's processes for determining and managing key risk areas and for ensuring that the risk management process is comprehensive and ongoing.

The Committee receives reports on all suspected and actual frauds, corrupt conduct, maladministration and serious and substantial waste of public moneys as well as breaches of laws.

The NSW Audit Office is Hunter Water's statutorily appointed external auditor. The Audit and Compliance Committee, together with the external auditor, reviews the scope of the external audit before agreeing to the terms of engagement for each financial year. The Committee also approves the annual audit plan, monitoring progress against the plan and monitors and assesses the effectiveness of Hunter Water's internal audit function.

## **INTERNAL AUDIT**

Hunter Water's internal audit function is provided by the Compliance and Review Group. The primary purpose of Compliance and Review is to provide independent, objective assurance and consulting services designed to add value and improve the operations of the Hunter Water group of companies.

The scope of work conducted by the Compliance and Review Group is designed to determine whether Hunter Water's network of risk management, control and governance processes is adequate and functioning to ensure:

- Risks are appropriately identified and managed
- Significant financial, managerial and operating information is reliable, accurate and timely
- Programmes, plans and objectives are achieved

The Manager Compliance and Review reports functionally to the Chairperson of the Audit and Compliance Committee however for administrative purposes reports to the General Manager Strategy and Communications. The Internal Audit Charter provides for escalation of any conflicts of interest in auditing operations that fall within the sphere of responsibility of the General Manager Strategy and Communications to the Managing Director or directly to the Chairperson of the Audit and Compliance Committee.

## **PROMOTION OF ETHICAL BEHAVIOUR**

Hunter Water's Code of Conduct sets out the principles governing the conduct and behaviours of Hunter Water's employees. The Code is supported by a number of other policy documents supporting the creation of an ethical culture.

During 2005-06 a comprehensive Fraud and Corruption strategy was developed to facilitate the promotion of ethical standards and behaviours. One important aspect of this strategy was the organisation-wide Fraud Risk Assessment conducted to determine Hunter Water's fraud risk profile and the effectiveness of the system of internal control in managing those risks. The risk assessment was conducted based on the methodology in AS/NZS 4360 Risk Management, and found that the level of fraud risk faced by Hunter Water is medium with effectively operating controls.

A Fraud and Corruption Control Plan has been prepared in accordance with Australian Standard AS8001-2003 Fraud and Corruption Control. This Plan informs all Hunter Water employees of their responsibilities in the prevention, detection and reporting of actual or suspected fraudulent or corrupt conduct and in doing so works in conjunction with the Code of Conduct.

Hunter Water actively encourages employees to report suspected fraud, corruption, maladministration or serious or substantial waste. Employees can report their concerns directly to the Compliance and Review

group, the Managing Director or to the nominated disclosure officer. Hunter Water has an Internal Reporting Policy to protect individuals who make such reports through these channels.

This policy complies with the requirements of Australian Standard AS8004 – Whistleblower Protection Programmes for Entities and affords employees making reports in compliance with its requirements for the protection of the NSW Protected Disclosures Act, 1994.

## **RISK MANAGEMENT**

Hunter Water is strongly committed to a risk management ethos. There is a structured risk management approach which is actively engaged for strategic as well as day to day operational and business administration activities. This approach enhances both the effectiveness and efficiency of our operations, encourages proactive management, provides a framework for strategic planning and ensures that the quality and continuity of the supply of water and wastewater services to the community is maintained and delivered in a financially viable way.

Importantly, our commitment to risk management helps to safeguard our stakeholders - our local community, employees, shareholders, regulators and the environment.

Detailed risk analysis is undertaken and a global corporate risk matrix is reviewed biennially in accordance with the methodology set out in Australian Standard AS/NZS 4360 Risk Management. This provides a high level context for management and the Board of Directors. The manner in which the identified risks are managed is closely monitored and reported to our Board as needed.

The Audit and Compliance Committee of the Board also oversees an annual internal audit program which reviews high risk areas to ensure that agreed risk mitigation actions are implemented.

The effective provision of water and wastewater services depends most importantly on how well we create, maintain and operate our substantial infrastructure base - our reservoirs, pumping stations, treatment plants and pipe networks.

Detailed planning for the expansion, maintenance and replacement of above and below ground assets is based on a formal quantitative risk analysis, to minimise risk while still achieving an acceptable level of service at a reasonable cost.

As a result, our asset management plans reflect a balance of preventative and reactive maintenance as well as documented renewal/replacement strategies for each asset category.

Complementing this approach we have a range of risk management controls in place including:

- Development of contingency plans and procedures for disaster circumstances. In 2005-06 there was a continuation of staff training in emergency response procedures as well as the development of a range of detailed contingency plans in the event of major system failures.
- The regular review of our insurance program in response to changes in our risk profile, policy cover and premiums.

Effective risk management is an integral part of our business and will remain a key focus as we strive for continual improvement in the delivery of our services.

# ORGANISATIONAL OVERVIEW

as at 30 June 2006

## HUNTER WATER ..... SUBSIDIARIES

- *Hunter Water Australia Pty Limited*
- *Regional Land Management Corporation Pty Ltd*

### Assets & Operations

- electrical/mechanical maintenance
- civil operations
- plumbing audits
- water resource management
- wastewater treatment
- tradewaste
- system operations

### Assets Development

- network planning
- design & construction
- contracts
- capital works co ordination

### Customer & Development Services

- customer services
- business support
- development services

### Strategy & Communications

- corporate planning
- compliance & review
- business improvement
- corporate communications

### Finance & Corporate Services

- finance
- corporate services
- information services
- human resources/OH&S



## OUR CUSTOMERS

Providing our customers with high quality service is number one priority for Hunter Water.

### **CUSTOMER RESEARCH**

To find out what our customers' views are on a range of matters we have a number of Customer Research programs in place.

### **CUSTOMER SATISFACTION**

The Hunter Water Customer Satisfaction Survey Program commenced in January 2002. This program aims to measure how well the organisation's Customer Service Contact Centre handles incoming calls from the general public, across a range of call types, including complaints, field service calls, payment and other enquiries. Research outcomes input directly into developing strategies aimed at improving our service delivery. Of callers interviewed for the 2005-06 financial year, 83% indicated a positive impression of Hunter Water.

### **COMMUNITY PERCEPTIONS**

Since the early 1990s, we have undertaken a major survey of our customers to ascertain community perceptions on a range of aspects relating to our operations. Survey participants are selected at random to determine their views on overall performance, pricing, environmental performance, and water and sewer system performance. The 2005 survey results indicated that Hunter Water continues to be rated highly by its customers, with strong improvements in customer service. Customers are very satisfied with Hunter Water's capability to provide a reliable supply of clean, safe water.



*Customers of the future - but for now our water quenches their thirst after giving it all on the field*

For the overall performance of Hunter Water, 93% of customers gave a favourable rating - the highest in the survey's history. Results of the Customer Perception Survey will be used to develop strategies which will improve even further the service we provide to customers and the broader community.

#### **OMNIBUS RESEARCH**

The Hunter Valley Research Foundation conducted a survey in March 2006 to assess awareness of the Summer Water Conservation Campaign. The survey was also used to assess residents' preference regarding water interruption strategies.

Of those who participated in the survey, 42% indicated they had seen the campaign, however, one-third of these claimed to have seen the campaign on a local television campaign. An interesting result given the 2005-06 campaign had utilised bus advertising and not television and participants may have been thinking of previous campaigns.

The second area of the survey provided some useful results with 80% of respondents stating they would prefer short-term water interruptions with adequate notice, rather than paying a higher price for water to avoid these interruptions.

The results of this research have been incorporated in developing future strategies.

## DEVELOPERS

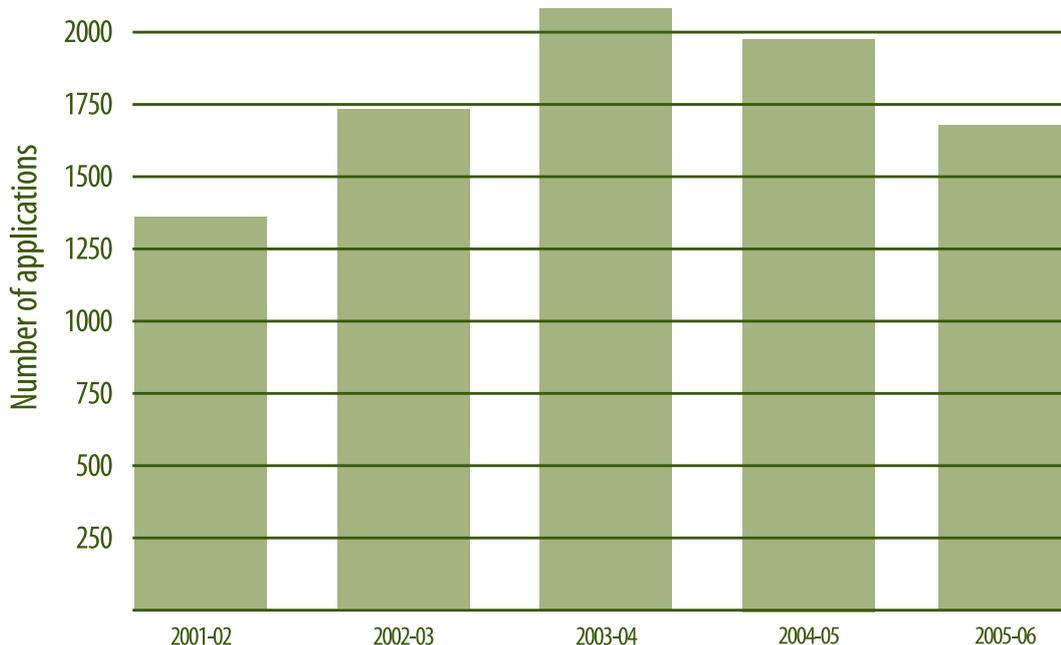
The development industry is a major stakeholder for a majority of Hunter Water's service sectors. The industry helps generate new customers through the creation of new residential, commercial and industrial developments. Hunter Water's newly formed Customer and Development Services Division has evolved to become a valuable service provider and information resource for the wider developer community. Hunter Water contributes to the responsible development of our region by facilitating the industry's water infrastructure and by setting standards of requirements and providing access to technical advice on a day-to-day basis.

Hunter Water meets regularly with representatives of the Urban Development Institute of Australia (UDIA), and other key development associations in an effort to better anticipate priority needs of the industry and help identify future issues and trends. We have recently introduced a number of initiatives to improve application response times including, electronic workflow processing supported by the appropriate resourcing and streamlining of key processes.

Hunter Water's newly merged service departments of Business and Urban Development and Community Relations have been consolidated to form a single Customer and Development Service Division. This Division is undertaking a process review of the various design interactions with external designers. We have continued to develop a range of initiatives during 2005-06 that will greatly improve the quality of designs being submitted to Hunter Water and the internal design review process that follows.

Over the past few years we have experienced a heightened level of development applications, of which a large number have continued through to final construction. During 2005-06, 1700 applications were processed. This is a decrease of about 10% over the previous year which is a reflection of the broader building industry activity levels throughout NSW.

*Development applications 2001-02 to 2005-06*



## THE CUSTOMER RELATIONSHIP

### CUSTOMER CONTRACT

On 1 September 2003 we implemented a new Customer Contract, following a comprehensive review by the Independent Pricing and Regulatory Tribunal (IPART).

The Customer Contract is important to customers because it specifies how we will interact with them in the provision of water, sewerage and drainage services. The Contract, which is a schedule to the Operating Licence, is a deemed contract that applies to all customers with property connected to a water main or a sewer main owned by us.

Overall, the Customer Contract format is simple for our customers and staff to understand and use. It clearly outlines customers' rights and obligations, and sets out the minimum standards of service that they can expect. Matters covered by the Contract include the services we will provide, billing and payments, debt and restriction of services, redress and rebates, maintenance responsibilities and complaints handling.

One of the key features of the Contract is that it includes provision for payment of rebates under specified circumstances. A copy of the Customer Contract is available on our website.

### CUSTOMER COMPLAINTS

In 2005-06, a total of 2468 complaints were lodged with Hunter Water by customers regarding various aspects of our services. This is a 7% decrease compared to the number of complaints received in the previous year. Customer complaints, either directly to Hunter Water or to the Energy and Water Ombudsman of NSW, guide the identification of areas where we can improve our service delivery.



### DEVELOPER SERVICE PLANS

*Hunter Water levies Developer Charges on new developments to recover the costs to Hunter Water to provide water and wastewater services. It has a number of Developer Service Plans (DSPs) that outline the geographic areas planned for future development and include details on the Developer Charge applicable as well as information on the underlying technical and financial assumptions associated with the charge.*

*IPART requires that the DSPs be reviewed once in each five year period. During 2005-06 Hunter Water finalised its first major review of its DSPs. The reviewed DSPs were placed on public exhibition for community consultation from 18 April to 2 June 2006.*

*The review resulted in five additional DSPs: three wastewater transfer DSPs, one treated effluent transfer DSP and one ocean outfall DSP. In total, 76 DSPs (18 water and 58 wastewater) were registered with IPART by 30 June 2006. The new developer charges commenced on 1 July 2006.*

The most common complaint category was billing, which accounted for about 30% of all complaints. Most billing complaints relate to matters such as high water consumption, disputed meter readings and account information. Other complaints include operational matters such as water quality, continuity and pressure, restoration of property, notification of water supply interruptions and metering.

The following are two areas that have been highlighted for ongoing improvement in 2006-07:

- Amalgamation of the Customer Services team with Business and Urban Development to improve service delivery for all customers from the first stages of the development process to the ongoing administration of their account.
- Establishment of a centralised business services team to achieve greater consistency and management of meter reading and meter exchange contractors. This team was also separated from the Contact Centre to enable each team to focus on core business functions and efficiency in resolving customer issues at first point of contact.

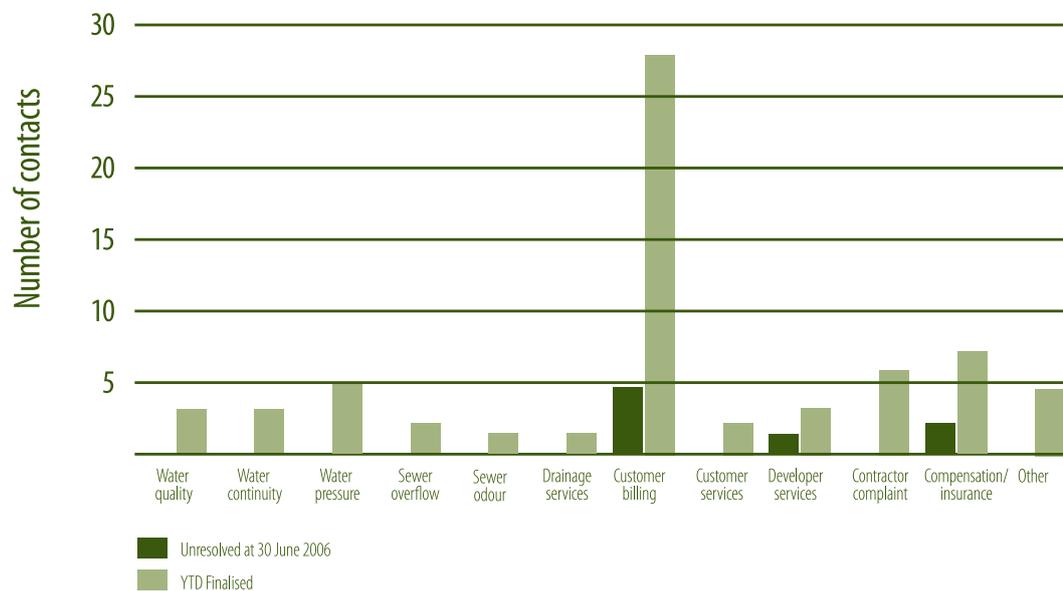
**EWON CONTRACTS**

Hunter Water has been a member of the Energy & Water Ombudsman of NSW (EWON) scheme for four years. Access to EWON's services provides our customers with an avenue for an independent, external review of the reasonableness or otherwise of our actions or decisions. The service is free of charge to customers.

During 2005-06, 109 customers contacted EWON over a range of matters. Of these, 45 were enquiries and 64 required investigation. Enquiries are generally relatively straightforward matters including provision of information by EWON or referral back to Hunter Water or another agency. There was a decrease of 132 in the number of customer contacts compared to the previous year.

It is a requirement of our Operating Licence that we report to IPART each year on the operation of EWON as it relates to our customers. A copy of the report for 2005-06 is available on our website.

*EWON Contacts Resolved and Unresolved by Operating Licence Category (excluding enquiries)*



## CUSTOMER INFORMATION SYSTEM (CIS)

Hunter Water has engaged SPL WorldGroup (Australia) Pty Ltd to provide a replacement for our ageing Customer Services System (CSS) which is the operational system used to support all our billing and customer relationship activities.

The new Customer Information System (CIS) will be one of the Corporation's core and critical business systems for many years to come. It will facilitate entry to new technologies and will improve the efficiency with which we handle customer information requests continuing the focus on providing value added services to our customers and the community. Good progress was made during 2005-06 on the CIS implementation, and it is scheduled to 'go live' by the end of 2006.

From a customer perspective, our aim is to achieve a seamless transition to the new CIS. To facilitate this, the implementation plan has a significant focus on user involvement and staff training in the lead-up to the system going live.

## NEW TELEPHONE SYSTEM FOR HEAD OFFICE AND TOMAGO

An integral component of the Head Office re-location was the procurement of a new telephony solution. The new system provides modern features for users such as improved customer service functionality for the Contact Centre, simplified system administration, integration with Microsoft Outlook functions such as email, contacts and calendar.

A major feature is its capacity to be integrated with our new Customer Information System (CIS) to enable efficient self-service options for customers via the Integrated Voice Response (IVR) feature. This will be a key part of the stage two of the CIS project which is a vital continuous improvement strategy supporting our ongoing commitment to provide efficient and high quality service to our customers.



## PRIORITY SEWERAGE PROGRAM – KITCHENER

*As part of the NSW State Government's Priority Sewerage Program, Hunter Water is providing sewerage services to small townships which have been identified as a priority. Areas under consideration for requiring sewerage services were prioritised by the Department of Environment and Conservation based on potential health and environmental risks. In the Hunter, the townships of Kitchener, Lochinvar, Millfield, Ellalong and Fern Bay were identified as priority areas.*

*During 2005-06 construction of services at Fern Bay and Kitchener progressed well with the projects due to be completed by the end of 2006. Planning and design works have begun for the remainder townships of Lochinvar, Millfield and Ellalong.*

*Overall, approximately \$21m will be spent over the next three years to complete these projects.*

**CHANGES TO 'OVER-THE-COUNTER' SERVICES**

During the year we made a number of changes to our over-the-counter service delivery including:

- Reaching agreement with Lake Macquarie City Council to co-locate our Lake Macquarie Customer Centre in Council's new Customer Service area which is currently being refurbished. Co-location with councils in other areas of our operations (Maitland and Port Stephens) has been a very successful strategy for both organisations from a business and a customer perspective because of the synergies in the services we provide. Hunter Water staff will move to the Council building at the end of 2006.
- Closing the Cessnock Customer Centre following a review which indicated relatively low levels of business transactions. The main activity at this Centre was over-the-counter payments. There are many readily accessible alternatives for this type of transaction, including three over-the-counter alternatives in close proximity to the former Customer Centre. Key stakeholders in the area were informed and the building was subsequently sold following a public tender process.
- Moving to the new Head Office in Honeysuckle Drive Newcastle presented an opportunity to amalgamate all the customer service activities that had previously been undertaken across various parts of the organisation. As a result, there is now one integrated area providing a one-stop-shop for all customers (including developers and visitors).

**WATER CONSERVATION**

We conducted a community awareness campaign during the 2005-06 summer to encourage the community to be careful with their use of water. The campaign focused on water efficiency with the key message encouraging consumers to 'Think Twice' about how and when they use water. The campaign demonstrated how consumers could be more efficient in their use of water for everyday activities. We utilised the local bus services to carry our advertisements on the rear of the buses. These messages were supported by a range of education and promotions at community events.

Brochures, phone messages on hold, messages on customer bills and promotional give-aways were also used. A weekly electronic update is provided to all staff advising them of current storage levels.

**Overall Performance of Hunter Water**



## HUNTER WATER REGULATION

Hunter Water's (General) Regulation was remade by the NSW Government on 1 September 2005. The new Regulation covers two areas related to Hunter Water's activities:

- *Plumbing and Drainage*: The Regulation specifies the minimum standards expected for plumbing and drainage work within Hunter Water's area of operations, monitoring of performance and defect rectification processes.
- *Water restrictions*: The Regulation strengthens existing powers for imposing water restrictions, specifying the means by which Hunter Water may regulate or restrict the use of water during periods of drought or accident, including penalties for non-compliance.

Hunter Water prepared a Regulatory Impact Statement (RIS) for issue in accordance with the requirements of the Subordinate Legislation Act. The RIS was made available to key stakeholders including Department of Planning, Department of Natural Resources, Department of Health, NSW Office of Fair Trading, Energy and Water Ombudsman of NSW, Housing Industry of Australia, Public Interest Advocacy Centre and Councils in our five Local Government Areas.

It was also advertised in the Government Gazette, the Sydney Morning Herald and Newcastle Herald. We received five submissions, none of which raised objections to the proposed regulation.

## PAYMENT ASSISTANCE SCHEME

Hunter Water's Payment Assistance Scheme (PAS) is managed through nominated welfare agencies providing assistance to customers who may be experiencing financial hardship.

The scheme operates along similar lines to those in place for customers of electricity and gas companies. Customers seeking financial assistance with their Hunter Water accounts are assessed by the nominated agencies for eligibility.

The scheme supplements other assistance that we provide to customers in relation to their account payments, as outlined in our Code of Debt and Disconnection. In 2005-06, 426 customers were provided with assistance through this scheme.



## OUR COMMUNITY

### CONSULTATIVE FORUM

Hunter Water's Community Consultative Forum continued to meet quarterly during the year, with meetings in September and December 2005, and March and June 2006. Formal agendas and report papers were provided for all meetings on key operating, environmental and community matters. The Minutes of the Meetings were incorporated in the Open Board reports. Presentations were provided on relevant issues.

Of note during the year were the following:

- At the end of 2005-06 the Forum had 16 member organisations.
- The Forum met quarterly in 2005-06, with an average 65% attendance rate at meetings.
- The Energy & Water Ombudsman of NSW, Clare Petre, attended the September 2005 meeting for general discussion with members on the EWON scheme and matters referred to EWON by Hunter Water customers in 2004-05.
- In June 2006, members were surveyed on their views about the Forum across a number of key areas, including structure and role, meeting processes, relationships and effectiveness. The survey involved rating a range of statements (from Strongly Agree to Strongly Disagree), as well as the opportunity for members to provide open comments on each of the topics. The survey outcomes will be used as an input to Hunter Water's report to IPART on the effectiveness of the Forum as part of the Operating Licence review in 2006-07.



*Clowns and pirates – building relationships and educating the community is not only important but lots of fun for our team*

- The University of Newcastle was appointed as a new member of the Forum. George Kuczera, the University's nominated representative, attended his first meeting in June 2006.
- Two new initiatives were implemented to assist in raising community awareness of the Forum and its activities:
  - ▷ An update on the Forum's activities is to be included in the Customer News bill insert for the July to October billing cycle each year. The first update was produced for distribution in the 2006 July-October cycle.
  - ▷ The specification for Hunter Water's new website includes a page for the Consultative Forum. It will contain information on members, meeting agendas and minutes and other related details.

Key matters considered by the Forum in 2005-06 included:

- Water Recycling Scheme at Thornton North
- Pricing 2005 to 2009
- Supply of water from the Hunter to the Central Coast
- 2004-05 Operational Audit outcome



*Members of Hunter Water's Consultative Forum*

- Recycled Water Strategy Review
- Closure of the Cessnock Customer Centre
- Wastewater Transportation System Upgrade
- Customer Perception Survey Findings
- Credit Management

**OPEN BOARD MEETINGS**

We continued our practice of conducting an open session of the monthly Board of Directors' meeting. Agendas are advertised in the major local newspaper, and the meetings are open to the media and the community. The business papers from each session are also available to the media and public from local council libraries.

## COMMUNITY PARTNERSHIPS

We continued to sponsor a broad range of organisations, events and community projects that contribute to sustainability and environmental awareness. Organisations sponsored in 2005-06 included Landcare, Waterwatch, Hunter Valley Research Foundation, Hunter Surf Lifesaving and The Wetlands Centre. A full list of our sponsorships for 2005-06 is provided in the appendices of this report.

## COMMUNITY CONSULTATION

Community consultation continues to play an important part in the delivery of our capital works program. The consultation aims to keep the community well informed and provide an opportunity for feedback throughout each project. Examples of where community consultation has been critical to the successful implementation of a project are:

### CONSTRUCTION OF NEWCASTLE WET WEATHER TRANSPORT SYSTEM UPGRADE

The purpose of the upgrade work is to improve the performance of the sewerage system during wet weather periods. A component of this project involved the construction of a pipeline by horizontal directional drilling from Merewether Golf Course to Burwood Beach (1.3km). The communication process involved:

- Sending brochures to over 200 homes in the vicinity of the route. The brochures described the project and associated impacts.
- Sending letters and consulting specifically with residents whose properties have the pipeline pass beneath.



### WATERAID

*WaterAid Australia is an international charity dedicated to helping some of the poorest people escape the stranglehold of poverty and disease caused by living without safe water and sanitation.*

*During 2005-06 Hunter Water renewed its support for WaterAid by donating another \$5,000 to the Papua New Guinea Eastern Highlands Schools Water and Sanitation Project. The project aims to supply 3700 students in 10 community schools with 59 ATloos and adjoining tap stands and three rainwater tanks.*

*An additional \$1350 was raised throughout the year by Hunter Water employees through raffles, lunches and other fund raising events.*

- Producing a DVD outlining the project to assist in the consultation process.
- Providing updates to interested residents throughout the project duration via the internet or by letterbox drop.

#### **PRIORITY SEWERAGE PROGRAM (PSP)**

The \$34 million Priority Sewerage Program is providing a reticulated sewerage system for approximately 1400 lots in the areas of Kitchener (180 lots), Fern Bay (200 lots), Lochinvar (190 lots) and Millfield and Ellalong (830 lots).

During the year, construction was undertaken on the Kitchener and Fern Bay schemes. Community consultation was undertaken in both the design phase and construction phase. The process typically involved the delivery of brochures and letters. Follow up face to face meetings were also undertaken with specific residents to resolve any issues. Given that any new reticulated sewerage system requires pipelines to be constructed in and around private properties consultation becomes a critical project issue.

#### **CENTRAL COAST BULK WATER TRANSFER SCHEME**

The Gosford/Wyong Water Authority approached Hunter Water in 2004 to consider the possibility of supplying them with water. Water storage levels in the Gosford/Wyong area at that time were less than 25%. Proposals for a major pipeline link between the areas were developed in 2005.

The concept to construct the pipeline which would allow an average 25 megalitres per day (depending on the Hunter's storage levels) to flow in either direction was launched by the State Government in July 2005. The pipeline will be completed by the end of 2006. The pipeline route traverses private properties and specific consultation was targeted to these properties.

#### **EVENTS**

We are actively involved in organising and participating in major annual events such as Catchment Day which celebrates National Water Week each October. During the year we also participated in community events such as the Festival of Whales in Port Stephens and Tocal Field Days.

We use local events to inform the community about responsible use of water resources, for instance, by publicising the 'Think Twice' message. We attended a range of events in 2005-06 including:

- Newcastle HomeShow
- Tocal Field Days
- Catchment Day
- Chichester Dam Picnic Day
- Festival of Whales
- Hunter on Show
- Surfest

## PUBLICATIONS

Our regular publications include a quarterly community newsletter 'Splash', distributed to a readership base of about 1000, and our Annual Report, distributed to the Parliament of NSW, IPART, Water Services Association of Australia, universities, lower Hunter Councils and other water authorities. We have a range of publications to help customers use their water more efficiently. All our publications are available on our website.

## INFORMATION PRIVACY & PROTECTION

Our Customer Contract informs customers that we will treat their personal information according to the provisions of the NSW Privacy and Personal Information Act 1998.

## ETHNIC AFFAIRS

We recognise the cultural and linguistic diversity of the people we employ, the customers we serve and the broader community in which we operate, as vital in achieving our business objectives. We provide access for all customers to the Energy & Water Ombudsmen NSW (EWON) for dispute resolution.

We provide a free interpreter and translator service to customers, and maintain a staff pool who speak languages other than English. Information on the translation service is provided in a range of languages on our bills and leaflets to customers. We observe the principles of multiculturalism in the conduct of our business affairs.

The Community Development Officer for the Migrant Resource Centre is a member of our Consultative Forum. The Migrant Resource Centre is also one of the local welfare agencies authorised to issue payment assistance vouchers to customers experiencing hardship.



## WATERWATCH

*Waterwatch is a school and community education program where groups are trained to carry out catchment investigations and water quality monitoring. The groups carry out the monitoring on a regular basis and the data is entered into a state-wide Waterwatch website ([www.waterwatch.nsw.gov.au](http://www.waterwatch.nsw.gov.au)) which enables the monitoring of catchments and river health. In addition, Waterwatch co-ordinates annual events such as P-Day, Bug Surveys and Catchment Crawls that highlight various water quality issues.*

*Each year quality assurance trials are conducted to determine the accuracy of water quality tests taken as part of the Waterwatch program. Results are compared to results of other Waterwatch groups and professionally accredited laboratories. This year 94% of Waterwatch results fell within the acceptable range. This highlights the level of skill with which these groups work with and the value that Waterwatch groups add to monitoring water quality and catchment health. Hunter Water is a long-term sponsor of Waterwatch and will continue its involvement in 2006-07.*



## OUR HUMAN RESOURCES

### PEOPLE AND SAFETY

While people and safety have always had an important focus for Hunter Water, the importance of the Human Resource strategy in making changes, becoming more innovative and encouraging trust are important cornerstones enabling us to deliver our core business. As we approach an era where competition may be likely, it is important to take a moment to reflect on our achievements and recognise their place in making Hunter Water the organisation it is today.

#### WHERE HAVE WE COME FROM?

Hunter Water has a long and proud history coming from a long public service background which changed about 15 years ago when we became a State Owned Corporation.

The organisation can be broadly characterised as follows:

- Excellent technical competence and a strong cost efficiency focus
- Longevity in staff service and low staff turnover has assisted greatly the technical stability of the organisation
- Continued service delivery to the community and environment
- A secure place of employment and a great place to work



*Innovation and achievement - we're developing a one-team focus to deliver essential services for our community*

### **WHERE ARE WE GOING?**

- Health and safety will continue to be our number one priority
- Our workforce is ageing, our baby boomers are leaving
- The new generation is looking for different ways of working – for example greater autonomy and flexibility, more decision making, no longer looking for a job for life
- Life and work balance are important for our people
- The organisation is attracting a greater number of recruits from typically private sector backgrounds – we are seen as an excellent career opportunity
- Competitors are expressing interest in our sector, we need to focus more on commercial outcomes
- Our customers will continue to expect more from us
- Environmental issues will continue to be of interest to the community

With these challenges come opportunities. People are our greatest asset, they differentiate us from any other organisation – their safety, morale, effectiveness, respect for customers, and delivery of service are crucial in guiding the performance of Hunter Water for the future.

### **KEY CHANGES IN 2005-06**

The Human Resources team has always provided the key functions of payroll, recruitment and training, however, over the past 12 months most of these key processes have undergone considerable review.

The changes have been made with four key themes:

- Developing highly capable leaders
- Developing team members
- Aligning people to roles
- Designing and implementing support systems

Practically, the change is evidenced by a more active Human Resources group, engaged in the strategic direction of the business – a more visible team effort supporting leaders and staff in their day to day jobs. Key objectives for the organisation's Human Resources for the coming year are:

- Centralised health and safety function
- Better management of hazards
- Enhanced safety action plan
- Improved training and development
- Better management of employee performance
- Improved effectiveness in remuneration and benefits
- Succession planning
- Changing culture
- Improved recruitment and selection processes

#### **KEY ACHIEVEMENTS IN 2005-06**

- Successful safety performance (one year with no Lost Time Injuries)
- New performance agreement template developed
- Employee benefits review commenced
- Recruitment preferred supplier agreement in place
- New Head Office completed with enhanced staff facilities
- Relationship building with our unions and associations, particularly our local delegates
- Introduction of a new Corporate uniform
- More coaching for emerging managers and team leaders to support their people
- Introduction of Innovation and Safety Awards
- Leadership days
- Culture measurement and continued external benchmarking

## WHAT'S NEXT IN THE HUMAN RESOURCES AND SAFETY PLAN?

- Review training and development focus
- New leadership development focus
- Continue the one team focus
- Review cadets and trainees programme
- Continue focus on safety but also expanded to include proactive health management
- Develop and expand the employee 'brand' – why work at Hunter Water?
- Dedicated health and safety strategy including enhanced focus on three key areas:
  - ▷ Continuous systems improvement
  - ▷ Targeted measurement of key indicators
  - ▷ Long term safety leadership capability
- Continue working with Divisions to improve Human Resources and safety systems and implementation

The Human Resources team will continue to drive system change and lead programs that make the job of managing people easier and safer. Our aim overall is to ensure that coming to work at Hunter Water is a rewarding experience.



## HUNTER WATER'S SAFETY RECORD

*The safety performance of Hunter Water has been excellent with no lost time injuries (LTI's) sustained within the organisation for 12 months. This includes the field based groups of Electrical/Mechanical and Civil Maintenance who have been LTI free for two years and one year, respectively. These are significant results given the nature of the activities undertaken by these groups supporting a 24/7 response.*

*The improvement in our safety performance can be attributed to:*

- *a focus on safety as our first priority*
- *using systems such as requiring site inductions and risk assessments prior to commencing work*
- *ownership of safety from the Board of Directors*
- *enthusiasm of the workforce*
- *Director's Safety Award scheme to acknowledge safety performance and ideas, and*
- *positive performance metrics to track performance*

*Hunter Water looks forward to building on this great performance in 2006-07 and will remain committed to focusing on safety.*



## OUR OPERATIONS

### 2005-06 MAJOR PROJECTS

#### HEAD OFFICE BUILDING

In April 2003 a contract was awarded to local building firm W Stronach Pty Ltd for the design and construction of a new office building in the Honeysuckle precinct. Development approval was granted in August 2004 and construction began in October 2004.

Construction continued through 2005 and was completed in December. Hunter Water transferred its Head Office functions to the new building in January 2006. It had operated from a site in Hunter Street, Newcastle West for over 100 years.

The new building provides modern, efficient office accommodation and a safe and secure working environment for staff. The building has been designed to achieve around 50% energy savings compared to the former complex and incorporates a rainwater tank and water efficient fittings to minimise water usage.

#### INTEGRATED WATER RESOURCE PLAN

The Integrated Water Resource Plan (IWRP) was finalised in March 2003, with the third complete Annual IWRP Report prepared for the 2005-06 period. The plan seeks to achieve an appropriate level of drought security for our customers while balancing available resources in a sustainable manner. This is done by examining the lowest cost - based on economic, social and environmental factors - of providing consumers with water.



*Creative solutions - the labyrinth spillway at Grahamstown Dam delivered real environmental, economic and social benefits*

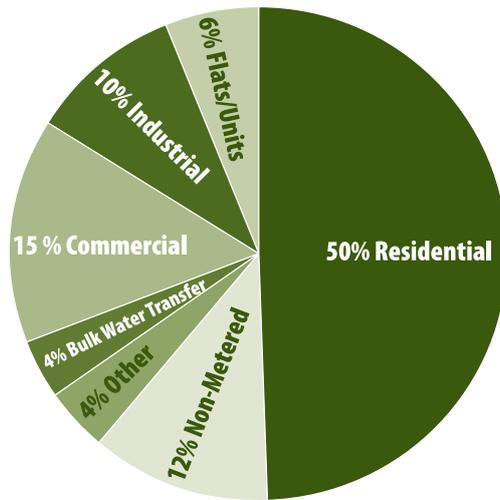
Good progress continued throughout 2005-06 on the actions identified within the IWRP. This included:

- Installation of 2513 REFIT Kits in lower Hunter houses. The REFIT Kits include water and energy efficient products and a water audit.
- Provision of 63 Rainwater Tank rebates.
- Hunter Water spent approximately \$3.5 million during 2005-06 on water service replacement and watermain replacements to minimise water loss.
- Work was completed on the construction of a larger spillway at Grahamstown Dam resulting in the available storage being increased by around 60,000 megalitres.
- Planning for the preparation of a concept design and environmental impact assessment for the pre-treatment of water pumped from the Williams River into Grahamstown Dam.

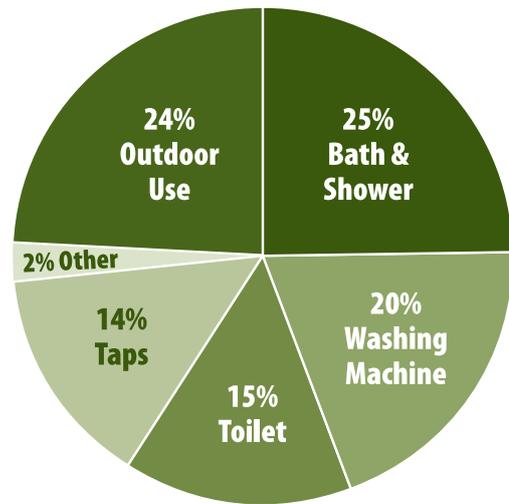
Over the next 12-18 months, Hunter Water will undertake a major review of the IWRP. The purpose of the revision is to:

- Re-examine Hunter Water's drought security position
- Include new demand forecasts

Annual Water Supply by Sector 2005-06



Domestic Water Consumption 2005-06



- Extend the planning period to around 50 years
- Review new water supply options
- Discuss potential changes to water access from the Williams River
- Review the impacts of new water conservation measures
- Review the impacts of water supply to the Central Coast

The review of the IWRP will involve extensive community consultation.

#### UPGRADE OF GRAHAMSTOWN DAM

Grahamstown Dam is one of Hunter Water’s major water storage facilities, providing around 40% of average annual supply to the lower Hunter. Construction of a new spillway and embankment was completed in December 2005, increasing the top water level of the dam to 12.8m and increasing total dam capacity by 50%, to approximately 190 GL (gigalitres). These works will also allow flood flows to be discharged from the dam safely.

The project has effectively provided for population growth in the lower Hunter by taking advantage of existing water resource infrastructure. The unusual labyrinth spillway, rather than a more traditional straight spillway, effectively reduced the overall width of the spillway, thereby minimising the amount of excavation required.

#### INCREASING THE CAPACITY OF THE WATER DISTRIBUTION SYSTEM

Hunter Water needs to ensure that the watermain network keeps pace with growth so that service standards to customers are maintained. Accordingly we have completed work to increase the capacity of our networks in Bonnells Bay, Wallalong, Greta, Nelson Bay and Rutherford.

Planning work has also been undertaken on the augmentation of the water distribution systems at North Rothbury, Millfield, Thornton North, Wallsend, Fennell Bay, and Kooragang Island.

## WASTEWATER TREATMENT

During the 1990s Hunter Water upgraded its major coastal wastewater treatment facilities and, as a joint venture with the State Government, spent \$310 million through the Hunter Sewerage Project (HSP) to provide services to 20,000 unsewered properties in outlying areas.

The removal of septic overflows and treated effluent from Lake Macquarie and Port Stephens and the upgrade of major ocean disposal facilities has improved the quality of the region's beaches and the health of both these major waterways.

In addition to the improvements achieved under the HSP, there has also been an upgrade program focused on the inland wastewater treatment facilities that discharge treated effluent to more sensitive waterways. About \$100 million has been spent on the program of works to upgrade our inland wastewater treatment facilities.

## NEW GENERATION OF TREATMENT WORKS

Hunter Water aims for sustainability in the treatment of the region's wastewater by using natural treatment processes, recycling where environmentally and economically feasible, and by returning high quality treated effluent to the water cycle in compliance with Department of Environment and Conservation standards. All these measures help to minimise impacts on the environment.

In 2005-06, we achieved a high level of compliance (over 98%) with our DEC wastewater treatment licence requirements. A small number of minor licence exceedances had no significant environmental impacts.

Generally where effluent quality limits were not achieved the exceedance was caused by biological activity in the maturation ponds used for disinfection (eg algal blooms) or during excessive wet weather, not with problems in the main treatment process.

During 2005-06, the construction of Cessnock Wastewater Treatment Works tertiary treatment plant continued and is scheduled to be complete by late 2006.

### *Wastewater Works Program 2005-06*

WASTEWATER WORKS	BENEFITS	COST	COMMISSIONING
<p>Cessnock upgraded WWTW</p> <p>→ Construction commenced February 2005</p>	<p>→ Higher level of wastewater treatment</p> <p>→ Caters for population growth and for new developments in the Cessnock area</p>	<p>\$30 million</p>	<p>→ Tertiary treatment plant was commissioned February 2006</p> <p>→ Remainder of plant to be commissioned by late 2006</p>
<p>Upgrade Belmont WWTW</p> <p>→ Tenders to construct upgrade called in May 2005</p>	<p>→ Provide for increased flows resulting from wastewater transport upgrades</p> <p>→ Caters for population growth in the Belmont area</p>	<p>\$20 million</p>	<p>End 2008</p>

The upgraded plant incorporates:

- Nitrogen and phosphorus removal to reduce nutrients entering Black Creek
- Enhanced disinfection facilities
- Improved odour control
- Better biosolids management

The augmentation and upgrade of Belmont Wastewater Treatment Works will commence during 2006-07 and be complete by the end of 2008.

## **WASTEWATER TRANSPORTATION**

Sewer overflows are generally related to either tree root blockages or wet weather conditions. In 2005-06, we spent approximately \$2 million on a sewer overflow reduction strategy specifically targeting the elimination of known tree root problems and system structural faults.

During heavy rain or extended rain periods, parts of the system can become overloaded by stormwater seeping into cracked pipes, illegal connections of stormwater into the sewerage system, damaged customer fittings, or poorly located customer fittings such as low-lying sewer shafts or yard sinks. The vast majority of our customers are unaffected by wet weather overflows, with problems occurring generally only in low-lying areas or where the water table is high.

In 2005-06, 96 overflows were attributed to heavy rain compared with 313 in the previous year. As the flow is heavily diluted, there is generally minimal environmental impact. In 2005-06, a number of initiatives were undertaken to improve the performance of the wastewater transportation system in wet weather including:

- Completion of sewer pipe relining in sections of Belmont, Mayfield, Beresfield, Valentine, Thornton and Tarro to reduce the amount of rainwater that enters the system in wet weather. The cost of the re-lining work was \$0.9 million.
- Smoke testing was undertaken on properties in Beresfield, Waratah West, Silver Ridge, West Wallsend, Edgeworth, Argenton, Glendale, Hamilton South and Belmont to identify illegal connections to the wastewater transportation system. Illegal connections include connection of roof drainage to the sewer system instead of the storm water system, cracked sewer pipes within the property and draining the backyard to the sewer system. Property owners with illegal connections are served notices to rectify any defects or illegal connections which are identified from smoke tests.
- Upgrade work to the Warners Bay/Valentine wastewater system continued with the upgrade on the Eleebana and Warners Bay systems nearing completion.
- The horizontal directional drill through the Merewether Hills commenced as part of the Newcastle wet weather wastewater system upgrade. An extensive community consultation process was undertaken. The cost of this total upgrade work is approximately \$34 million with the horizontal directional drill component costing about \$9M.

- The Upgrade Management Plan for the Dudley/Charlestown wastewater transportation system has been completed, with the design for the recommended works underway.
- Fern Bay, Kitchener, Ellalong, Millfield and Lochinvar are being sewered under the State Government Priority Sewer Program (PSP) to replace existing on-site systems.

## ODOUR CONTROL

Sewerage can generally generate odours when system detention times exceed four hours, as well as when illegal discharges of industrial wastes are dumped into the system. Odours can be generated in the wastewater transportation system (pipe network) or at treatment facilities. However, we have been proactively addressing the issue of odour control in the total system rather than 'masking' odours at the point of emission.

In 2005-06, Hunter Water had 299 complaints which were related to odour. These were largely attributed to the changeover of one of our major odour control contracts to a new supplier.

Hunter Water has also been actively ensuring compliance with its trade waste standards to prevent illegal discharges of pollutants from commercial and industrial developments.

Preventing odour generation by appropriate design and chemical control removes a community nuisance and protects system assets which can be corroded by sewer gases. Hunter Water has been actively ensuring all new developments are assessed by the developer to ensure any potential odour generation issues are identified and addressed before the system comes on line.

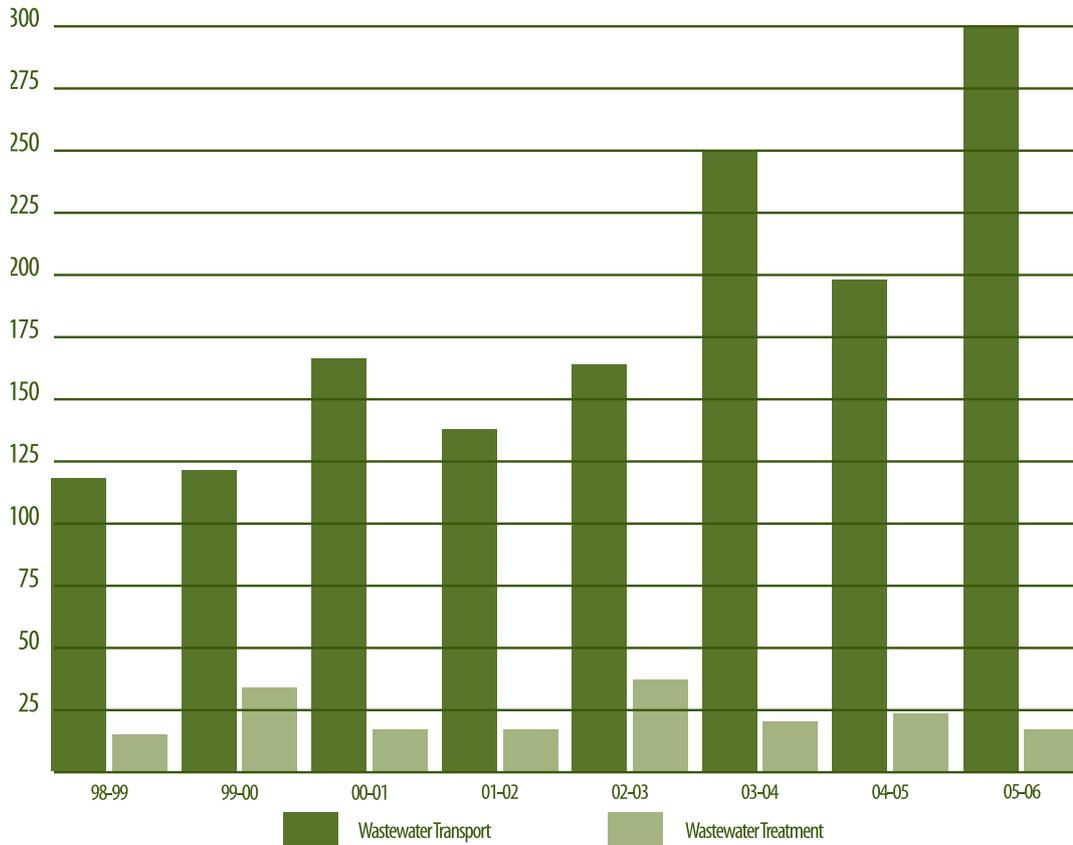


### HORIZONTAL DIRECTIONAL DRILLING

*Hunter water's sewerage system in Newcastle generally performs well, however, in some areas performance is affected during heavy rainfall. This is because in wet weather rainfall can enter the sewerage system using up capacity. To maintain performance during wet weather Hunter Water is upgrading its sewerage system. The work will reduce the amount of water entering the sewerage system in wet weather and increase the capacity of the system.*

*New pumping stations will be built at Mayfield and Lambton, and larger pipes installed to transfer flows directly to the Burwood Beach Wastewater Treatment Works. The section of pipeline below the Merewether hills has been constructed using a technique known as 'directional drilling'. This involves a pipeline being drilled deep beneath the surface. This technique avoids the installation of pumping stations and hence reduces energy requirements of the system.*

**Odour complaints 1998-2005**



This proactive approach should see minimal odour complaints within new catchments and has seen the annual expenditure on odour control increase from \$100,000 in the early 1990s to around \$1.5 million in 2005-06.

There has also been significant expenditure during the year to install odour control facilities, minimise the generation of odours in the system itself and improve odour testing and monitoring. This is in response to higher community expectation for Hunter Water to manage odours more effectively.

**RECYCLING INITIATIVES**

A key objective in Hunter Water's Environmental Management Plan is productive reuse of recycled water and biosolids where it is economically and environmentally feasible.

In 2005-06, about 3762 million litres of effluent (6.9% of dry weather effluent flows or equivalent to 17% of Chichester Dam) was recycled. In 2005-06, agriculture and industry were the main users of recycled water.

During 2005-06, the equivalent of 6151 dry tonnes of biosolids were dewatered and reused. The percentage of reused biosolids by 'end use' is shown in the biosolids recycling graph. No biosolids were disposed to landfill with the unused component being stockpiled on wastewater treatment sites until a beneficial reuse opportunity is identified. In 2005-06, the mining industry was the main user of biosolids for mine site rehabilitation.

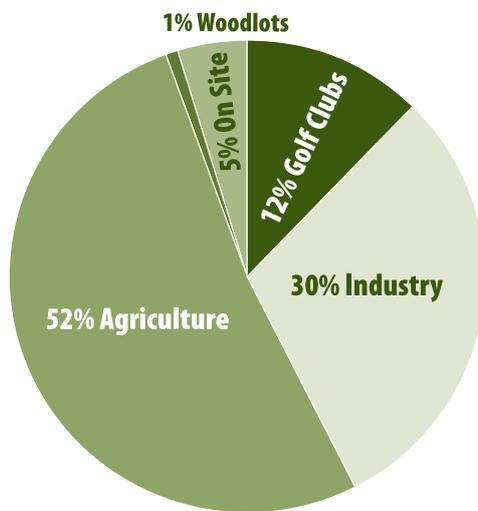
In addition, Hunter Water has commenced the preparation of a Recycled Water Strategy to assess recycled water opportunities. The strategy is due for completion in early 2007.

## WATER LOSS MINIMISATION

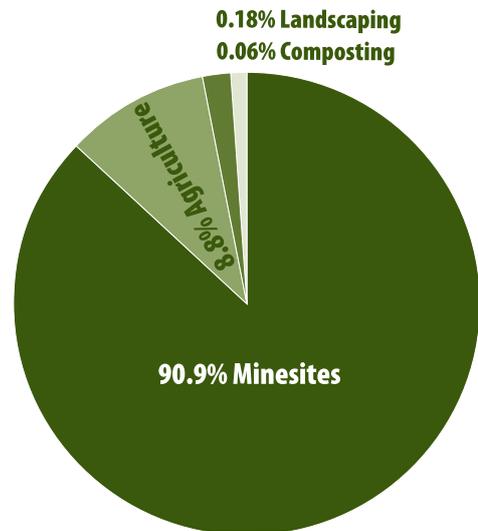
Hunter Water is actively implementing a range of initiatives to minimise water loss from its system. In 2005-06, 570 kilometres of watermains were surveyed for leaks using the most recent acoustic leak detection technology. One hundred leaks were found on water mains, hydrants, valves, service connections and private plumbing.

This survey and those in the previous three years, have revealed a minimal number of hidden leaks on our mains. We also replaced 17 kilometres of watermains during 2005-06 at a cost of \$4 million.

Effluent recycling 2005-06



Biosolids recycling 2005-06



### ENVIRONMENTAL OUTCOMES FOR CESSNOCK

*Major works to upgrade the Cessnock Wastewater Treatment Works and Cessnock No 1 Wastewater Pumping Station will protect the environment by providing the following environmental benefits: improved effluent quality discharged to Black Creek; provision of a more reliable treatment process in wet weather and during power outages; the use of reclaimed water in the treatment process thereby reducing potable water demand; and the protection of an on-site bird habitat. The upgrade will also significantly reduce odour emissions from the plant.*

*The upgrade work will provide capacity to service growth for the next 20–30 years and involves amplification of the entire treatment process. The work includes a new tertiary treatment plant that will remove algae and provide UV disinfection prior to discharge to Black Creek.*

*The total cost of the project was \$30 million.*



## OUR ENVIRONMENT

### SUSTAINABILITY

Ecologically Sustainable Development (ESD) relates to environmentally sound economic growth and is a framework to integrate environmental, economic and social decision-making into natural resource management.

Hunter Water is committed to integrating sustainability principles into the way in which we plan and operate our business. In order to monitor our progress towards achieving ecological sustainability a set of ESD Indicators or criteria has been developed and incorporated into our annual reporting framework. Measuring performance against these indicators will guide us to improve our future outcomes in an ecological, financial and community sense.

The indicators include:

- **Economic** that relate to our direct and indirect impacts on the financial resources of our stakeholders. Hunter Water recognises the need to develop cost-effective and flexible policy instruments such as improved valuation, pricing and incentive mechanisms for protecting the environment. The need to maintain and enhance our overall competitiveness in an environmentally sound manner is also understood.
- **Environmental** that concern our impacts on living and non-living natural systems, ie ecosystems. Hunter Water recognises the need for whole of catchment planning and management in conjunction with the community. A catchment-wide approach is effective in improving the health of our waterways as it integrates the management of land, vegetation and water resources.



*'Clean Streets Clean Beach' - with our support this project is creating greater community awareness of coastal stormwater issues*

- **Social** that concern our impacts on the communities within our area of operation, and includes qualitative and quantitative information on public health and safety, labour practices and other social issues. Total water cycle management includes human interaction. To achieve sustainable water resource management it is necessary for Hunter Water to provide for broad community involvement in issues that affect the way people interact with the water cycle.

It is imperative we realise that sustainability can only be achieved when directed by ESD principles and objectives that ensure the maintenance of ecological processes and systems. These ESD principles and objectives should guide the outcomes of our corporate planning, decision making and practice.

ESD objectives are mandated in NSW legislation. The core objectives of the National Strategy for ESD, signed by all Australia's Governments are:

- To ensure a path of economic well-being that safeguards the welfare of future generations - referred to as 'intergenerational equity'
- To enhance the individual and community well-being within and between generations - referred to as 'intragenerational equity'
- To conserve and protect biological diversity and essential ecological processes and life-support systems

The most fundamental aspect of these objectives, consistent with national and international views, is that the present generation needs to ensure the health, diversity and productivity of the environment for the benefit of future generations. Each generation is expected to leave intact the necessary environmental conditions for the next. For Hunter Water, ESD is about balancing economic prosperity and environmental quality for the community, now and in the future.

## **TRIPLE BOTTOM LINE**

Triple Bottom Line (TBL) is the reporting framework of sustainability. It reports an organisation's overall performance against environmental, economic and social indicators. The value of reporting non-financial aspects, including impacts on the community, is that it can be used as an internal management tool, as well as an external reporting framework.

Despite its name, TBL does not seek to produce three ultimate figures in the sense of a financial report's 'bottom line'. Instead, TBL is the measured outcome of sustainability and a way for organisations to disclose and account for their current performance and future challenges. For several years now, Hunter Water has recognised the benefits of environmental reporting and has been providing information on environmental performance since 1995.

## **HOW WE APPROACH TBL**

Hunter Water operates a robust, process driven business model, with a triple bottom line focus. Over the last decade we have systematically worked to carry out activities that achieve integrated environmental, economic and social outcomes.

In an environmental sense, we achieved the following outcomes:

- Produced Environmental Annual Reports since 1994-95 to report to the community on how we deal with environmental issues. Since 2003-04 this reporting has been incorporated into the Corporate Annual Report.
- Implemented an Environmental Management Plan (EMP) since 1995 to outline our main environmental objectives. Our 2002-2007 plan is a key part of our Environmental Management System and is reviewed annually.
- Developed an Integrated Water Resource Plan (IWRP) in 2003. The plan aims to coordinate the community's need for water and water supply capacity to achieve sustainable water management over the next ten years. Planning has commenced for a major revision of the IWRP and community input will be sought as the revised plan is developed.
- Implemented a major program to significantly upgrade our wastewater treatment works which has resulted in a significant improvement to the quality of effluent discharged to the environment or available for recycling. In 2005-06 this included a major upgrade of Cessnock Wastewater Treatment Works and design work for most other inland and ocean plants that will be upgraded over the next three to four years.
- Continued to work with the community and government agencies to protect catchments where raw water is harvested. In 2005-06 we continued to work on a demonstration site at Seaham to showcase best practice sustainable farm management and undertook environmental investigations on groundwater dependent ecosystems and environmental flows as part of the Water Management Licence.

- Continued with major upgrades of our wastewater transport system in Lake Macquarie and commenced upgrade in the Newcastle area that will greatly improve the performance of the wastewater system in wet weather. Planning is well advanced for work on the Dudley/Charlestown system.
- Seven percent of our treated effluent was reused. This contributes to reducing the demand for potable water supply.
- Maintained domestic water demand at an average of 210 kilolitres per residence per annum. During 2005-06 domestic water use in our area of operations continued to be amongst the lowest of the major Australian water authorities, despite not being in water restrictions as are many other communities.
- Continued our tree planting program to provide habitat and improved biodiversity where our facilities operate. We also continued our long standing sponsorship of the Regional Landcare Network which provides funding for landcare projects across the region.

In a financial sense, we achieved the following economic outcomes:

- Continued to apply the user-pays principle in water and trade waste services. Hunter Water was the first of all Australian water supply authorities to apply full 'user-pays' pricing for water usage charges and to replace property value based pricing structures. This charge is now widely accepted by the community and is an effective tool to manage demand for water.
- The total demand for water in Hunter Water's area of operation has remained relatively constant for the past ten years. Completion of a larger capacity spillway works at Grahamstown Dam in late 2005 has provided an increase of around 60,000 ML in the available storage. This additional storage will increase the annual safe yield of all available sources to around 79 gigalitres (GL) per year, compared to a current demand in average climate conditions of around 74 GL per year.



#### HUNTER WATER BACKS A WINNER

*In just 11 months the Figtree Community Garden has attracted over 5500 volunteer hours from over one hundred registered individuals and associations. Initially garden members held a design workshop to shape the group's vision. Gardeners have since established an organic garden bed, a composting centre, a bush foods garden, a traditional fruit orchard, a hot house, a rainwater tank, and set up irrigation ponds.*

*Figtree Garden has been successful in reaching out to the community through both individuals and community groups. Organic gardening workshops have linked with a number of programs including Work for the Dole, TAFE Outreach, Newcastle City Council's 'Sustainable Living at Home' and 'Links to Learning'.*

*During 2006 the Figtree Community Garden won the Community Education Award in the Community Division of the Environmental Achievement Awards. Hunter Water has been proud to sponsor the garden for the last two years.*

- In September 2005, the Independent Pricing and Regulatory Tribunal (IPART) established Hunter Water's prices for the period to June 2009. The price determination issued by the Tribunal endorsed Hunter Water's proposal to further strengthen water prices as a demand management measure by phasing out the lower second-tier usage charge. The new price structure reflects the growing need for water conservation.

In a community sense, we achieved the following social outcomes:

- Our current Operating Licence began in 2002 and provides a safety-net of minimum standards for system performance for customers.
- Provided approximately \$200,000 in direct funding in the form of sponsorships to support a range of community and environmental activities and events in 2005-06 including: Landcare, Waterwatch, Surf Life Saving, the Hunter Valley Research Foundation, Surfest and The Wetlands Centre.
- Provided about \$40,000 for the University of Newcastle's Chair of Water Engineering and \$60,000 for the Applied Research program.
- Promoted community ownership and responsible use of water resources through public education programs including Catchment Day, and school and community group talks.
- The rainwater tank rebate scheme began in 2004 with 63 rebates given out in 2005-06.
- In conjunction with EnergyAustralia and local councils we also participated in the REFIT program involving the retrofitting of homes with subsidised water and energy efficient devices and audits. In 2005-06, 2513 households had a REFIT Kit installed bringing the total number of kits installed since the program commenced in 2004 to approximately 9000.
- Continued our commitment to customer protection and equity by participating in the Energy & Water Ombudsman NSW (EWON) scheme. This scheme provides an independent review for customers who may not be satisfied with Hunter Water's response to their complaints.
- Maintained wastewater treatment operations which resulted in the region's beaches being rated amongst the cleanest by the Department of Environment & Conservation's NSW Beachwatch program for the last five years (since Hunter beaches have been part of the program).
- Conducted community consultation with residents and interest groups. In 2005-06 we consulted with local communities where major upgrades to our water and wastewater services were occurring.
- Continued to provide open sessions at our monthly Board meetings, to enable attendance by the community and media.
- Established a Consultative Forum in 1989 to provide two-way community feedback into our activities. In 2005-06, we reported to the Forum on our water and wastewater management and catchment activities.
- Sought community views through the Hunter Valley Research Foundation's Omnibus Survey. In 2005-06, about 300 residents were randomly interviewed to measure understanding and recall of messages from our summer water conservation campaign.

## WASTE REDUCTION

Hunter Water continued its commitment to waste avoidance and resource recovery through the implementation of its Waste Reduction and Purchasing Policy (WRAPP). The focus of our WRAPP is on:

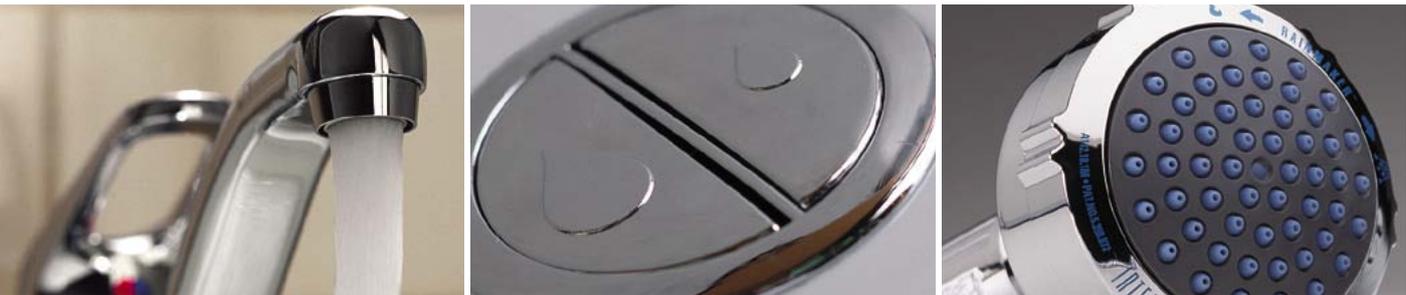
- Reducing waste from daily activities and operations
- Using management systems, services and products that avoid generating wastes disposed to landfill
- Purchasing recycled or low waste products and services that are price and performance competitive
- Involving management, staff, clients and customers where they can contribute to reducing waste

Four main areas of waste generation have been identified in the WRAPP. These include vegetation wastes, construction and demolition materials, office consumables and paper products.

Our main priority is to reduce construction and demolition waste. Steps have been taken to better understand the type and amount of wastes generated in this area to target waste reduction and recycling strategies. Within our offices, paper and office consumables are a priority area.

During 2005-06, we implemented the following waste reduction initiatives:

- Completed implementation of an Electronic Document Management System throughout all areas of the Corporation. This system has led to a major reduction in paper use and improved document control.



### REVIEW OF THE IWRP

*Hunter Water's Integrated Water Resources Plan (IWRP) is its blueprint for how to meet future water demands. It aims to provide an appropriate level of drought security and will consider both demand management and supply development solutions. Each option will be assessed in terms of its social, economic and environmental impacts.*

*While the current plan has been successful, there have been a number of material changes which now necessitate a major revision of the plan. The drivers for the change include: renewed focus on drought security; the new supply arrangements with the Central Coast; changes in demand projections; investigation of new supply options; growing community expectations for more water recycling and new demand management initiatives.*

*The revision commenced in 2006 and is expected to take two years to complete. The review process will include extensive community consultation.*

- Commenced implementation of a process to obtain waste management reports from construction contractors.
- The WRAPP principles were incorporated into the supply of printer and copier consumables with a full toner recycling system implemented in conjunction with the supplier.

## **ENERGY EFFICIENCY**

Hunter Water is a medium level consumer of electrical energy, currently using about 70,000 MWh per annum, or 0.1% of the State's total consumption. Energy consumption during 2005-06 has reduced compared to recent years. This reduction is partly due to the move to the new energy efficient Head Office at Honeysuckle.

The new Head Office building was designed to achieve a 4.5 star Australian Building Greenhouse Rating. It is estimated that the Corporation will see energy savings of more than 50% compared to Hunter Water's previous Head Office complex.

The building design adopted numerous features to facilitate the energy savings including using the north facing orientation and performance external glazing to control excess heat exchange. A high efficiency air conditioning system was provided with extensive zoning and computer monitoring and control to ensure no pockets of the building are over heated or cooled. Lighting in toilets, store rooms and meeting rooms are operated by motion detectors and remain off when the room is not in use. Solar power is used for water heating with gas backup on overcast days (gas generates less greenhouse gas than electricity).

Improved environmental performance requirements at our sewage treatment facilities and the connection of additional homes under the Priority Sewerage Program will see additional energy demands placed on the Corporation in future years. This increased energy consumption needs to be balanced against economic, environmental and social benefits, such as:

- Increased recycling of more highly treated effluent
- Discharge to the environment of a more highly treated effluent
- Reduced costs to householders who previously paid for pumping-out of septic tanks
- Reduced risk of overflows from septic systems, as householders switch from on-site disposal to the sewerage system

In order to ensure that our energy requirements are met in an efficient and cost effective way Hunter Water will be working with its major energy provider Country Energy and a number of Energy Management Consultants to prepare Energy Saving Action Plans.

This program, operated by the Department of Energy, Utilities and Sustainability (DEUS) requires major energy users to develop plans for energy related improvements. IPART has indicated that our compliance with this new legislation will supercede the previous SEDA Memorandum of Understanding requirements in our Operating Licence. The change also facilitates the establishment of projects which could be funded via the Energy Savings Fund, should that prove financially attractive to the Corporation.

## STORMWATER

Hunter Water has continued to work with the Hunter-Central Rivers Catchment Management Authority, local Councils and the community to promote stormwater initiatives in catchments in our region.

In 2005-06, our initiatives included:

- Participation in joint projects including studies reviewing the scope for deformalisation of Lambton Ker-rai Creek and the tidal reaches of Throsby Creek from Tighes Hill to Wickham. We have also provided guidance into the Hexham Swamp Rehabilitation Project which will return tidal waters to the swamp to restore estuarine habitat and their associated values.
- Support of Waterwatch, a national schools and community water quality education program monitoring the health of our waterways. The program also involves Spring and Autumn water bug surveys and regular catchment tours.
- Funding and assistance to Newcastle and Lake Macquarie Councils in stormwater education programs in various catchments throughout our region. We have also provided funding to Newcastle City Council for water quality monitoring which allowed implementation of the Newcastle Creeks Alive program and web site.
- The Bar Beach/Dixon Park Clean Streets - Clean Beach project conducted by Newcastle City Council and funded by Hunter Water followed on from the successful Merewether Clean Streets – Clean Beach project. Both projects were successful in creating greater community awareness of coastal stormwater issues and influencing community behaviour affecting water quality.



## ENVIROTHON

*During November 2005, seventy Year 11 students from schools across the Hunter converged on the property 'Greswick Angus' at Seaham to participate in the annual Envirothon. This event is an initiative of the NSW Department of Education and in 2005 was sponsored by Hunter Water. Each year the students are taken to an undisclosed location where they participate in a series of environmental activities which each have a key environmental theme.*

*This year's activities focused on how sustainable farming practices can contribute to managing water quality within drinking water catchments. 'Greswick Angus', which is the subject of a best practice management project supported by Hunter Water and other state government authorities, provided an excellent venue. The Managing Director of Hunter Water, Kevin Young, and the other judges were very impressed with the quality of presentations given. This component of environmental education increases the students' knowledge and awareness of the broader environment.*



## OUR SUBSIDIARIES

### HUNTER WATER AUSTRALIA PTY LIMITED

#### ABOUT US

Hunter Water Australia Pty Limited (HWA) is a subsidiary of Hunter Water Corporation and provides a range of specialist technical and operational services to water agencies, Councils and industry mainly in Australia. The company commenced trading independently in March 1998, although many of HWA's trading activities had been marketed externally for a decade prior to this time via Hunter Water.

Mr Ron Robson, who is Chairman of Hunter Water Corporation, chairs HWA's Board. Other directors are Mr Ross Knights, Deputy Chairman, Hunter Water Corporation and Mr Kevin Young, Managing Director, Hunter Water Corporation. Mr Jim Keary is HWA's Managing Director and Mrs Sharon Smith is the Company Secretary.

#### WHAT WE DO

HWA operates in the fields of water, wastewater, stormwater, catchment and environmental issues, specialising in:

- Water strategies, plans and reviews
- Community education and environmental assessment
- Surveying and electronic mapping
- Pricing and institutional studies
- Water and wastewater planning and investigations



*Hunter Water Australia - our subsidiary company provides expertise in chemical and microbiological testing of drinking water, wastewater and effluent*

- Materials and corrosion engineering
- Engineering design
- Project management
- Operation of water and wastewater treatment plants
- Laboratory testing of water and wastewater
- Asset management
- Dams monitoring and assessment

The company continues to work closely with clients to develop specialist services and support their operational needs.

#### **FINANCIAL PERFORMANCE**

The net profit after tax year ended 30 June 2006, amounted to \$4,057,363, which was a very good result.

#### **OUR PROJECTS**

Whilst many projects were undertaken in 2005-06, the following are examples of the wide range of projects that the company is involved in.

### ***Research on Domestic Rainwater Tanks***

The current drought across Australia has prompted many State Governments to promote or even require the installation of rainwater tanks for new dwellings and encourage the retrofitting of tanks to existing homes. Whilst the tanks are intended for non-potable uses, the water is intended for uses such as toilet flushing, washing etc – all of which involves contact between existing plumbing systems and rainwater.

The problem is that rainwater is usually both low pH and low alkalinity water and may present corrosion problems for copper plumbing and electric hot water system elements as well as the systems themselves.

The Materials Engineering group in Hunter Water Australia, with assistance from the Water Services Association of Australia, has carried out a series of laboratory tests looking at possible low cost ways of raising the pH and alkalinity of rainwater in order to overcome these corrosion problems.

Whilst the laboratory testing showed some methods to be more promising than others, it was realised that the research would be improved if there was the opportunity to experiment on a full-size tank. Fortunately for the research, such an opportunity arose at Branxton in the Hunter valley where a rainwater tank used for garden watering was experiencing corrosion problems.

It was found that adding ordinary baking soda (sodium bicarbonate) to the tank water was a relatively cheap and successful way of raising pH from about 4.2 to 7.5 and improving alkalinity markedly. The only down side is that the bicarbonate must be added to the tank at regular intervals so we will be looking at adding marble chips (calcium carbonate) to help in longer term solutions. The research and suggested dosing methods and rates will be published and available for general adoption next year. This research is a valuable contribution to the growing number of householders with rainwater tanks.



### ***Improving public health in Queensland indigenous communities***

Our engineering and operations team have been working closely with Department of Local Government in Queensland to address and help manage some of the public health issues facing indigenous communities throughout the State. This has included design of water treatment infrastructure, training and ongoing operational support and guidance. We are fortunate to have highly experienced engineers and operators who can readily troubleshoot problems onsite and are used to talking to locals about how to run treatment plants, pumps and pipelines. This is a result of our continued focus and commitment to regional Australia where problems require practical solutions that are suited to the capabilities of local operators.

### ***Design of flexible pipeline bridge at Appin***

One of the main water pipelines providing water into the Sydney water network needed to be protected from potential mine subsidence problems. Part of the solution was to design and build a special flexible pipe bridge.

The pipeline bridge was designed to carry the 1200mm high pressure pipeline across a gully with flexibility built in to allow for ground movements of up to 1.5metres. In addition, because of the geology and geometry of the valley, the pipe bridge had to allow for the pipe to potentially deflect in a number of different directions. The bridge design incorporates some support features that either accommodate movement or allow the bridge to be moved back to its original alignment.

The result is a highly innovative design to solve an extremely complex problem. Sydney Water users can feel confident about the integrity of this important water pipeline.

### ***Design of Bray Park water treatment plant***

During 2005-06, Hunter Water Australia had a large design team working on the concept and detailed design of a 100ML/day water treatment plant at Bray Park in northern New South Wales for Tweed Shire. This plant is currently one of the largest water treatment projects currently underway in the Australia and has involved some innovative approaches to managing project risks and potential construction cost blow-outs in a region which has a very buoyant construction market. A very high level of detailed design has been adopted for this project to minimise risks and potential costs.

The treatment plant has also been designed to be easily upgraded by 50% and is using the latest immersed membrane technology. This approach will provide a growing region with a large increase in its supply of high quality drinking water at a relatively cheap cost. The growing population in the Tweed region is fortunate when it comes to future quality of their drinking water supply.

### ***Bore testing for Gosford and Wyong***

The drought has had a big impact on the water sources for Gosford and Wyong. Due to dam levels falling to very low levels, alternative water sources were required urgently. HWA laboratories have provided the frequent water testing services including microbiological, metals, radiological and organic testing for new bores at Woy Woy. The monitoring program substantially increased the number of samples processed by the laboratory and impacted on workloads due to the necessity to maintain tight turnaround times due to the criticality of the project. The laboratory successfully achieved the required turnaround times whilst maintaining quality to NATA standards and was able to assist Gosford Council to utilize the Woy Woy bores.

### ***Water treatment plant for South West Rocks***

South West Rocks is a picturesque town on the north coast of New South Wales which is growing significantly. Kempsey Shire Council made the decision to provide a water treatment plant to improve water quality in the town and engaged Hunter Water Australia to concept design and project manage the new plant. The new plant has been blended into the town by being built inside an existing large industrial shed. The 10ML/day plant uses membrane technology and is now successfully providing households with a high quality drinking water. So enjoy your next holiday at South West Rocks with the fresh taste of their drinking water from the tap.



### ***Recycled water***

Recycling and making the most of your available water have been high on our agenda of skills for many years. Hunter Water Australia has been working on numerous projects throughout Australia assisting communities more sustainably manage the urban water cycle. Projects during 2005-06 have included the Flemmington Recycled Water Strategy for City West Water in Melbourne, a non-potable water scheme for Hastings Council at Port Macquarie in New South Wales and investigating indirect potable water schemes for some of our other regular clients.

### ***Hydrographic surveys for Swansea Channel***

The Swansea Channel south of Newcastle is the conduit for water flowing from the ocean to Australia's largest permanent salt water lake, Lake Macquarie. Hunter Water Australia was engaged by Neumann Dredging Contractors to work on a \$1.5 million project to deepen part of Swansea Channel. This was repeat business for the group because a similar dredging project had been undertaken just two years before.

The project utilised a wide cross section of our skills including:

- Providing electronic maps and loading these on the dredge's navigation computer
- Undertaking pre-dredging hydrographic surveys of the existing channel and modifying the original design based on the existing bed levels
- Preparing pre-construction plans and cross sections from the survey data
- Positioning navigation buoys and tide gauges
- Undertaking post-dredging hydrographic surveys of the channel to ensure conformance with the design
- Preparing final as-constructed plans and cross sections from the survey data
- Determining the volume of material dredged from the channel by comparing pre and post dredge 3D surfaces created from the survey data

Hunter Water Australia was able to keep pace with the very demanding schedule required for the dredging. We also had to respond rapidly to rectify some problems with the navigation computer on board the dredge which could have potentially crippled the operation. This project tested a whole range of our modern surveying and advanced asset mapping skills and resulted in a highly successful outcome for all involved.

### ***Steel reservoir failure examination on Guam***

One of the more spectacular aspects of our assignments during the year was the examination of a steel reservoir failure on the island of Guam, which is about 4000 kilometres north of Cairns. Some of our high level specialists have been working on different aspects of the Water Resources Master Plan for Guam. The week before our structural and corrosion engineering specialists were due to arrive on Guam to assess the condition of the water and wastewater infrastructure, a steel tank holding five megalitres of water (about 5000 tonnes) fails in an explosive way. Our specialist team was onsite soon after examining the tank and unravelling the failure mechanisms. This has brought new insights into the understanding of high strength steel water tanks which has attracted international interest.

### ***National coverage of services***

Over the past decade, Hunter Water Australia has mostly been undertaking projects in eastern Australia. Over the past year, numerous assignments have been undertaken in the Northern Territory and Western Australia. These assignments range from water treatment to corrosion to asset mapping activities.

### ***Maintenance of sewer pipes in Canada***

In January 2006, a training and development exercise was undertaken with staff from the City of Calgary developing a critical sewer strategy for the city. The sewer pipes in Calgary are buried at least four metres deep to avoid freezing and maintenance takes on a whole new perspective when temperatures drop to minus 30°C. The consequences of sewer blockages are different to those in Australia as many blockages lead to sewerage flowing into household basements since the plumbing is all underground to avoid freezing problems. The City of Calgary has a very good spatial databank and good use of it allowed us to develop the most sophisticated model of its type in the world.

The result for Calgary was significant improvements to their sewer maintenance schedules so that the sewer system can be maintained with better integrity in future. The gains for us were some improved modelling skills that will be of benefit back home and some interesting insights into living life in the cold.



## REGIONAL LAND MANAGEMENT CORPORATION PTY LTD

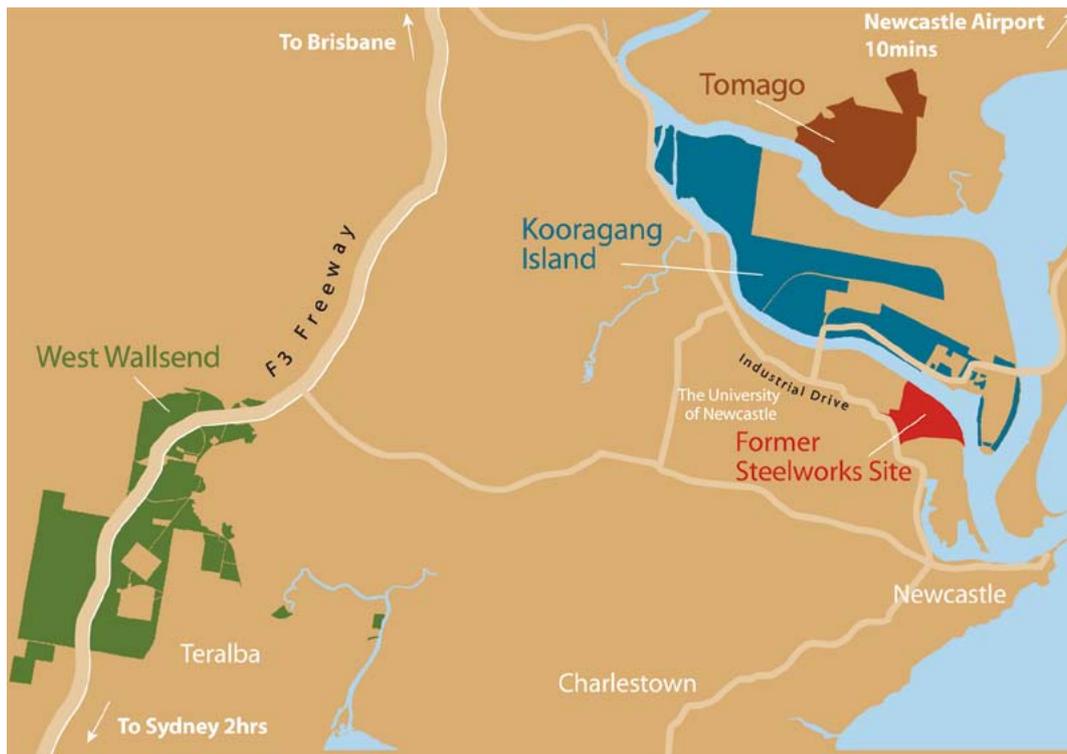
### HIGHLIGHTS – 2005-06

- Allocated 140 ha of Kooragang Island site for a third coal loader at the Port of Newcastle.
- Work commenced, after regulator approval, on a \$110 million remediation strategy for Mayfield (former Newcastle Steelworks) site.
- Master plan to guide development for Mayfield site completed ahead of marketing the site.
- Further consultation and studies regarding the future use of the Tomago and West Wallsend sites has determined the need for a balance of environmental protection and employment generating development.
- Raised \$6.2 million in revenue from leasing of buildings and sites, providing an operating surplus for non remediation activities.

The Regional Land Management Corporation (RLMC) was established in 2003 by the NSW Government to manage more than 3,500 hectares of former BHP and other state owned lands in the Hunter.

RLMC is a subsidiary of Hunter Water Corporation with its own Board. In November 2004 the Cabinet Standing Committee on Budget extended RLMC's operating term to until 30 June 2008. Its task is to make land on four sites ready for a new era of sustainable, private sector development.

*RLMC manages four sites totalling more than 3,500 hectares*



## RLMC SITES

Kooragang Island	1300 ha
Mayfield (former Newcastle Steelworks)	150 ha
Tomago	545 ha
West Wallsend	1545 ha
Total lands	3540 ha

## RLMC HAS THREE MAIN TASKS

- 1 Strategic, sustainable land development and marketing
- 2 Site remediation
- 3 Day to day property management.

RLMC is making opportunities available that are attractive to the private sector and in the interests of the people of the Hunter and NSW.

There needs to be a balance between the need for land allocation that generates investment, jobs and prosperity with land allocation for environmental protection. Development and marketing strategies are being designed so that they can adapt to industry needs.

The focus of the RLMC this year has been on commencing remediation works at the Mayfield site, master planning that site as well as land allocation at the Kooragang Island site.

## LAND DEVELOPMENT AND MARKETING



### *Third coal loader for Kooragang Island*

Following an extensive expression of interest process RLMC allocated almost 140 ha of land for additional coal loading facilities at the Port of Newcastle.

In August 2005 RLMC signed an agreement to lease with Newcastle Coal Infrastructure Group (NCIG).

The consortia of major mining companies is currently seeking the required planning and environmental approvals for its proposal to build a facility with two additional coal loading berths next to Port Waratah Coal Services' existing coal loader.

Once the necessary approvals have been obtained, NCIG will be able to take up a 35 year lease for this site.

The facility will have the initial capacity to boost coal exports through the Port of Newcastle by 30 million tonnes per year.

RLMC has also been negotiating with a number of companies wishing to establish port related industry on another 256 ha of RLMC managed industrial land on Kooragang Island.

#### ***Mayfield (former Newcastle Steelworks) site***

With remediation works commencing on the Mayfield site RLMC has turned its attention to detailed master planning of the site.

The planning is essential work to complete prior to the marketing of the site. A master plan has been created to set down the preferred port and industrial uses and to guide development. The plan includes site servicing strategies and the identification of infrastructure requirements.

With two kilometres of river frontage this site is ideal for a range of port related industry. It is one of the most strategic and valuable sites on the East Coast of Australia.

#### ***Tomago and West Wallsend***

Further planning and consultation work carried out this year by RLMC has determined that a balanced approach between environmental protection and development of employment lands is required at both the Tomago and West Wallsend sites. The location of these sites and their proximity to transport links provides tremendous opportunity for a range of employment generating uses.

At Tomago there has been industrial developer interest in the site because of its proximity to the airport, port, Pacific Highway and an existing industrial precinct.

To balance this development, initial RLMC planning envisages more than 200 ha of the site being set aside for environmental protection and enhancement.

The West Wallsend site has the potential to help address the shortage of employment zoned land in Lake Macquarie as well as to be used for residential development. Land at this site will also be used for environmental protection. Vegetation corridors will be preserved and there are no plans to develop more than 700 ha of land west of the F3 Freeway.

The 20 year regional planning strategy, The lower Hunter Strategy, being developed by the Department of Planning will influence the type of development on these sites. RLMC has made a detailed submission on the draft plan. Further detailed planning will be possible once that strategy has been determined.

## LAND REMEDIATION



### *\$110 million remediation of Mayfield site*

In May 2006, construction commenced at the Mayfield site on the Hunter's largest ever industrial site remediation project. Expert contractors, Austress Menard, are constructing a 1.4km long underground barrier wall around 30 ha section of the site designed to contain contamination arising from former steelmaking operations. This work is the first part of a series of works contained in the NSW Government's \$110 million remediation plan for the site.

This year tenders were also called for the demolition of the remaining concrete foundations on the site. Expressions of interest were also called to create a shortlist of tenders for the construction of new drainage as well as the capping and contouring of the most contaminated (30 ha) section of the site.

All of these first stage remediation works will be underway by early 2007 as planned.

The Department of Environment and Conservation (DEC) approved the remediation strategy in September 2005. RLMC and DEC signed a Voluntary Remediation Agreement in September 2005 through which the remediation will be monitored.

The works will be monitored by several Government agencies. Conditions of consent have been set by the Department of Planning. An Environmental Management Plan, detailing required environmental impact monitoring, is also in place.

The remainder of the site will be capped and contoured in line with development. Under the agreement, all work is to be completed by 2012.

### *Remediation of Hunter River*

BHP Billiton has responsibility for the removal as well as treatment, reuse and disposal of contaminated sediments from the South Arm of the Hunter River. The removal of contaminated sediments and dredging will allow the extension of the shipping channels within the Port of Newcastle to accommodate new investment such as the third coal loader. RLMC has made land available to BHP Billiton to allow it to undertake a trial of options for sediment treatment.

### ***Kooragang Island remediation***

The former BHP Waste Emplacement Site is a solid waste landfill site licensed by the NSW Department of Environment and Conservation (DEC). RLMC has not accepted any waste at the site this year.

The landfill license requires RLMC to monitor and report on groundwater and surface water quality in and within the vicinity of the landfill at six monthly intervals to DEC.

Independent statistical analysis of these results found that the site represents a low risk to the downstream environment. This data has also been used to prepare an independent environmental risk assessment for site remediation. Both environmental and development drivers are being used to refine plans for priority remediation works.

This year some works to improve drainage on the site to further reduce groundwater migration were completed. A capping plan for the site has been developed as a standard operational requirement of a functioning landfill facility. Further works will be carried out in conjunction with development.

### **LAND AND BUILDING MANAGEMENT**



RLMC manages more than 80 agreements for use of land. The majority of these are for land on the Kooragang Island and Mayfield sites. Agreements cover a wide range of uses including community and sporting purposes, residential, commercial, industrial, and state significant projects.

Rental agreements raised \$6.2 million in revenue this year. This result has enabled the RLMC to achieve an operating surplus for non-remediation activities.

Zoning constraints have hampered leasing of some of the existing buildings on the Mayfield site. RLMC is reviewing those constraints in conjunction with relevant planning authorities.

Property maintenance continues to be undertaken at all sites. Detailed safety inspections of wharves and sea walls, started this year, are being finalised.

RLMC is also working with Police and tenants on Kooragang Island to deter speeding on the island's main road. The installation of traffic calming devices was completed in May, with RLMC funding.

## COMMUNITY AND ENVIRONMENT



### *Protecting the environment*

In addition to remediation works and allocation of land for environmental protection, RLMC has provided support to other important environmental projects. It is working with National Parks and Wildlife Service, Department of Environment and Conservation and other groups on a project to restore the natural tidal inundation to a portion of the Tomago site. RLMC contributed to the cost of clearing of drains.

This year the RLMC continued to provide land under licence to the Hunter-Central Rivers Catchment Management Authority for the Ash Island Wetland Rehabilitation Project.

### *Community Relations*

The RLMC seeks to maintain positive and productive relations with other Government agencies, the communities surrounding its sites and the business community.

The RLMC website continues to be developed as one means of keeping people informed about the performance of RLMC. Other means include media releases, presentations and ongoing dialogue with the Mayfield Site Community Consultative Committee.

RLMC also sponsored the 2006 International Cities and Town Centres Conference held in Newcastle in June.

### *Mayfield Community Consultative Committee (CCC)*

RLMC provides support to the Community Consultative Committee (CCC) for its Mayfield site. The CCC is an important link between RLMC and the community. It provides two way information and feedback on issues associated with the environmental performance of site remediation, the construction and operation of new facilities and the implementation of development consent conditions.

The CCC met three times this year prior to remediation work commencing on the site. They provided valuable feedback on the communication plan for the remediation works. Mayfield CCC members are:

Mr Terence Mahony	Chairman
Mr Ivor Davies	Community representative
Mr John Di Gravio	Community representative
Ms Patricia Flowers	Community representative
Ms Alison Hutchinson	Community representative
Ms Pat Keating	Community representative
Mr Brad Foot	RLMC General Manager
Mr Nathan Juchau	RLMC Environmental Manager

compilation and editorial

Deborah Sims

Cathy Seberry

layout and design

Debra Santosa

photography

Paul Foley

Corporate Communications



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Customer Centres

Maitland

Speers Point

Newcastle West

Raymond Terrace



HUNTER WATER CORPORATION

FINANCIAL REPORT 2005-06

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## Company Particulars

### Directors

Mr R Robson Chairman  
Mr K Young Managing Director  
Mr R Knights  
Mr P Barrack Retired 31 December 2005  
Mr D Boyd  
Mr W Elliott  
Ms B Crossley  
Mr R Chappel  
Mr G Kennedy Appointed 1 January 2006

### Company Secretary

Mr J O'Hearn

### Auditors

Audit Office of New South Wales

### Bankers

Commonwealth Bank of Australia

## Directors' Report

The Directors submit the following report made in accordance with a resolution of the Directors of the Parent Entity and Controlled Entities for the year ended 30 June 2006.

### DIRECTORS

The names and details of the Directors of the Parent Entity at any time during or since the end of the financial year are:

Mr R Robson Chairman  
Mr K Young Managing Director  
Mr R Knights  
Mr P Barrack Retired 31 December 2005  
Mr D Boyd  
Mr W Elliott  
Ms B Crossley  
Mr R Chappel  
Mr G Kennedy Appointed 1 January 2006

### INFORMATION ON DIRECTORS

#### R ROBSON

OAM, FAIM, FAICD, JP

Mr Robson was appointed as Chairman of the Board on 1 August 1995 and previously held the position of Director since 1 January 1992. Mr Robson is Chairman of Hunter Water Australia Pty Limited and the Regional Land Management Corporation Pty Ltd (the Corporation's subsidiary companies), a Director of Robson Health Care Pty Limited, Chairman of the Newcastle Knights-Westes Hospitality Group Business Development Committee, Chairman of Banlaw Pipeline Pty Ltd and Patron of Newcastle/Hunter Valley Rugby Union.

#### KJ YOUNG

B Eng, MBA, FIE Aust, CPENG, GAICD

Mr Young was appointed Managing Director on 19 July 2004 and is also a Director of Hunter Water Australia Pty Limited. Mr Young has extensive experience working in private consulting both in Australia and overseas and working for government utilities. He has previously held a diverse range of positions at Hunter Water Corporation including Chief Operating Officer, Company Secretary, Manager Corporate Planning & Government Regulation and Manager Assets.

#### RI KNIGHTS

Dip Civ Eng, MIE Aust, M Aust IMM, FAICD

Mr Knights was appointed as a Director on 1 December 1992 and is also a Director of Hunter Water Australia Pty Limited and a Director of the Regional Land Management Corporation Pty Ltd. Mr Knights was also Chairman of the Broke Fordwich Private Irrigation District until he resigned as Chairman and a member in November 2003. Mr Knights was previously Deputy Managing Director of Peabody Resources Ltd, a member of the Hunter Economic Development Council and Chairman of Newcastle Coal Shippers Pty Ltd.

#### PG BARRACK

AM, MAICD

Mr Barrack was appointed as a Director on 1 August 1995. Mr Barrack is a Director of The Hunter Development Board, Honeysuckle Development Corporation, Hunter Group Training and the former Chairman of the Board of Newcastle and Cardiff Workers Clubs. Mr Barrack was previously Secretary of Newcastle Trades Hall Council. Mr Barrack retired as a Director on 31 December 2005.

#### DW BOYD

FCPA, AICD

Mr Boyd was appointed as a Director on 1 January 2000. Mr Boyd is a Certified Practising Accountant and is currently employed as a Management Consultant, mainly in the mining industry. Mr Boyd has extensive experience in management roles in Port Waratah Coal Services and Rio Tinto. Mr Boyd was previously a Director of Mega First Corp (Malaysia) and Perilya Mines.

**WJ ELLIOTT**

CPA, MAICD

Mr Elliott was appointed as a Director on 1 September 2001. He has had extensive experience in the financial/administrative field and was previously Chief Executive Officer of Shortland Electricity and Chairman of Advance Energy. Mr Elliott is a Director of the Newcastle Permanent Building Society (NPBS) Ltd, Newcastle Friendly Society Ltd and Chairman of NPBS Securities Pty Ltd.

**BL CROSSLEY**

B.Nat.Res. (Hons)

Ms Crossley was appointed as a Director on 1 February 2004. Ms Crossley is a Director of Umwelt, a local environmental consultancy firm and is also Chairperson of Hunter Environment Institute. She has extensive knowledge of local environmental issues and has a business and marketing focus.

**RA CHAPPEL**

BE (Civil), Dip T & R.P.

Mr Chappel was appointed as a Director on 1 February 2004. Mr Chappel is a former Managing Director of Connell Wagner and Chairman of the Australian Underground Construction & Tunnelling Association. He has vast experience in managing large technical projects involving water and wastewater.

**GT KENNEDY**

Mr Kennedy was appointed as a Director on 1 January 2006. Mr Kennedy is the Secretary of Newcastle Trades Hall Council and currently serves on the Hunter Economic Development Corporation (HEDC). He is part of the Honeysuckle Development Corporation and is the chairman of Newcastle and Cardiff Panthers and a director on the Group Board of the Penrith Panthers. Mr Kennedy holds positions on the Industry Development Centre and Disability Advocacy Services Hunter and is the chair of the IDC Human Resource Committee. He was previously the NSW President of the Communications Workers Union and has extensive experience in the communications area.

**MEETINGS OF DIRECTORS**

	BOARD MEETINGS		COMMITTEE MEETINGS			
	A	B	Audit & Compliance		Corporate Governance	
			A	B	A	B
R Robson	11	12	4	4	1	1
R Knights	12	12	4	4	1	1
P Barrack	6	6	*	*	*	*
D Boyd	10	12	4	4	*	*
W Elliott	11	12	4	4	*	*
B Crossley	11	12	*	*	1	1
R Chappel	12	12	*	*	*	*
G Kennedy	5	6	*	*	*	*
K Young	12	12	*	*	1	1

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

**PRINCIPAL ACTIVITIES**

The principal activities of the Economic Entity in the course of the year were the harvesting, distribution and preservation of water; the provision of sewerage facilities; and the construction, control and maintenance of certain stormwater channels.

**RESULTS AND DIVIDENDS**

The operating profit after tax, for the financial year ended to 30 June 2006, was \$74.9M compared with an operating profit after tax of \$38.5M for the previous year.

## REVIEW OF OPERATIONS

### FINANCIAL

The terminology used in reporting the results is as follows:

- The Group, ie Hunter Water Corporation, Hunter Water Australia Pty Limited and Regional Land Management Corporation Pty Ltd is referred to as the Economic Entity
- The Parent or Hunter Water Corporation is referred to as the Parent Entity
- The Subsidiaries or Hunter Water Australia Pty Limited and Regional Land Management Corporation Pty Ltd are referred to as the Controlled Entities

The favourable operating result compared to the prior year is largely driven by an increase in revenue as a result of higher tariff income and additional income being recognised in the form of contributions received for capital works and profit on sale of assets. The higher profit compared to the prior year is also impacted by income being recognised to reflect the good performance of the Corporation's defined benefit superannuation funds.

### SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in future financial years.

### DIRECTORS INDEMNIFICATION

Hunter Water Corporation has an agreement to indemnify the Directors and secretary of the Corporation and its controlled entities.

The indemnity relates to:

- any civil liability to a third party (other than Hunter Water Corporation or a related entity) unless the liability arises out of conduct involving lack of good faith,
- any costs or expenses of defending proceedings in which judgement is given in favour of the officer.

No liability has arisen under these indemnities as at the date of this report.

### CHANGE IN STATE OF AFFAIRS

Other than matters reported in the Directors' Report, in the opinion of the Directors there were no significant changes in the state of affairs of the Economic Entity during the year ended 30 June 2006.

### AUDIT AND COMPLIANCE COMMITTEE

Hunter Water Corporation has an Audit and Compliance Committee, which meets four times per year which is currently comprised of:

Mr D Boyd	Director - Committee Chairman
Mr R Robson	Director - Chairman
Mr W Elliott	Director
Mr R Knights	Director

The committee's main objectives are to:

- review and assess corporate risk in key areas, assess internal controls and reporting and to review progress against key recommendations arising from audit reports;
- assess gap analyses undertaken by the Compliance & Review group to ensure the Corporation's audit / risk program is a dynamic process, which changes as the Corporation changes;
- ensure effective liaison between senior management, internal audit and external audit;
- oversee the internal audit functions undertaken by the Corporation's Compliance & Review group;
- assist the Board in ensuring the Corporation meets its compliance requirements across (but not limited to) the areas of financial, safety, environmental and general risk.

## **CORPORATE GOVERNANCE**

The Parent Entity has a Corporate Governance Committee with its primary objective to overview Board strategic direction and business performance.

The Duties and Responsibilities are:

- To ensure that Board Committees Terms of Reference adequately reflect the corporate risk management responsibilities of each committee.
- To assist in the structure and content of Board strategy sessions.
- To critically evaluate the key points arising from the Board strategy sessions and to ensure follow-up occurs through the normal Board processes.
- To stay abreast of developments in Corporate Governance issues and changes in relevant legislation and to ensure Directors and Officers of the Corporation are adequately advised in this regard.

The current Membership of the Committee is as follows:

Mr R Robson	Chairman
Mr K Young	Managing Director
Mr R Knights	Director
Ms B Crossley	Director

## **DIRECTORS' BENEFITS**

During or since the financial year no Director of the Economic Entity has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the accounts, by reason of a contract entered into by the Parent Entity or the Controlled Entities with:

- a Director, or
- a firm of which a Director is a member, or
- an Entity in which a Director has a substantial financial interest.

## CODE OF CONDUCT

Hunter Water Corporation has a Code of Conduct that must be adhered to by all employees. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia.

## ENVIRONMENTAL REGULATION

Operations of the Parent Entity are subject to licences issued under the *Protection of the Environment Operations Act 1997*. During the financial year the Corporation materially complied with all requirements in respect to these licences and associated legislation. Further details of compliance are contained within the Environmental section of this Annual Report.

## ROUNDING TO NEAREST \$000

The amounts contained in this report have been rounded off to the nearest thousand dollars in accordance with Clause 12 of the *Public Finance and Audit Regulation 2005*.

Signed in accordance with a resolution of the Directors of Hunter Water Corporation.



R ROBSON  
Chairman



K YOUNG  
Managing Director

NEWCASTLE 28 SEPTEMBER 2006

INDEPENDENT AUDIT REPORT



GPO BOX 12  
Sydney NSW 2001

INDEPENDENT AUDIT REPORT

HUNTER WATER CORPORATION

To Members of the New South Wales Parliament

**Audit Opinion**

In my opinion the financial report of Hunter Water Corporation (the Corporation):

- presents fairly the Corporation's and the consolidated entity's (defined below) financial position as at 30 June 2006 and their performance for the year ended on that date, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia, and
- complies with section 41B of the *Public Finance and Audit Act 1983* (the Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

**Scope**

***The Financial Report and the Directors' Responsibility***

The financial report comprises the balance sheets, income statements, statements of changes in equity, cash flow statements and accompanying notes to the financial statements for the Corporation and consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises the Corporation and the entities it controlled during the financial year.

The directors of the Corporation are responsible for the preparation and true and fair presentation of the financial report in accordance with the Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

***Audit Approach***

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the directors had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation or its controlled entities,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.

### Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



J Kheir B Ec, FCPA  
Director, Financial Audit Services

SYDNEY  
29 September 2006

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Revenue</b>					
Services	2	207,002	182,762	191,460	171,780
Other income	2	2,093	2,533	3,928	3,006
<b>Total Revenue</b>		209,095	185,295	195,388	174,786
<b>Expenditure</b>					
Operational costs	3	(86,333)	(77,426)	(75,079)	(69,600)
Depreciation and amortisation	4	(32,609)	(30,081)	(32,223)	(29,710)
Finance costs	4	(14,175)	(10,132)	(14,417)	(10,240)
Superannuation (expense)/revenue	4	19,535	(11,834)	18,127	(9,454)
<b>Total Operating Expenditure</b>		(113,582)	(129,473)	(103,592)	(119,004)
<b>Profit Before Income Tax Expense</b>		95,513	55,822	91,796	55,782
Income tax expense	5	(20,629)	(17,350)	(18,779)	(17,244)
<b>Profit for the Year</b>		74,884	38,472	73,017	38,538

*The Income Statement should be read in conjunction with the accompanying notes on pages 14 to 42.*

## BALANCE SHEET AS AT 30 JUNE 2006

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current Assets</b>					
Cash and cash equivalents	7	19,331	6,416	14,168	2,598
Trade and other receivables	8	26,883	34,058	24,682	29,816
Other financial assets	9	-	-	508	3,323
Inventories	10	1,875	2,148	1,875	2,148
Assets held for sale	11	-	179	-	179
Other	12	1,736	2,084	847	1,105
<b>Total Current Assets</b>		<b>49,825</b>	<b>44,885</b>	<b>42,080</b>	<b>39,169</b>
<b>Non-Current Assets</b>					
Investments available for sale	9	10,291	10,626	10,291	10,626
Other financial assets	9	-	-	900	900
Property, plant & equipment	13	2,259,043	2,303,698	2,259,288	2,303,535
Intangible assets	14	7,429	3,696	7,279	3,499
Deferred tax assets	15	10,022	16,838	8,813	14,983
<b>Total Non-Current Assets</b>		<b>2,286,785</b>	<b>2,334,858</b>	<b>2,286,571</b>	<b>2,333,543</b>
<b>Total Assets</b>		<b>2,336,610</b>	<b>2,379,743</b>	<b>2,328,651</b>	<b>2,372,712</b>
<b>Current Liabilities</b>					
Trade and other payables	16	32,274	21,015	30,631	20,824
Current tax liabilities	17	6,391	5,365	5,908	5,043
Borrowings	18	-	37,891	-	37,891
Provisions	19	55,415	52,990	52,055	49,871
<b>Total Current Liabilities</b>		<b>94,080</b>	<b>117,261</b>	<b>88,594</b>	<b>113,629</b>
<b>Non-Current Liabilities</b>					
Borrowings	18	235,021	128,025	238,521	131,525
Provisions	19	13,315	37,444	12,616	33,934
Deferred tax liabilities	20	356,169	402,728	356,222	402,799
Other	21	1,234	2,116	1,234	2,116
<b>Total Non-Current Liabilities</b>		<b>605,739</b>	<b>570,313</b>	<b>608,593</b>	<b>570,374</b>
<b>Total Liabilities</b>		<b>699,819</b>	<b>687,574</b>	<b>697,187</b>	<b>684,003</b>
<b>Net Assets</b>		<b>1,636,791</b>	<b>1,692,169</b>	<b>1,631,464</b>	<b>1,688,709</b>
<b>Equity</b>					
Contributed equity	22	100,000	100,000	100,000	100,000
Reserves	23A	915,974	1,012,660	915,974	1,012,660
Retained profits	23B	620,817	579,509	615,490	576,049
<b>Total Equity</b>		<b>1,636,791</b>	<b>1,692,169</b>	<b>1,631,464</b>	<b>1,688,709</b>

The Balance Sheet should be read in conjunction with the accompanying notes on pages 14 to 42.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at beginning of year		1,692,169	1,432,174	1,688,709	1,428,648
Fixed asset revaluation increment from revaluations, net of tax	23	58,888	32,731	58,888	32,731
Fixed asset increment/(decrement) from impairment reversal/(impairment), net of tax	23	(153,655)	223,713	(153,655)	223,713
Adjustments on the adoption of AASB 132 and AASB 139, net of tax	23	(22)	22	(22)	22
Revaluation of investment available for sale, net of tax	23	(270)	(27)	(270)	(27)
Write-back of written down value of decommissioned assets, net of tax	23	(103)	(1,116)	(103)	(1,116)
<b>Net Income Recognised Directly in Equity for the Year</b>	23	(95,162)	255,323	(95,162)	255,323
Dividends provided for	23	(35,100)	(33,800)	(35,100)	(33,800)
Profit for the Year		74,884	38,472	73,017	38,538
<b>Total Equity at End of Financial Year</b>		<u>1,636,791</u>	<u>1,692,169</u>	<u>1,631,464</u>	<u>1,688,709</u>

*The Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 14 to 42.*

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Cash Flow from Operating Activities</b>					
Receipts from customers (inclusive of goods and services tax)		182,708	158,727	163,175	148,006
Payments to suppliers and employees (inclusive of goods and services tax)		(102,775)	(95,470)	(88,420)	(86,172)
		79,933	63,257	74,755	61,834
Dividends received		-	-	500	500
Interest received		1,275	1,073	1,066	1,028
Proceeds from environmental levy and developers		20,219	17,896	20,219	17,896
Borrowing costs		(13,720)	(9,988)	(13,954)	(10,080)
Income taxes paid		(19,017)	(21,110)	(17,992)	(20,349)
<b>Net Cash Flows for Operating Activities</b>	24	<b>68,690</b>	<b>51,128</b>	<b>64,594</b>	<b>50,829</b>
<b>Cash Flow from Investing Activities</b>					
Purchases of property, plant and equipment		(100,582)	(76,624)	(100,643)	(76,343)
Proceeds from sales of property, plant and equipment		9,498	3,522	9,499	3,513
Loans to related entities		-	-	(656)	(3,323)
Loans repaid by related entities		-	-	3,471	1,075
<b>Net Cash Flows from Investing Activities</b>		<b>(91,084)</b>	<b>(73,102)</b>	<b>(88,329)</b>	<b>(75,078)</b>
<b>Cash Flow from Financing Activities</b>					
Proceeds from borrowings		121,996	39,450	121,996	42,950
Repayment of borrowings		(51,331)	-	(51,331)	-
Dividends paid	6	(33,800)	(36,000)	(33,800)	(36,000)
Other		-	-	-	-
<b>Net Cash Flows from Financing Activities</b>		<b>36,865</b>	<b>3,450</b>	<b>36,865</b>	<b>6,950</b>
<b>Net Increase / (Decrease) in Cash Held</b>		<b>14,471</b>	<b>(18,524)</b>	<b>13,130</b>	<b>(17,299)</b>
Cash at beginning of financial period		4,856	23,376	1,038	18,337
Effects of exchange rate changes on cash		4	4	-	-
<b>Cash at the End of the Financial Period</b>	7(a)	<b>19,331</b>	<b>4,856</b>	<b>14,168</b>	<b>1,038</b>

The Cash Flow Statement should be read in conjunction with the accompanying notes on pages 14 to 42.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Hunter Water Corporation as an individual entity and the economic entity consisting of Hunter Water Corporation and its wholly-owned subsidiaries.

### a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Public Finance & Audit Act 1983*.

The financial statements also incorporate financial reporting requirements specified in the *Public Finance and Audit Regulation 2005*, the *Annual Reports (Statutory Bodies) Act 1984*, *Annual Reports (Statutory Bodies) Regulation 1995* and the relevant Treasurer's Directions.

Proper accounts and records for all of the Corporation's operations have been kept as required under Section 41(1) of the *Public Finance and Audit Act 1983*.

#### *Compliance with IFRSs*

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of the Economic Entity and Parent Entity comply with International Financial Reporting Standards (IFRSs).

#### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first financial statements of the Economic Entity to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Economic Entity until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing these financial statements, management has amended certain accounting methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. In accordance with NSW Treasury mandates, the Economic Entity has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. Under previous Accounting Standards, financial instruments were recognised at cost.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Economic Entity's equity and its net income are given in note 28. This note also includes separate disclosure of the 1 July 2005 equity adjustments arising from the adoption of AASB 132 and AASB 139.

#### *Historical cost convention*

The financial statements have been prepared on an accruals basis using the historical cost convention, except for the non-current physical assets which are shown at valuation.

### b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Parent Entity (Hunter Water Corporation) and the two wholly-owned Controlled Entities (Hunter Water Australia Pty Limited and Regional Land Management Corporation Pty Ltd) as at 30 June 2006 and the results of the Parent Entity and Controlled Entities for the year then ended. The Parent Entity had the capacity to dominate the decision making in relation to the financial and operating policies of the Controlled Entities so that the Controlled Entities operated with the Parent Entity to achieve its objectives. The Controlled Entities are detailed in note 34 to the accounts.

Inter-company transactions, balances and unrealised gains or losses on transactions between entities in the Economic Entity are eliminated.

In the consolidated results the income generated by the Regional Land Management Corporation Pty Ltd has been categorised as an External Sale (refer note 2). The associated costs have been categorised as a Cost of External Sale and disclosed accordingly in note 3. This treatment has been adopted as the nature of the work undertaken by the Regional Land Management Corporation Pty Ltd differs significantly from that performed by either the Parent Entity or the other Controlled Entity, Hunter Water Australia Pty Limited.

### c) Revenue recognition

Revenue is recognised when the Economic Entity has passed on control of the good, it is probable that the economic benefits will flow to the Economic Entity and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

*(i) Tariff income*

Reflects revenue raised for the provision of core water and sewer services and includes both fixed service charges and volumetric charges for water. Prices are determined by the Independent Pricing and Regulatory Tribunal (IPART).

Estimated water usage recorded in unread meters is brought to account at 30 June. The estimate is derived by multiplying the number of days since the last reading date to 30 June by the historic average daily consumption for each property.

*(ii) Contributions for capital works*

Contributions for capital works includes Environmental Levy receipts and contributions from Developers and the Hunter Sewer Program (HSP).

In accordance with Urgent Issues Group Interpretation 1017, where physical asset contributions are received from Developers and HSP in return for connection to a service delivery network, contributions are recognised as revenue and assets at their assessed fair value on receipt. For 2005/06 physical assets totalling \$22.6M (2004/05 \$18.7M) were received and were assessed as having a fair value of \$22.6M. The current year's contribution has been based on estimated net future cash inflows.

In respect of cash contributions received from Developers of \$12.3M (2004/05 \$10M), these have been shown as revenue and the economic assessment of the future cash flows embodied in the assets funded by these contributions indicates that these asset values are supported. Environmental Levy receipts are considered revenue in nature and are shown at their cash value.

*(iii) Property sales*

Revenue is recognised on the signing of an unconditional contract of sale.

*(iv) Investment income*

Represents earnings on surplus cash invested in the Economic Entity's bank accounts, NSW TCorp Deposits or fixed term government bonds.

*(v) Dividends*

Dividends are recognised as income when the right to receive payment is established.

**d) Income tax**

Hunter Water Corporation and one of its wholly-owned Australian controlled entities, Hunter Water Australia Pty Limited, are subject to the National Tax Equivalent Regime (NTER). An "equivalent" or "notional income tax" is payable to the NSW Government through the Office of State Revenue. The liability for income tax is primarily assessed in accordance with the *Income Tax Assessment Act (1997)* (ITAA) and is administered by the Australian Taxation Office.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or the liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Tax consolidation legislation*

Hunter Water Corporation and its wholly-owned Australian entity Hunter Water Australia Pty Limited decided to implement the tax consolidation legislation as of 1 July 2003.

The head entity, Hunter Water Corporation, and Hunter Water Australia Pty Limited continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 5.

**e) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**f) Trade receivables**

Trade receivables are recognised at fair value less provision for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis and debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the entity will not be able to collect all amounts due.

**g) Inventories**

Inventories are valued at the lower of cost and net realisable value.

*External contracts work in progress*

External contracts work in progress is stated at the aggregate of costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

**h) Assets held for sale**

Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell. Non-current assets are not depreciated while they are classified as held for sale.

**i) Property, plant and equipment**

*Valuation*

The Entity has valued its non current assets in accordance with AASB 136 *Revaluation of Non Current Assets* and NSW Treasury's accounting policy "Valuation of Physical Non-Current Assets at Fair Value".

The Parent Entity's policy is to revalue assets over a 5 year cycle by selecting assets according to a predetermined schedule of five asset groups. Other than the asset group scheduled for revaluation, the remaining four groups are indexed annually to maintain current values.

While the estimated written down current replacement cost is used in the asset revaluation process, the carrying amount of the total asset set is assessed against their net cash inflows. Where the carrying values exceed the recoverable amount, assets are written down. (Refer note 1(k) and note 13D).

In recent years with increased focus on asset management and improved technology such as camera inspections, both the Parent Entity and the water industry have greater knowledge of the condition and performance of infrastructure assets. The revaluation process requires the determination of a modern equivalent reference asset at the productive unit or component level. This valuation is an assessment of the lowest cost at which the service potential or future economic benefit could currently be obtained in the ordinary course of business. The written down valuation is then determined taking into account the relative age and life expectancy of each unit or component.

It should be recognised that due to the nature of the water industry assets (in particular pipes) their realisable value is determined by the stream of income that can be derived from use of the assets, rather than the realisable value of the assets themselves. It therefore follows that in individual cases the value ascribed may not be achieved in the event of a sale.

Where assets have been revalued, the potential effect of the capital gains tax on disposal has not been taken into account in the determination of the revalued carrying amount. Where it is expected that a liability for capital gains tax will arise, this expected amount is disclosed by way of note.

Any gain or loss on the disposal of revalued assets is determined as the difference between the carrying value of the asset at the time of disposal and the proceeds from disposal, and is included in the income statement. It is policy to transfer the amounts included in the revaluation reserve in respect of those assets to retained earnings.

*Depreciation*

Depreciation is calculated using the straight line method on all property, plant and equipment, other than freehold land, at rates calculated to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives.

It is the Parent Entity's policy to recognise a 'residual value' in respect to assets which can be practically rehabilitated to 'as new' service potential at a cost that is less than construction of a complete new asset. This reflects the reality of economic decision making. Consequently, a residual value is recognised for example, in respect of gravity sewer mains and some large gravity water mains for which it is economical to implement re-lining technologies, as well as in respect of a civil component of dams/ treatment plants etc.

The average useful lives used for each class of assets are:

<b>Class of fixed asset</b>	<b>Average useful life</b>
Water	95 yrs
Sewer	84 yrs
Drainage	70 yrs
General Support	24 yrs
Non Commercial	54 yrs

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance date.

**j) Intangible assets**

Intangible assets consist of easements, software and other intangible assets (including some development projects). Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design of new improved systems) are capitalised when it is probable that the project will result in future economic benefits and its costs can be measured reliably. Capitalised development costs are recorded as intangible assets and amortised from the point at which benefits are recognised on a straight-line basis over its useful life which is generally five years.

Consistent with NSW Treasury policy, easements (the right of access over land) are recognised as intangible assets and, as is company policy, are amortised over their deemed useful life of 100 years from date of acquisition of the right. Software is also classified as an intangible asset and these assets are amortised over three years.

**k) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash generating units).

In accordance with the requirements of AASB136 and NSW Treasury Circular NSWTC01/03, an assessment has been made of the expected net cash flows to be received over the remaining life of the existing asset base to determine the extent of any difference in the economic value and the carrying value of the assets. This assessment includes business assumptions in respect of future income streams, ongoing operational cost efficiencies and future growth in new connections. With respect to future income streams, estimates of pricing outcomes have been made which are broadly based on the general application of the Independent Pricing and Regulatory Tribunal's (IPART) Line in the Sand pricing methodology. The expected net cash flows have been discounted to their present value using a market determined risk adjusted real discount rate

**l) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Economic Entity prior to the end of financial year which are unpaid.

**n) Borrowings**

The Parent Entity borrows through the NSW Treasury Corporation in the form of liquid and marketable TCorp Stocks. As part of its debt management activities, NSW Treasury Corporation is contracted as Liability Adviser to advise on refinancing and restructuring options.

**o) Employee benefits**

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for salaries and wages including annual leave and vested sick leave expected to be settled within 12 months of the reporting date are recognised as current employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The provision for sick leave represents 50% of the value of untaken leave accrued by wages employees prior to 15 February 1993. This requirement to provide for untaken sick leave ceased from 15 February 1993 with amendments to the *Industrial Relations Act* 1991.

(ii) *Long service leave*

The liability for long service leave is recognised as an employee benefit and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary and wage levels, trends of employee departures and periods of service. Expected future payments are discounted using the 10 year Commonwealth Government bond rate.

(iii) *Superannuation*

Employees of the entities within the Economic Entity are members of either defined benefit superannuation funds or defined contribution superannuation funds. The defined benefit superannuation funds provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of the defined benefit plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any past service cost. The assessment of these liabilities and assets is undertaken by the funds' administrator, Pillar Administration.

**p) Dividends**

Provision is made for any dividend declared, being authorised via the Economic Entity's Statement of Corporate Intent, on or before the end of the financial year but not distributed at balance date.

**q) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of the GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis.

**r) Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into Australian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

**s) Accounting Standards and UIG Interpretations Issued but not yet Operative**

At the reporting date, certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods and have not been early adopted by the Economic Entity or the Controlled Entities. The Economic Entity's assessment of the impact of these new standards and interpretations is set out below.

**(i) UIG4 Determining whether an Asset Contains a Lease**

UIG4 is applicable to reporting periods beginning on or after 1 January 2006. The Economic Entity will apply UIG4 in its 2007 financial statements and the UIG4 transition provisions. Implementation of UIG4 is not expected to change the accounting for any of the Economic Entity's current arrangements.

**(ii) UIG5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**

UIG5 is applicable to reporting periods beginning on or after 1 January 2006. Implementation of this interpretation is not expected to affect the Economic Entity's financial statements.

**(iii) AASB7 Financial Instruments: Disclosure and AASB2005-10 Amendments to Australian Accounting Standards (AASB132, AASB101, AASB114, AASB117, AASB133, AASB139, AASB1, AASB4, AASB1023 and AASB1038)**

AASB7 and AASB2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to the Economic Entity's financial instruments.

**(iv) AASB2005-9 Amendments to Australian Accounting Standards (AASB4, AASB1023, AASB139 and AASB132)**

AASB2005-9 is applicable to reporting periods beginning on or after 1 January 2006. Application of the standards will not affect the financial results of the Economic Entity.

**(v) AASB119 Employee Benefits & AASB2004-3 Amendments to Accounting Standards (AASB1, AASB101 & AASB124)**

These amended standards are applicable to reporting periods beginning on or after 1 January 2006. The application of these standards will not affect the financial results of the Economic Entity as NSW Treasury has issued an indicative mandate that the two additional options allowed by AASB119 are not to be used by NSW public sector entities.

The following standards and UIG Interpretations have no impact on any disclosure or reporting by the Economic Entity as they relate to transactions or structures that are not undertaken or applicable to the Economic Entity:

*AASB2005-1 Amendments to Australian Accounting Standards (AASB139)*

*AASB2005-5 Amendments to Australian Accounting Standards (AASB1 and AASB139)*

*AASB2006-1 Amendments to Australian Accounting Standards (AASB121)*

*UIG6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

*UIG7 Applying the Restatement Approach under AASB129 Financial Reporting in Hyperinflationary Economies*

*UIG8 Scope of AASB2*

*UIG9 Assessment of Embedded Derivatives*

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 2. REVENUE</b>					
<b>Services</b>					
Tariff - service charges		64,194	58,475	64,194	58,476
Tariff - usage charges		75,929	67,813	75,929	67,813
Other regulated income		4,703	5,027	4,703	5,027
		<u>144,826</u>	<u>131,315</u>	<u>144,826</u>	<u>131,316</u>
External sales		7,976	6,360	166	183
External revenue generated by RLMC		8,669	5,508	-	-
		<u>16,645</u>	<u>11,868</u>	<u>166</u>	<u>183</u>
Developer contributions - environmental charge		8,162	7,932	8,162	7,932
Developer contributions – cash		12,261	9,964	12,261	9,964
Developer contributions – assets		22,630	18,679	22,630	18,679
		<u>43,053</u>	<u>36,575</u>	<u>43,053</u>	<u>36,575</u>
Corporate services		(233)	195	680	726
Other		2,711	2,809	2,735	2,980
		<u>2,478</u>	<u>3,004</u>	<u>3,415</u>	<u>3,706</u>
		<u>207,002</u>	<u>182,762</u>	<u>191,460</u>	<u>171,780</u>
<b>Other Income</b>					
Interest income		1,324	1,132	1,115	1,102
Dividends		-	-	2,039	500
Gain/(loss) on disposal of assets		765	1,413	774	1,404
Foreign exchange gain/(loss)		4	(12)	-	-
		<u>2,093</u>	<u>2,533</u>	<u>3,928</u>	<u>3,006</u>
<b>Total Income</b>		<u>209,095</u>	<u>185,295</u>	<u>195,388</u>	<u>174,786</u>

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Notes	\$'000	\$'000	\$'000	\$'000
<b>NOTE 3. OPERATIONAL COSTS</b>				
Employee-related costs	23,735	22,425	14,391	13,325
Maintenance expense				
Maintenance-related employee expenses	10,530	9,815	10,530	9,815
Other maintenance expenses	15,944	16,768	16,173	16,938
	26,474	26,583	26,703	26,753
Materials	7,316	6,278	3,520	2,757
Energy	5,606	5,344	5,606	5,344
Plant & vehicles	1,387	1,136	929	786
Contracts, Property & other	7,084	4,800	23,573	20,213
Cost of external sales	6,009	5,115	357	422
Cost of external revenue generated by RLMC	8,722	5,745	-	-
	36,124	28,418	33,985	29,522
	86,333	77,426	75,079	69,600

#### NOTE 4. PROFIT BEFORE INCOME TAX

**Profit before income tax includes the following specific net gains and expenses:**

Net gain on disposal of				
Property, plant and equipment	776	1,413	774	1,404
Foreign exchange gain /(loss)	4	(12)	-	-
	780	1,401	774	1,404
<b>Expenses</b>				
Changes in restoration provision	188	(2,236)	188	(2,236)
Depreciation and Amortisation				
Amortisation	815	1,751	748	1,675
Depreciation				
Buildings	77	212	77	212
Plant and equipment	31,717	28,118	31,398	27,823
	31,794	28,330	31,475	28,035
Total amortisation and depreciation expense	32,609	30,081	32,223	29,710
Other charges against assets				
Bad and doubtful debts - trade debtors	(11)	123	8	117
Write-down of inventory to net realisable value	295	-	295	-
	284	123	303	117
Borrowing costs				
Amortisation of (premium)/discount on loans	(886)	(785)	(886)	(785)
Long term borrowings	14,022	10,441	14,070	10,441
Other interest expense	155	148	349	256
Finance charges	884	328	884	328
	14,175	10,132	14,417	10,240
Rental expense relating to operating leases				
Minimum lease payments	579	109	47	50
	579	109	47	50
Superannuation expense (revenue) - defined benefits funds	(21,391)	10,256	(19,163)	8,405
Superannuation expense - defined contribution funds	1,856	1,578	1,036	1,049
	(19,535)	11,834	(18,127)	9,454

Notes	Economic Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

## NOTE 5. INCOME TAX

### (a) Income Tax Expense

Current tax	20,246	19,594	19,132	18,832
Deferred tax	586	(2,325)	(78)	(1,802)
Under/(over) provided in prior years	(203)	81	(275)	214
	<u>20,629</u>	<u>17,350</u>	<u>18,779</u>	<u>17,244</u>

Deferred income tax (revenue)/expense included in income tax expense comprises:

Decrease/(increase) in deferred tax assets	15	6,816	(2,178)	6,170	(1,655)
(Decrease)/increase in deferred tax liabilities	20	(6,230)	(147)	(6,248)	(147)
		<u>586</u>	<u>(2,325)</u>	<u>(78)</u>	<u>(1,802)</u>

### (b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit before income tax expense	95,513	55,822	91,796	55,782
Subtract inter-company dividend income	-	-	(2,039)	(500)
Profit before income tax excluding dividend	<u>95,513</u>	<u>55,822</u>	<u>89,757</u>	<u>55,282</u>
Tax at the Australian rate of 30% (2005 - 30%)	28,654	16,747	26,927	16,585
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenses	(5,673)	-	(5,690)	-
Tax consolidation benefit	-	-	(28)	(79)
Non-deductible depreciation and amortisation	-	2,655	-	2,667
Non-assessable contributions to capital works	(2,244)	(2,181)	(2,244)	(2,181)
Sundry items	95	48	89	38
	<u>20,832</u>	<u>17,269</u>	<u>19,054</u>	<u>17,030</u>
Under (over) provision in prior years	(203)	81	(275)	214
	<u>20,629</u>	<u>17,350</u>	<u>18,779</u>	<u>17,244</u>

### (c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity

Net deferred tax - debited directly to equity	20	<u>40,329 (107,798)</u>	<u>40,329 (107,798)</u>
		40,329 (107,798)	40,329 (107,798)

### (d) Tax Losses

The deferred tax assets attributable to tax losses is

-	-	-	-
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This benefit for tax losses will only be obtained if:

- the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised; and
- the consolidated entity continues to comply with the conditions of deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the losses.

Hunter Water Corporation and its wholly-owned Australian controlled entity, Hunter Water Australia Pty Limited decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision. The accounting policy on implementation of the legislation is set out in note 1. The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

The wholly-owned entity has been fully compensated for deferred tax assets transferred to Hunter Water Corporation on the date of implementation of the legislation. No compensation was due to Hunter Water Corporation from the wholly-owned entity as it did not assume any deferred tax liabilities as a result of implementing the tax consolidation legislation.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entity will reimburse Hunter Water Corporation for any current income tax payable by Hunter Water Corporation arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related receivable by Hunter Water Corporation (see note 8). In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entity in case of a default by Hunter Water Corporation.

Notes	Economic Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

## NOTE 6. DIVIDENDS PAID OR PROVIDED FOR

Opening Balance	33,800	36,000	33,800	36,000
Add dividend declared	35,100	33,800	35,100	33,800
Less dividend paid	33,800	36,000	33,800	36,000
	<u>35,100</u>	<u>33,800</u>	<u>35,100</u>	<u>33,800</u>

Under the National Tax Equivalent Regime, the Corporation is not required to maintain a dividend franking account.

## NOTE 7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	3,629	3,877	2,247	2,593
Foreign currency at bank and on hand	6	43	-	-
Deposits at call	15,696	2,496	11,921	5
	<u>19,331</u>	<u>6,416</u>	<u>14,168</u>	<u>2,598</u>

Deposits at call are bearing interest rates between 5.5 and 5.7% (2005: 5.2% and 5.5%)

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial years as shown in the Cash Flow Statement as follows:

Balances as above	19,331	6,416	14,168	2,598
Bank Overdrafts	-	(1,560)	-	(1,560)
Balances per Cash Flow Statement	<u>19,331</u>	<u>4,856</u>	<u>14,168</u>	<u>1,038</u>

## NOTE 8. TRADE AND OTHER RECEIVABLES

Current				
Trade debtors	26,902	34,088	23,162	29,827
Provision for doubtful debts	(19)	(30)	(19)	(11)
	<u>26,883</u>	<u>34,058</u>	<u>23,143</u>	<u>29,816</u>
Dividend receivable	-	-	1,539	-
	<u>26,883</u>	<u>34,058</u>	<u>24,682</u>	<u>29,816</u>

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 9. OTHER FINANCIAL ASSETS</b>					
<b>Current</b>					
Loan to Controlled Entity		-	-	508	3,323
		-	-	508	3,323
<b>Non-Current</b>					
Investments available for sale					
Inscribed Stock - Government Issues - at market value		10,291	10,626	10,291	10,626
		10,291	10,626	10,291	10,626
Other (non-traded) investments					
Shares in controlled entities - at cost		-	-	900	900
		-	-	900	900

The above external investments are not quoted on the stock exchange but are marketable. Market valuation was provided by NSW Treasury Corporation Limited as at 30 June 2006.

The inscribed stock was acquired in 1997, has a face value of \$10M and is redeemable in 2008. The effective yield is 8.27%.

## NOTE 10. INVENTORIES

<b>Current</b>					
Consumable stores at cost		1,747	1,641	1,747	1,641
Consumable stores at net realisable value		128	507	128	507
		1,875	2,148	1,875	2,148

## NOTE 11. ASSETS HELD FOR SALE

<b>Current</b>					
Land held for sale		-	179	-	179
		-	179	-	179

## NOTE 12. OTHER ASSETS

<b>Current</b>					
Prepayments		790	968	511	818
Accrued Interest		336	287	336	287
Work In Progress		610	829	-	-
		1,736	2,084	847	1,105

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 13. PROPERTY, PLANT &amp; EQUIPMENT</b>					
<b>A Fixed Assets – comprise the following all at Directors' valuation</b>					
<b>Water</b>					
Water assets		962,454	1,006,658	962,454	1,006,658
Accumulated depreciation		(191,346)	(197,249)	(191,346)	(197,249)
		<u>771,108</u>	<u>809,409</u>	<u>771,108</u>	<u>809,409</u>
<b>Sewer/Wastewater</b>					
Sewer assets		1,434,766	1,463,775	1,434,766	1,463,775
Accumulated depreciation		(219,051)	(213,242)	(219,051)	(213,242)
		<u>1,215,715</u>	<u>1,250,533</u>	<u>1,215,715</u>	<u>1,250,533</u>
<b>Drainage</b>					
Drainage assets		117,145	125,644	117,145	125,644
Accumulated depreciation		(26,476)	(26,725)	(26,476)	(26,725)
		<u>90,669</u>	<u>98,919</u>	<u>90,669</u>	<u>98,919</u>
<b>General Support</b>					
General support assets		65,788	48,411	62,929	44,918
Accumulated depreciation		(28,408)	(30,271)	(26,388)	(27,857)
		<u>37,380</u>	<u>18,140</u>	<u>36,541</u>	<u>17,061</u>
<b>Land</b>					
		<u>50,949</u>	<u>50,048</u>	<u>50,949</u>	<u>50,048</u>
<b>Non-commercial</b>					
Non commercial assets		962	737	962	737
Accumulated depreciation		(308)	(301)	(308)	(301)
		<u>654</u>	<u>436</u>	<u>654</u>	<u>436</u>
Total gross assets		2,632,064	2,695,273	2,629,205	2,691,780
Accumulated depreciation		(465,589)	(467,788)	(463,569)	(465,374)
		<u>2,166,475</u>	<u>2,227,485</u>	<u>2,165,636</u>	<u>2,226,406</u>
<b>B Works in Progress at Cost</b>					
Works under construction		<u>92,568</u>	<u>76,213</u>	<u>93,652</u>	<u>77,129</u>
Total property plant & equipment		<u>2,259,043</u>	<u>2,303,698</u>	<u>2,259,288</u>	<u>2,303,535</u>

### C Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the previous financial year are set out below:

Consolidated 2005				General	Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount 1 Jul 2004	657,978	1,029,620	82,541	17,561	52,344	418	1,840,462
Additions	21,062	32,456	392	4,820	2,232	2	60,964
Disposals	(753)	(594)	(472)	(3,323)	(4,528)	-	(9,670)
Revaluation: increments/(decrements)	16,804	26,945	2,820	190	-	-	46,759
Reversal of previous impairment	122,213	177,207	15,201	2,639	-	40	317,300
Depreciation expense	(7,895)	(15,101)	(1,563)	(3,747)	-	(24)	(28,330)
Carrying amount 30 June 2005	<b>809,409</b>	<b>1,250,533</b>	<b>98,919</b>	<b>18,140</b>	<b>50,048</b>	<b>436</b>	<b>2,227,485</b>

Parent Entity 2005				General	Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount 1 Jul 2004	657,978	1,029,620	82,541	16,632	52,344	418	1,839,533
Additions	21,062	32,456	392	4,374	2,232	2	60,518
Disposals	(753)	(594)	(472)	(3,322)	(4,528)	-	(9,669)
Revaluation: increments/(decrements)	16,804	26,945	2,820	190	-	-	46,759
Reversal of previous impairment	122,213	177,207	15,201	2,639	-	40	317,300
Depreciation expense	(7,895)	(15,101)	(1,563)	(3,452)	-	(24)	(28,035)
Carrying amount 30 June 2005	<b>809,409</b>	<b>1,250,533</b>	<b>98,919</b>	<b>17,061</b>	<b>50,048</b>	<b>436</b>	<b>2,226,406</b>

### D Valuation Notes

The valuation of assets is based on the modern engineering equivalent replacement asset methodology (MEERA). The valuation of these assets is confirmed by application of a cash generating unit test (CGUT) based on the expected net cash flows to be generated discounted to their present value. The outcome of this test for 2005/06 indicated that the net present value of future revenues did not support accounting book values of the asset base and an impairment was processed as a result (refer to the reconciliations of property, plant & equipment and intangible assets for the allocation of this impairment).

In 2005/06 wastewater treatment works assets were expertly revalued and the remainder of the property, plant & equipment asset base (excluding land and fleet assets) were indexed by the March quarter CPI (2.8%).

### E Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

Consolidated 2006				General	Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount 1 Jul 2005	809,409	1,250,533	98,919	18,140	50,048	436	2,227,485
Additions	32,508	48,491	232	24,622	1,743	276	107,872
Disposals	(100)	(121)	-	(1,308)	(867)	-	(2,396)
Revaluation: increments/(decrements)	19,746	60,771	2,726	847	25	11	84,126
Impairment	(80,423)	(126,709)	(9,476)	(2,171)	-	(39)	(218,818)
Depreciation expense	(10,032)	(17,250)	(1,732)	(2,750)	-	(30)	(31,794)
Carrying amount 30 June 2006	<b>771,108</b>	<b>1,215,715</b>	<b>90,669</b>	<b>37,380</b>	<b>50,949</b>	<b>654</b>	<b>2,166,475</b>

Parent Entity 2006	General				Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount 1 Jul 2005	809,409	1,250,533	98,919	17,061	50,048	436	2,226,406
Additions	32,508	48,491	232	24,535	1,743	276	107,785
Disposals	(100)	(121)	-	(1,300)	(867)	-	(2,388)
Revaluation: increments/(decrements)	19,746	60,771	2,726	847	25	11	84,126
Impairment	(80,423)	(126,709)	(9,476)	(2,171)	-	(39)	(218,818)
Depreciation expense	(10,032)	(17,250)	(1,732)	(2,431)	-	(30)	(31,475)
<b>Carrying Amount 30 June 2006</b>	<b>771,108</b>	<b>1,215,715</b>	<b>90,669</b>	<b>36,541</b>	<b>50,949</b>	<b>654</b>	<b>2,165,636</b>

#### F Written Down Replacement Value

Reconciliations of the written down replacement cost of each class of property, plant & equipment at 30 June 2006 are as follows:

Consolidated 30 June 2006	General				Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross replacement cost	1,184,992	1,761,076	144,633	75,683	50,949	1,123	3,218,456
Accumulated depreciation	(235,242)	(267,103)	(32,487)	(34,303)	-	(377)	(569,512)
Written down replacement value	949,750	1,493,973	112,146	41,380	50,949	746	2,648,944
Accumulated impairment	(178,642)	(278,258)	(21,477)	(4,000)	-	(92)	(482,469)
Carrying amount 30 June 2006	771,108	1,215,715	90,669	37,380	50,949	654	2,166,475

Parent 30 June 2006	General				Non		Total
	Water	Sewer	Drainage	Support	Land	Commercial	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross replacement cost	1,184,992	1,761,076	144,633	72,824	50,949	1,123	3,215,597
Accumulated depreciation	(235,242)	(267,103)	(32,487)	(32,283)	-	(377)	(567,492)
Written down replacement value	949,750	1,493,973	112,146	40,541	50,949	746	2,648,105
Accumulated impairment	(178,642)	(278,258)	(21,477)	(4,000)	-	(92)	(482,469)
Carrying amount 30 June 2006	771,108	1,215,715	90,669	36,541	50,949	654	2,165,636

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## NOTE 14. INTANGIBLE ASSETS

### Intangible Assets

Intangible assets	12,531	7,812	12,065	7,555
Accumulated amortisation	(5,102)	(4,116)	(4,786)	(4,056)
	<u>7,429</u>	<u>3,696</u>	<u>7,279</u>	<u>3,499</u>

### Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the previous financial year are as follows:

#### Consolidated 2005:

	Easements \$'000	Software \$'000	Other \$'000	Total \$'000
Carrying amount 1 Jul 04	1,740	847	93	2,680
Additions	165	1,804	-	1,969
Disposals	-	-	-	-
Impairment reversal	303	478	17	798
Amortisation expense	(21)	(1,706)	(24)	(1,751)
Carrying amount 30 June 2005	<u>2,187</u>	<u>1,423</u>	<u>86</u>	<u>3,696</u>

#### Parent 2005:

	Easements \$'000	Software \$'000	Other \$'000	Total \$'000
Carrying amount 1 Jul 04	1,740	654	93	2,487
Additions	165	1,724	-	1,889
Disposals	-	-	-	-
Impairment reversal	303	478	17	798
Amortisation expense	(21)	(1,630)	(24)	(1,675)
Carrying amount 30 June 2005	<u>2,187</u>	<u>1,226</u>	<u>86</u>	<u>3,499</u>

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the current financial year are as follows:

#### Consolidated 2006:

	Easements \$'000	Software \$'000	Other \$'000	Total \$'000
Carrying amount 1 Jul 05	2,187	1,423	86	3,696
Additions	15	4,768	31	4,814
Disposals	-	-	-	-
Impairment	(206)	(54)	(6)	(266)
Amortisation expense	(21)	(768)	(26)	(815)
Carrying amount 30 June 2006	<u>1,975</u>	<u>5,369</u>	<u>85</u>	<u>7,429</u>

#### Parent 2006:

	Easements \$'000	Software \$'000	Other \$'000	Total \$'000
Carrying amount 1 Jul 05	2,187	1,226	86	3,499
Additions	15	4,752	27	4,794
Disposals	-	-	-	-
Impairment	(206)	(54)	(6)	(266)
Amortisation expense	(21)	(703)	(24)	(748)
Carrying amount 30 June 2006	<u>1,975</u>	<u>5,221</u>	<u>83</u>	<u>7,279</u>

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

## NOTE 15. DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

### Amounts recognised in profit or loss

Doubtful debts	6	9	6	3
Employee benefits	9,744	16,636	8,696	14,874
Other operating expenditure payable	268	188	108	104
Selling costs to claim	3	2	3	2
Formation costs to claim	1	3	-	-
	<u>10,022</u>	<u>16,838</u>	<u>8,813</u>	<u>14,983</u>

### Movements:

Opening balance at 1 July 2005		16,838	14,660	14,983	13,328
Credited/(charged) to the Income Statement	5	(6,816)	2,178	(6,170)	1,655
Closing balance at 30 June 2006		<u>10,022</u>	<u>16,838</u>	<u>8,813</u>	<u>14,983</u>

## NOTE 16. TRADE AND OTHER PAYABLES

### Current

Trade creditors	25,053	15,977	24,480	16,039
Deposits received for services	1,350	1,451	1,350	1,451
Prepaid income	1,999	1,056	912	789
Accrued expenses	3,872	2,531	3,889	2,545
	<u>32,274</u>	<u>21,015</u>	<u>30,631</u>	<u>20,824</u>

## NOTE 17. CURRENT TAX LIABILITIES

### Provision for Income Tax Payable

Opening Balance	5,365	6,791	5,043	6,534
Add under provision for income tax in prior year	(203)	81	(275)	214
Less amount paid relating to prior year	5,162	6,872	4,768	6,748
Add amount payable for current year	20,246	19,594	19,132	18,832
Less amount paid relating to current year	13,855	14,229	13,224	13,789
	<u>6,391</u>	<u>5,365</u>	<u>5,908</u>	<u>5,043</u>

## NOTE 18. BORROWINGS

### Current

Overdraft	-	1,560	-	1,560
Other loans	-	36,331	-	36,331
	<u>-</u>	<u>37,891</u>	<u>-</u>	<u>37,891</u>

The overdraft facility is held with TCorp and has a limit of \$10M

### Non-Current

Other loans	235,021	128,025	238,521	131,525
	<u>235,021</u>	<u>128,025</u>	<u>238,521</u>	<u>131,525</u>

The borrowings are classified as non-trading liabilities

	Notes	Economic Entity		Parent Entity	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>NOTE 19. PROVISIONS</b>					
<b>Current</b>					
Dividends		35,100	33,800	35,100	33,800
Restoration		180	200	180	200
Employee benefits – short term		6,687	6,178	5,250	4,838
Employee benefits – long term		13,448	12,812	11,525	11,033
		<u>55,415</u>	<u>52,990</u>	<u>52,055</u>	<u>49,871</u>
<b>Non-Current</b>					
Restoration		404	225	404	225
Employee benefits		12,911	37,219	12,212	33,709
		<u>13,315</u>	<u>37,444</u>	<u>12,616</u>	<u>33,934</u>
<b>Movements in Restoration Provision 2006</b>					
		Current	Non-Current	Current	Non-Current
Carrying amount 1 July 2005		200	225	200	225
Payments		(29)	-	(29)	-
Over provision adjustment 2006		9	179	9	179
Restoration Balance June 2006		<u>180</u>	<u>404</u>	<u>180</u>	<u>404</u>

## NOTE 20. DEFERRED TAX LIABILITIES

### *Amounts recognised in profit or loss*

Prepayments	32	189	32	189
Inventories	562	644	562	644
Depreciation	346,099	393,199	346,152	393,270
Non current investments	119	234	119	234
Land at fair value	5,693	5,236	5,693	5,236
Land held for sale	-	12	-	12
Accrued interest income	101	86	101	86
Accrued usage charges	3,563	3,128	3,563	3,128
	<u>356,169</u>	<u>402,728</u>	<u>356,222</u>	<u>402,799</u>

### *Amounts recognised directly in equity*

Revaluation of property, plant and equipment	<u>358,349</u>	<u>398,678</u>	<u>358,349</u>	<u>398,678</u>
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### **Movements:**

Opening balance at 1 July 2005	402,728	295,077	402,799	295,148
Credited/(charged) to the Income Statement (note 5)	(6,230)	(147)	(6,248)	(147)
Credited/(charged) to equity (note 5)	<u>(40,329)</u>	<u>107,798</u>	<u>(40,329)</u>	<u>107,798</u>
Closing balance at 30 June 2006	<u>356,169</u>	<u>402,728</u>	<u>356,222</u>	<u>402,799</u>

## NOTE 21. OTHER

### **Non-Current**

Premium on loans	1,234	2,116	1,234	2,116
	<u>1,234</u>	<u>2,116</u>	<u>1,234</u>	<u>2,116</u>

Economic Entity		Parent Entity	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## NOTE 22. CONTRIBUTED EQUITY

Issued and paid up capital: 100,000,003 ordinary shares each fully paid	100,000	100,000	100,000	100,000
	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

## NOTE 23. RESERVES AND RETAINED PROFITS

### A Reserves

Asset revaluation	915,974	1,012,660	915,974	1,012,660
	<u>915,974</u>	<u>1,012,660</u>	<u>915,974</u>	<u>1,012,660</u>

### Movement in reserves

Asset Revaluation				
Balance at beginning of year	1,012,660	763,998	1,012,660	763,998

#### Fixed asset revaluation increments from revaluations

Water	19,746	16,804	19,746	16,804
Sewer	60,771	26,945	60,771	26,945
Drainage	2,726	2,820	2,726	2,820
General support	847	190	847	190
Non commercial	11	-	11	-
Land	25	-	25	-

#### Fixed asset increments/(decrements) from impairment reversal/(impairment)

Water	(80,423)	122,213	(80,423)	122,213
Sewer	(126,709)	177,197	(126,709)	177,197
Drainage	(9,476)	15,201	(9,476)	15,201
General support	(2,171)	2,639	(2,171)	2,639
Non commercial	(39)	40	(39)	40
Intangible assets	(267)	798	(267)	798

Tax effect - deferred tax liability on revaluation reserve	40,329	(107,798)	40,329	(107,798)
Less: assets held for sale tax effect	-	9	-	9

#### Revaluation decrement of revaluation of:

Investment held to maturity	(385)	(39)	(385)	(39)
Write-back of written down value of decommissioned assets	(147)	(1,594)	(147)	(1,594)
Transfer to retained profits with respect to decommissioned assets	(1,524)	(6,661)	(1,524)	(6,661)

#### Available for sale reserve

Balance at beginning of year	22	124	22	124
Adjustments on adoption of AASB 132 and AASB 139	-	-	-	-
Restated balance at beginning of year	22	124	22	124
Valuation gain/(loss) recognised	-	(93)	-	(93)
Cumulative (gain)/loss transferred to income statement on sale of financial assets	(22)	-	(22)	-
Cumulative (gain)/loss transferred to income statement on impairment of financial assets	-	-	-	-
Deferred tax arising on revaluation	-	(9)	-	(9)
	<u>915,974</u>	<u>1,012,660</u>	<u>915,974</u>	<u>1,012,660</u>

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Notes	\$'000	\$'000	\$'000	\$'000
<b>B Retained Profits</b>				
Retained profits at the beginning of year	579,509	568,176	576,049	564,650
Net profit	74,884	38,472	73,017	38,538
Dividends provided for	(35,100)	(33,800)	(35,100)	(33,800)
Aggregate of amounts transferred to reserves	1,524	6,661	1,524	6,661
Retained profits at end of year	<u>620,817</u>	<u>579,509</u>	<u>615,490</u>	<u>576,049</u>

### C Nature and purpose of reserves

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in accounting policy note 1.

## NOTE 24. CASH FLOW STATEMENT

### Reconciliation of profit after income tax to the net cash flows from operating activities

Profit from ordinary activities after related income tax	74,884	38,472	73,017	38,538
Depreciation and amortisation	32,609	30,081	32,223	29,710
Amortisation of discount on investments	(49)	(49)	(49)	(49)
(Profit)/loss on sale of non-current assets	(765)	(1,413)	(774)	(1,404)
Capital asset (non-cash) contributions	(22,630)	(18,679)	(22,630)	(18,679)
Net exchange differences	(4)	(4)	-	-
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	1,353	(633)	(559)	1,696
(Increase)/decrease in inventories	492	(353)	273	(290)
(Increase)/decrease in deferred tax assets	6,817	283	6,170	283
(Increase)/decrease in other operating assets	-	(85)	-	(65)
Increase/(decrease) in trade creditors	2,898	32	2,255	(1,071)
Increase/(decrease) in other operating liabilities	1,294	127	485	396
Increase/(decrease) in provision for income taxes payable	1,026	(1,426)	1,026	(1,369)
Increase/(decrease) in deferred income tax	(6,231)	(1,974)	(6,409)	(1,574)
(Decrease)/increase in other provisions	(23,004)	6,749	(20,434)	4,707
Net cash inflow from operating activities	<u>68,690</u>	<u>51,128</u>	<u>64,594</u>	<u>50,829</u>

Notes	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

## NOTE 25. CONTRACTUAL COMMITMENTS

### (a) Capital Commitments

*Capital expenditure contracted for at balance date but not recognised as liabilities:*

Payable within one year	32,688	46,896	34,310	47,391
Payable later than one year but not later than five years	237	24,708	237	24,708
	<u>32,925</u>	<u>71,604</u>	<u>34,547</u>	<u>72,099</u>

### (b) Other Expenditure Commitments

*Other commitments contracted for at balance date but not recognised as liabilities:*

Payable within one year	20,242	721	2,443	-
Payable later than one year but not later than five years	931	-	622	-
Payable later than five years	168	-	168	-
	<u>21,341</u>	<u>721</u>	<u>3,233</u>	<u>-</u>

All contractual commitments disclosed above are GST-inclusive

## NOTE 26. LEASE EXPENDITURE COMMITMENTS

*Operating lease commitments in relation to non-cancellable operating leases are payable as follows:*

Within one year	653	616	73	47
Later than one year but not later than five years	512	986	84	55
Later than five years	13	26	13	26
	<u>1,178</u>	<u>1,628</u>	<u>170</u>	<u>128</u>

There are three major operating leases of the Economic Entity which are all non-cancellable. One lease has a five year term expiring in June 2009 with an option to renew the lease at the end of this term for an additional five years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by the greater of CPI or 2.5%. Another has a 3-year term expiring in May 2007 with an option to extend the lease for an additional 2 years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 3%. Both of the above two leases do not allow for subletting of the lease area. The final lease has a 2 year term expiring in June 2007 with an option to extend the lease for an additional 2 years. Contingent rental provisions within the lease require that the minimum lease payments shall be increased by 3%. This lease allows for subletting of the lease area.

With respect to the other minor operating leases of the Economic Entity, some have provisions within the agreement for CPI increases and others provide for a set percentage increase each year. When a set percentage increase is provided for, this increase has been incorporated into the above commitment.

All lease expenditure commitments disclosed above are GST-inclusive.

## NOTE 27. SUPERANNUATION

### (a) Superannuation Plan

All employees are entitled to benefits on retirement, disability or death. The superannuation plans are administered by Pillar Administration (formerly the Superannuation Administration Corporation) and provide defined benefits based on years of service and final average salary. Employees contribute to the plans at various percentages of their wages and salaries. The Parent and Controlled Entities also contribute to the plans.

The State Authorities Superannuation Scheme closed on 18 December 1992. Superannuation benefits for new entrants are now provided through First State Super (FSS), which is an accumulation type scheme. The Economic Entity has made full provision for these commitments.

The following sets out details in respect of the defined benefits section only.

### (b) Balance Sheet Amounts

The amounts recognised in the Balance Sheet are determined as follows:

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Notes	\$'000	\$'000	\$'000	\$'000
Present Value of Defined Benefit Obligations	130,801	138,106	115,553	122,708
Fair Value of Plan Assets	(118,637)	(101,781)	(103,849)	(89,479)
	12,164	36,325	11,704	33,229
Surplus in Excess of Recovery Available from Schemes	-	-	-	-
Unrecognised Past Service Cost	-	-	-	-
Net (Asset)/Liability	12,164	36,325	11,704	33,229

### (c) Reconciliation

Net (Asset)/Liability at Start of Year	36,325	28,727	33,229	27,113
Net Expense Recognised in the Income Statement	(21,391)	10,256	(19,163)	8,405
Contributions	(2,770)	(2,658)	(2,362)	(2,289)
Net (Asset)/Liability at end of year	12,164	36,325	11,704	33,229

### (d) Amounts Recognised in the Income Statement

The amounts recognised in the Income Statement are as follows:

Current Service Cost	2,550	2,388	2,208	2,069
Interest on Obligations	7,673	7,374	6,815	6,616
Expected Return on Plan Assets	(7,635)	(6,589)	(6,699)	(5,819)
Net Actuarial Losses (Gains) Recognised in Year	(23,979)	7,083	(21,487)	5,539
Change in Surplus in Excess of Recovery Available from Scheme	-	-	-	-
Past Service Cost	-	-	-	-
Losses (Gains) on Curtailments and Settlements	-	-	-	-
Total included in "Superannuation (expense) revenue"	(21,391)	10,256	(19,163)	8,405

### (e) Actual return on plan assets

Actual return on plan assets	15,815	11,717	13,916	10,346
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**(f) Principal Actuarial Assumptions**

The principal actuarial assumptions used (expressed as weighted averages) at the reporting date were as follows:

	<b>2006</b>
Discount Rate	5.9%
Expected Return on Plan Assets	7.6%
Expected Salary Increases	4%pa to 2008, 3.5%pa thereafter
Expected Rate of CPI Increase	2.5%

**(g) Employer Contributions**

Employer contributions to the defined benefit section of the plan are based on the recommendations of the plan's actuary. The last triennial update of demographic assumptions used to calculate the gross superannuation liability of the various defined benefit schemes was undertaken in 2003.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding Method. The method adopted affects the timing of the cost to the employer. Under the aggregate funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

The recommended contribution rates for the Economic Entity are:

State Superannuation Scheme (Parent)	0.93X (multiple of member contributions)
State Superannuation Scheme (HWA & RLMC)	1.60X (multiple of member contributions)
State Authorities Superannuation Scheme	1.90X (multiple of member contributions)
State Authorities Non-Contributory Superannuation Scheme	2.5% (% of member salary)

The economic assumptions used by the actuary to make the funding recommendation were a investment return on fund assets of 7.3%pa, a salary increase rate of 4%, and an inflation rate of 2.5%.

**(h) Net Financial Position of Plan**

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2006), and a surplus of \$3.333M was reported.

**(i) Economic Entity Historic Summary**

	SSS	SASS	SANCS	<b>05-06</b>	<b>04-05</b>	<b>03-04</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Accrued Liability	90,005	34,448	6,348	130,801	138,106	120,038
Estimated Reserve Account Balance	(84,941)	(29,401)	(4,295)	(118,637)	(101,781)	(91,312)
Unfunded Liability / (Prepaid Contributions)	5,064	5,047	2,053	12,164	36,325	28,726

- (i) SSS State Superannuation Scheme
- (ii) SASS State Authorities Superannuation Scheme
- (iii) SANCS State Authorities Non-Contributory Superannuation Scheme

**NOTE 28. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs**

(1) Reconciliation of profit for the year ended 30 June 2005

	Notes	Economic Entity			Parent Entity		
		Previous AGAAP \$'000	Effect of transition to AIFRS	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS	AIFRS \$'000
<b>Revenue</b>							
Services		182,762	-	182,762	171,780	-	171,780
Other income	a	10,640	(8,107)	2,533	11,115	(8,109)	3,006
<b>Total Revenue</b>		<b>193,402</b>	<b>(8,107)</b>	<b>185,295</b>	<b>182,895</b>	<b>(8,109)</b>	<b>174,786</b>
<b>Expenditure</b>							
Operational costs	b	(73,688)	(3,738)	(77,426)	(66,676)	(2,924)	(69,600)
Depreciation and amortisation	c	(35,935)	5,854	(30,081)	(35,564)	5,854	(29,710)
Employee provisions charge	d	(2,400)	2,400	-	(1,584)	1,584	-
Interest payable		(10,132)	-	(10,132)	(10,240)	-	(10,240)
Written down value of assets sold	a	(8,165)	8,165	-	(8,165)	8,165	-
Superannuation (expense) revenue		760	(12,594)	(11,834)	1,385	(10,839)	(9,454)
<b>Total Operating Expenditure</b>		<b>(129,560)</b>	<b>87</b>	<b>(129,473)</b>	<b>(120,844)</b>	<b>1,840</b>	<b>(119,004)</b>
<b>Profit before income tax expense</b>		<b>63,842</b>	<b>(8,020)</b>	<b>55,822</b>	<b>62,051</b>	<b>(6,269)</b>	<b>55,782</b>
Income tax expense	e	(20,819)	3,469	(17,350)	(20,317)	3,073	(17,244)
<b>Profit for the Year</b>		<b>43,023</b>	<b>(4,551)</b>	<b>38,472</b>	<b>41,734</b>	<b>(3,196)</b>	<b>38,538</b>

**HUNTER WATER CORPORATION AND CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

(2) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Economic Entity			Parent Entity		
		Previous AGAAP \$'000	Effect of transition to AIFRS	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS	AIFRS \$'000
<b>Current Assets</b>							
Cash and cash equivalents		23,376	-	23,376	18,337	-	18,337
Trade and other receivables		27,438	-	27,438	26,018	-	26,018
Other financial assets		-	-	-	1,075	-	1,075
Inventories		2,624	-	2,624	1,858	-	1,858
Assets held for sale	f	-	271	271	-	271	271
Other		1,170	-	1,170	1,105	-	1,105
<b>Total current assets</b>		<b>54,608</b>	<b>271</b>	<b>54,879</b>	<b>48,393</b>	<b>271</b>	<b>48,664</b>
<b>Non-Current Assets</b>							
Investments available for sale		10,616	-	10,616	11,516	(900)	10,616
Other financial assets		-	-	-	-	900	900
Property, plant & equipment	g	2,174,187	(286,271)	1,887,916	2,173,954	(286,315)	1,887,639
Intangible assets	h	-	2,680	2,680	-	2,487	2,487
Deferred tax assets	e	6,159	8,498	14,657	6,159	7,169	13,328
<b>Total non-current assets</b>		<b>2,190,962</b>	<b>(275,093)</b>	<b>1,915,869</b>	<b>2,191,629</b>	<b>(276,659)</b>	<b>1,914,970</b>
<b>Total assets</b>		<b>2,245,570</b>	<b>(274,822)</b>	<b>1,970,748</b>	<b>2,240,022</b>	<b>(276,388)</b>	<b>1,963,634</b>
<b>Current Liabilities</b>							
Overdraft		-	-	-	-	-	-
Trade and other payables		23,103	-	23,103	23,988	-	23,988
Current tax liabilities		6,791	-	6,791	6,734	-	6,734
Borrowings	i	-	-	-	-	-	-
Provisions	j,k	41,816	2,954	44,770	40,606	2,954	43,560
<b>Total current liabilities</b>		<b>71,710</b>	<b>2,954</b>	<b>74,664</b>	<b>71,328</b>	<b>2,954</b>	<b>74,282</b>
<b>Non-Current Liabilities</b>							
Trade and other payables		-	-	-	785	(916)	(131)
Borrowings	i	124,906	-	124,906	124,906	-	124,906
Provisions	j,k	27,640	13,776	41,416	25,945	12,330	38,275
Deferred tax liabilities	e	39,292	255,790	295,082	39,292	255,856	295,148
Other		2,506	-	2,506	2,506	-	2,506
<b>Total non-current liabilities</b>		<b>194,344</b>	<b>269,561</b>	<b>463,910</b>	<b>193,434</b>	<b>267,270</b>	<b>460,704</b>
<b>Total liabilities</b>		<b>266,054</b>	<b>272,515</b>	<b>538,574</b>	<b>264,762</b>	<b>270,224</b>	<b>534,986</b>
<b>Net Assets</b>		<b>1,979,516</b>	<b>(547,337)</b>	<b>1,432,174</b>	<b>1,975,260</b>	<b>(546,612)</b>	<b>1,428,648</b>
<b>Equity</b>							
Contributed equity		100,000	-	100,000	100,000	-	100,000
Reserves		1,515,121	(751,123)	763,998	1,515,121	(751,123)	763,998
Retained profits	l	364,395	203,786	568,176	360,139	204,511	564,650
<b>Total Equity</b>		<b>1,979,516</b>	<b>(547,337)</b>	<b>1,432,174</b>	<b>1,975,260</b>	<b>(546,612)</b>	<b>1,428,648</b>

**HUNTER WATER CORPORATION AND CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Economic Entity			Parent Entity		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
<b>Current Assets</b>							
Cash and cash equivalents		6,416	-	6,416	2,598	-	2,598
Trade and other receivables	d	33,821	237	34,058	30,138	(322)	29,816
Other financial assets		-	-	-	3,323	-	3,323
Inventories		2,148	-	2,148	2,148	-	2,148
Assets held for sale	f	-	179	179	-	179	179
Other		2,084	-	2,084	1,105	-	1,105
<b>Total current assets</b>		<b>44,469</b>	<b>416</b>	<b>44,885</b>	<b>39,312</b>	<b>(143)</b>	<b>39,169</b>
<b>Non-Current Assets</b>							
Investments available for sale		10,626	-	10,626	11,526	(900)	10,626
Other financial assets		-	-	-	-	900	900
Property, plant & equipment	g	2,271,295	32,403	2,303,698	2,271,177	32,358	2,303,535
Intangible assets	h	-	3,696	3,696	-	3,499	3,499
Deferred tax assets	e	5,876	10,962	16,838	5,876	9,107	14,983
<b>Total non-current assets</b>		<b>2,287,797</b>	<b>47,061</b>	<b>2,334,858</b>	<b>2,288,579</b>	<b>44,964</b>	<b>2,333,543</b>
<b>Total assets</b>		<b>2,332,266</b>	<b>47,477</b>	<b>2,379,743</b>	<b>2,327,891</b>	<b>44,821</b>	<b>2,372,712</b>
<b>Current Liabilities</b>							
Trade and other payables		21,014	1	21,015	20,828	(4)	20,824
Current tax liabilities		5,365	-	5,365	5,365	(322)	5,043
Borrowings	i	37,891	-	37,891	37,891	-	37,891
Provisions	j,k	39,978	13,012	52,990	38,638	11,233	49,871
<b>Total current liabilities</b>		<b>104,248</b>	<b>13,013</b>	<b>117,261</b>	<b>102,722</b>	<b>10,907</b>	<b>113,629</b>
<b>Non Current Liabilities</b>							
Trade and other payables		-	-	-	1,049	(1,049)	-
Borrowings	i	128,025	-	128,025	131,525	-	131,525
Provisions	j,k	23,669	13,775	37,444	21,816	12,118	33,934
Deferred tax liabilities	e	40,149	362,579	402,728	40,149	362,650	402,799
Other		2,116	-	2,116	2,116	-	2,116
<b>Total non-current liabilities</b>		<b>193,959</b>	<b>376,354</b>	<b>570,313</b>	<b>196,655</b>	<b>373,719</b>	<b>570,374</b>
<b>Total liabilities</b>		<b>298,207</b>	<b>389,367</b>	<b>687,574</b>	<b>299,377</b>	<b>384,626</b>	<b>684,003</b>
<b>Net Assets</b>		<b>2,034,059</b>	<b>(341,890)</b>	<b>1,692,169</b>	<b>2,028,514</b>	<b>(339,805)</b>	<b>1,688,709</b>
<b>Equity</b>							
Contributed equity		100,000	-	100,000	100,000	-	100,000
Reserves	g	1,553,781	(541,121)	1,012,660	1,553,781	(541,121)	1,012,660
Retained profits	l	380,278	199,231	579,509	374,733	201,316	576,049
<b>Total Equity</b>		<b>2,034,059</b>	<b>(341,890)</b>	<b>1,692,169</b>	<b>2,028,514</b>	<b>(339,805)</b>	<b>1,688,709</b>

(3) Reconciliation of Cash flows

	Economic Entity			Parent Entity		
	2005		2005	2005		2005
	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
<i>Reconciliation of profit after income tax to the net cash flows from operating activities</i>						
Profit after related income tax	43,023	(4,551)	38,472	41,734	(3,196)	38,538
Depreciation and amortisation	35,935	(5,854)	30,081	35,564	(5,854)	29,710
Amortisation of discount on investments	(49)	-	(49)	(49)	-	(49)
(Profit)/loss on sale of non-current assets	(1,355)	(58)	(1,413)	(1,347)	(57)	(1,404)
Capital Asset (non-cash) Contributions	(36,575)	17,896	(18,679)	(36,575)	17,896	(18,679)
Net exchange differences	(4)	-	(4)	-	-	-
Change in operating assets and liabilities	-	-	-	-	-	-
(Increase)/decrease in trade debtors	(633)	-	(633)	1,696	-	1,696
(Increase)/decrease in inventories	(353)	-	(353)	(290)	-	(290)
(Increase)/decrease in deferred tax assets	283	-	283	283	-	283
(Increase)/decrease in other operating assets	(85)	-	(85)	(65)	-	(65)
Increase/(decrease) in trade creditors	32	-	32	(1,071)	-	(1,071)
Increase/(decrease) in other operating liabilities	127	-	127	396	-	396
(Decrease)/increase in provision for income taxes payable	(1,426)	-	(1,426)	(1,369)	-	(1,369)
Increase/(decrease) in deferred income tax	857	(2,831)	(1,974)	857	(2,431)	(1,574)
(Decrease)/increase in other provisions	(3,611)	10,360	6,749	(3,897)	8,604	4,707
<b>Net Cash Inflow from Operating Activities</b>	<b>36,166</b>	<b>14,962</b>	<b>51,128</b>	<b>35,867</b>	<b>14,962</b>	<b>50,829</b>

a) The written down value of assets sold has now been moved to offset the proceeds from sale of assets.

b) AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. Previous AGAAP permitted some research and development costs to be capitalised when certain criteria were met. As a result, some previously recognised intangible assets have been derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments and decrements have been derecognised and intangible assets recognised at amortised cost. The research expense has increased by around \$3M. These have been moved into operational costs.

c) AASB 116 *Property Plant & Equipment* requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. These restoration costs must be depreciated. AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. Previous AGAAP permits some research and development costs to be capitalised when certain criteria are met. As a result, some previously recognised intangible assets have needed to be derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments have been derecognised and intangible assets recognised at amortised cost. The adoption of AASB 138 has also resulted in certain reclassifications from property, plant and equipment to intangible assets (e.g. computer software and easements).

d) & j) AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This has increased the superannuation liability, reduced opening accumulated funds and increased the annual superannuation expense. During 2004-05 the long term bond rate fell by nearly one per cent, resulting in a significant increase in the superannuation liability and expense.

In accordance with AASB 101 Presentation of Financial Statements, liabilities must be classified as current where there is no unconditional right to defer the settlement of a liability for at least 12 months after the reporting date. As such an amount of \$12.812M for the Economic Entity and \$11.033M for the Parent Entity has been identified as unconditional long service leave and, while still recognised and measured as a long term employee benefit (per AASB 119), has been moved from Non-Current to Current Liabilities in the Balance Sheet.

e) AASB 112 *Income Taxes* uses a balance sheet approach which requires the differences between the accounting and tax value of assets and liabilities to be recognised as deferred tax assets or liabilities. Previous AGAAP used an operating statement method that accounted for tax by adjusting accounting profit for temporary and permanent differences to derive taxable income. The AASB 112 approach alters the quantum and timing of tax assets and liabilities recognised. The balance sheet approach resulted in the recognition of a deferred tax liability in relation to revalued assets that were not recognised under previous AGAAP. This also changed the quantum and timing of the tax expense.

f) *Available for sale assets*. Under AASB 139, available for sale assets are recognised at fair value through a reserve. Previously, these assets were recognised at amortised cost. This change has increased the current assets and other reserves, resulting in a change of \$0.271M in 2004 revalued to \$0.179M in 2005.

g) AASB 136 *Impairment* requires the recoverable amount test for assets in a cash generating unit to use a discount rate that reflects current market assessments of the time value of money and the specific risks of the asset. AASB 136 is also more prescriptive in the inputs to be used for the recoverable amount test. The adoption of the higher discount rate, the recognition of contributed assets at their fair value and changes in the prescribed inputs into the recoverable amount model have combined to result in impairment decrements being recognised that were not recognised under AGAAP. AASB 116 *Property Plant & Equipment* and UIG Interpretation 1017 *Developer and Customer Contributions for Connection to a Price-Regulated Network* prescribe the accounting treatment for an asset acquired at no cost, or for a nominal cost, where that asset has been contributed in return for connection to a price regulated service delivery network. They require recognition of both revenue and a non-current asset equal to the fair value of the contributed asset. AASB 136 *Impairment* does not allow the impairment test to be applied separately to the contributed assets as they do not have their own active market and their value in use can not be determined separately from other assets in the network. This differs to the AGAAP UIG Abstract 17, which allowed the write-down of contributed assets when the carrying amount of the network to which the contributed asset belongs, was greater than its recoverable amount. Contributed assets previously not recognised under AGAAP have been recognised in the balance sheet on transition to AEIFRS.

h) AASB 138 *Intangible Assets* requires all research costs to be expensed and restricts the capitalisation of development costs. Previous AGAAP permitted some research and development costs to be capitalised when certain criteria were met. As a result, some previously recognised intangible assets have been derecognised. Further, intangibles can only be revalued where there is an active market, which is unlikely to occur. Therefore, revaluation increments and decrements have been derecognised and intangible assets recognised at amortised cost. This has reduced the amount of intangible assets and decreased the amortisation expense. The research expense has increased

i) Borrowings held are classified as non-trading liabilities.

k) AASB 116 requires the cost and fair value of property, plant and equipment to be increased to include the estimated restoration costs, where restoration provisions are recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. This treatment was not required under previous AGAAP. As a result, the provision, net carrying amount of property, plant and equipment, depreciation expense and finance costs related to the unwinding of the restoration provision have all increased.

l) AASB138 *Intangible Assets*, AASB136 *Impairment*, AASB116 *Property Plant and Equipment*, AASB112 *Income Taxes* and AASB5 *Non-current Assets Held for Sale and Discontinued Operations* have all affected the Retained Profits for 2005.

## NOTE 29. CONTINGENT LIABILITIES

Capital gains tax would be payable if asset revaluation increments were realised at balance date. No provision has been made for this liability as disposal of this property is not anticipated. No significant claims for damages are being negotiated. This does not include matters covered by insurance.

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Notes	\$'000	\$'000	\$'000	\$'000

## NOTE 30. AUDITORS' REMUNERATION

*Amounts received or due and receivable by the auditors, from Entities within the Economic Entity*

Audit review of financial reports	164	151	140	133
	164	151	140	133

## NOTE 31. RELATED PARTY DISCLOSURES

Transactions between related parties are conducted using commercial conditions no more favourable than those available to other parties unless otherwise stated.

### A CONTROLLED ENTITIES

The Controlled Entity Hunter Water Australia Pty Limited is 100% owned by Hunter Water Corporation. Hunter Water Australia Pty Limited acquired assets and liabilities on 2 March 1998 of the Engineering Consulting, Water Treatment Consulting, Survey & Laboratories Business Units formerly undertaken by Hunter Water Corporation for a consideration of \$1.5M. This consideration comprised 0.9M shares of \$1 each and a loan of \$0.6M, which has subsequently been repaid.

On 1 April 2003, Hunter Water Corporation formed a wholly owned subsidiary company, Regional Land Management Corporation Pty Ltd (RLMC), for the purpose of assuming interim management of a number of Government owned properties in the Lower Hunter Region for a defined period in accordance with the direction given under section 20N of the *State Owned Corporations Act 1989* (SOC Act).

As a result, Hunter Water Corporation is entitled to be reimbursed from money advanced by the Treasurer for all net costs incurred by Hunter Water Corporation for performing any such activities including the cost of capital. The outstanding costs to be reimbursed from Treasury as at 30 June 2006 are \$2.6M.

### B THE FOLLOWING RELATED PARTY TRANSACTIONS OCCURRED DURING THE FINANCIAL YEAR:

			Economic Entity		Parent Entity	
			2006	2005	2006	2005
Entity			\$'000	\$'000	\$'000	\$'000
<b>Transactions with Controlled Entities</b>						
Sales	Contracts – Fleet etc	HWA/RLMC	-	-	500	577
	Consultancy Services	HWA	-	-	180	152
Total sales			-	-	680	729
Purchases	Consultancy services & contracts	HWA	-	-	11,922	10,509
Interest Paid		HWA	-	-	194	107
Interest Received		RLMC	-	-	129	48
Dividend Received		HWA	-	-	500	500
<b>Outstanding balances with Controlled Entities</b>						
Receivables (excl GST)	Sales and purchases	HWA/RLMC	-	-	77	105
	Tax funding agreements	HWA	-	-	483	322
	Inter-company Receivable	RLMC	-	-	508	3,323
	Dividend receivable	HWA	-	-	1,539	-
Total receivables			-	-	2,607	3,750
Payables (excl GST)	Sales and purchases	HWA	-	-	2,037	1,562
	Tax funding agreements	HWA	-	-	1,262	1,926
	Inter-company loan	HWA	-	-	3,500	3,500
Total payables			-	-	6,799	6,988

Sales were made to Directors and the Controlled Entities under normal commercial terms and conditions no more favourable than those available to other parties.

### C KEY MANAGEMENT PERSONNEL

Disclosures relating to key management personnel are set out in note 33.

## NOTE 32. SEGMENT INFORMATION

The Economic Entity operates in the water industry as one business segment in the provision of water and water-related services to its customers in Australia and overseas. It operates predominantly in the one geographical segment of NSW in Australia with some services of a consulting nature being provided internationally.

## NOTE 33. KEY MANAGEMENT PERSONNEL DISCLOSURES

### A DIRECTORS AND ANY DIRECTOR RELATED ENTITIES

The Directors of Hunter Water Corporation during the financial year were:

Mr	R	Robson	Chairman
Mr	K	Young	Managing Director
Mr	R	Knights	
Mr	P	Barrack	Retired 31 December 2005
Mr	D	Boyd	
Mr	W	Elliott	
Ms	B	Crossley	
Mr	R	Chappel	
Mr	G	Kennedy	Appointed 1 January 2006

### B OTHER KEY MANAGEMENT PERSONNEL

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial year:-

Name	Position	Employer
John O'Hearn	General Manager Strategy & Communications	Hunter Water Corporation
Sharon Smith	General Manager Finance & Corporate Services	Hunter Water Corporation
Helen Vorlicek	General Manager Customer & Development Services	Hunter Water Corporation
Russell Pascoe	General Manager Assets Operations	Hunter Water Corporation
Chris Turnbull	General Manager Assets Development	Hunter Water Corporation
Brad Foot	General Manager	Regional Land Management Corporation Pty Ltd
Jim Keary	General Manager	Hunter Water Australia Pty Limited

### C KEY MANAGEMENT PERSONNEL COMPENSATION

	Economic Entity		Parent Entity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short term employee benefits	2,284	2,100	1,709	1,569
Long term employee benefits	90	98	47	44
	<u>2,374</u>	<u>2,198</u>	<u>1,756</u>	<u>1,613</u>

## NOTE 34. CONTROLLED ENTITIES

PARENT ENTITY:  
 Hunter Water Corporation

CONTROLLED ENTITIES:	Equity Holding
Hunter Water Australia Pty Limited	100%
Regional Land Management Corporation Pty Ltd	100%

## NOTE 35. ECONOMIC DEPENDENCY

The Controlled Entities Hunter Water Australia Pty Limited and Regional Land Management Corporation Pty Ltd operated independent of the Parent Entity. All transactions were on normal commercial terms and conditions.

## NOTE 36. EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in future financial years.

## NOTE 37. FINANCIAL INSTRUMENTS

### A INTEREST RATE RISK

The Economic Entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2006	Weighted	Floating	Maturity					Over 5	Non	Total
	Average Effective Interest Rate	Interest Rate \$'000	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Years	Interest Bearing \$'000	\$'000
Financial assets										
Cash	5.70%	15,696	-	-	-	-	-	-	3,635	19,331
Receivables	N/A	-	-	-	-	-	-	-	26,883	26,883
Other financial assets	8.27%	-	-	-	10,291	-	-	-	-	10,291
		15,696	-	-	10,291	-	-	-	30,518	56,505
Financial liabilities										
Interest-bearing liabilities fixed	6.00%	-	-	53,600	-	-	45,148	136,273	-	235,021
Interest-bearing liabilities floating	5.90%	-	-	-	-	-	-	-	-	-
Payables	N/A	-	-	-	-	-	-	-	32,274	32,274
		-	-	53,600	-	-	45,148	136,273	32,274	267,295

THE COMPARATIVE INFORMATION WITH REGARD TO THE 2004-05 YEAR IS AS FOLLOWS:

2005	Weighted	Floating	Maturity					Over 5	Non	Total
	Average Effective Interest Rate	Interest Rate \$'000	Within 1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Years	Interest Bearing \$'000	\$'000
Financial assets										
Cash	5.45%	2,496	-	-	-	-	-	-	3,920	6,416
Receivables	N/A	-	-	-	-	-	-	-	34,058	34,058
Other financial assets	8.27%	-	-	-	-	10,626	-	-	-	10,626
		2,496	-	-	-	10,626	-	-	37,978	51,100
Financial liabilities										
Interest-bearing liabilities fixed	6.25%	-	36,331	-	43,936	-	-	84,089	-	164,356
Interest-bearing liabilities floating	5.65%	1,560	-	-	-	-	-	-	-	1,560
Payables	N/A	-	-	-	-	-	-	-	21,015	21,015
		1,560	36,331	-	43,936	-	-	84,089	21,015	186,931

### B CREDIT RISK EXPOSURES

The credit risk on financial assets of the Economic Entity which have been recognised on the Balance Sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The Economic Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Economic Entity.

### C NET FAIR VALUES

Financial assets and liabilities included in the Balance Sheet are carried at amounts that approximate net fair value except for shares in subsidiaries which are held at historical cost.

## END OF AUDITED FINANCIAL STATEMENTS.

**DIRECTORS DECLARATION**

In accordance with a resolution of the Directors of the Parent Entity, Clause 14 of the *Public Finance and Audit Regulation 2005*, and pursuant to Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983*, in the opinion of the Directors:

- 1) The accompanying consolidated financial statements (pages 10 to 42) exhibit a true and fair view of the financial position of Hunter Water Corporation and its controlled entities as at 30 June 2006, and transactions for the year then ended.
- 2) The accompanying consolidated financial statements have been prepared in accordance with the *Public Finance and Audit Act 1983*, the *State Owned Corporation's Act 1989*, *Public Finance and Audit Regulation 2005*, applicable Accounting Standards and other mandatory professional reporting requirements.
- 3) We are not aware of any circumstances, which would render any particulars included in these statements to be misleading or inaccurate.

On behalf of the Directors



R ROBSON  
Chairman



K YOUNG  
Managing Director

NEWCASTLE 28 SEPTEMBER 2006

**OPERATING PROGRAM 2005-06  
ECONOMIC ENTITY**

A summary of actual and budgeted results for 2005-06 and comparisons with 2004-05 results and budget, before contributions for capital works, is as follows:

	Actual 2005-06	Budget 2005-06	Actual 2004-05	Budget 2004-05
<b>INCOME</b>				
Net Tariff Income	144,826	142,074	131,316	131,183
Interest on Investments	1,324	1,300	1,132	1,258
Profit (Loss) on Sale of Assets	765	6	1,413	-
External Sales	16,645	22,974	11,868	12,402
CSO Receipts – PSP	615	615	1,158	1,158
Other (Including Non-Regulated Income)	1,867	1,659	1,834	1,676
<b>TOTAL INCOME</b>	<b>166,042</b>	<b>168,628</b>	<b>148,721</b>	<b>147,677</b>
<b>EXPENDITURE</b>				
Operating Expenses	71,602	72,237	66,566	63,103
Cost of External Sales	14,731	22,377	10,860	11,815
Superannuation Expense (Revenue)	(19,535)	4,626	11,834	4,236
Depreciation & Amortisation	32,609	32,891	30,081	35,626
Interest Payable	13,291	13,814	9,804	10,187
Financial Charges	884	788	328	154
Other Expenditure	-	-	-	-
<b>TOTAL EXPENDITURE</b>	<b>113,582</b>	<b>146,733</b>	<b>129,473</b>	<b>125,121</b>
<b>PROFIT BEFORE TAX, DIVIDEND &amp; CONTRIBUTIONS FOR CAPITAL WORKS</b>	<b>52,460</b>	<b>21,895</b>	<b>19,248</b>	<b>22,556</b>

**OPERATING PROGRAM 2006-07  
Economic Entity**

	Budget 2006-07 \$'000
<b>INCOME</b>	
Net Tariff Income	161,190
Interest on Investments	1,207
Profit/(Loss) on Sale of Assets	-
External Sales	37,938
CSO Receipts - PSP	-
Other (Including Non-Regulated Income)	1,906
<b>TOTAL INCOME</b>	<b>202,241</b>
<b>EXPENDITURE</b>	
Operating Expenses	76,040
Cost of External Sales	36,977
Superannuation Expense (Revenue)	4,691
Depreciation & Amortisation	38,522
Interest Payable	19,214
Financial Charges	1,499
Other Expenditure	-
<b>TOTAL EXPENDITURE</b>	<b>176,943</b>
<b>OPERATING PROFIT BEFORE TAX, DIVIDEND &amp; CONTRIBUTIONS FOR CAPITAL WORKS</b>	<b>25,298</b>

5 YEAR FINANCIAL SUMMARY AND RATIO ANALYSIS

1 BALANCE SHEET  
(ECONOMIC ENTITY)

	2005-06 <sup>1</sup> \$'M	2004-05 <sup>1</sup> \$'M	2003-04 \$'M	2002-03 \$'M	2001-02 \$'M
<b>CURRENT ASSETS</b>					
Cash & cash equivalents	19.3	6.4	23.4	46.8	62.0
Trade and other receivables	30.5	38.5	31.2	27.7	25.7
<b>TOTAL CURRENT ASSETS</b>	<b>49.8</b>	<b>44.9</b>	<b>54.6</b>	<b>74.6</b>	<b>87.6</b>
<b>NON-CURRENT ASSETS</b>					
Fixed Assets	2266.5	2307.4	2174.2	2093.0	1997.7
Investments / Other	20.3	27.5	16.8	11.9	9.0
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2286.8</b>	<b>2334.9</b>	<b>2191.0</b>	<b>2104.9</b>	<b>2006.7</b>
<b>TOTAL ASSETS</b>	<b>2336.6</b>	<b>2379.7</b>	<b>2245.6</b>	<b>2179.5</b>	<b>2094.3</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	32.3	58.9	23.1	43.7	12.5
Provisions	55.4	53.0	41.8	43.9	36.8
Other	6.4	5.4	6.8	11.8	8.5
<b>TOTAL CURRENT LIABILITIES</b>	<b>94.1</b>	<b>117.3</b>	<b>71.7</b>	<b>99.4</b>	<b>57.8</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	235.0	128.0	124.9	99.0	131.1
Provisions / Other	370.7	442.3	69.4	63.3	48.4
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>605.7</b>	<b>570.3</b>	<b>194.3</b>	<b>162.3</b>	<b>179.6</b>
<b>TOTAL LIABILITIES</b>	<b>699.8</b>	<b>687.6</b>	<b>266.1</b>	<b>261.7</b>	<b>237.4</b>
<b>NET ASSETS</b>	<b>1636.8</b>	<b>1692.1</b>	<b>1979.5</b>	<b>1917.8</b>	<b>1859.9</b>
<b>CAPITAL AND RETAINED EARNINGS</b>					
Issued Capital	100.0	100.0	100.0	100.0	100.0
Asset Revaluation Reserve	916.0	1012.6	1515.1	1437.6	1348.6
Accumulated Funds	620.8	579.5	364.4	380.2	408.4
<b>TOTAL EQUITY</b>	<b>1636.8</b>	<b>1692.1</b>	<b>1979.5</b>	<b>1917.8</b>	<b>1859.9</b>

<sup>1</sup> 2005/06 and 2004/05 have been restated for AIFRS but the remaining years are reported under AGAAP.

**2 INCOME STATEMENT**  
(ECONOMIC ENTITY)

	2005-06 <sup>1</sup> \$'M	2004-05 <sup>1</sup> \$'M	2003-04 \$'M	2002-03 \$'M	2001-02 \$'M
<b>TRADING OPERATIONS</b>					
REVENUE:					
- Tariff	144.8	131.3	129.9	127.0	117.3
- Other	19.9	16.3	12.2	10.2	6.0
LESS:					
- Operating Costs	86.3	77.4	70.4	67.8	59.6
GROSS MARGIN	78.4	70.2	71.7	69.4	63.7
OTHER INCOME:					
- Investments	1.3	1.1	2.0	2.7	2.8
OTHER EXPENDITURE:					
- Financing Charges	14.2	10.1	9.3	9.1	8.3
- Depreciation and Amortisation	32.6	30.1	33.4	28.2	26.8
<b>PROFIT BEFORE SUPERANNUATION ADJUSTMENT &amp; CONTRIBUTIONS FOR CAPITAL WORKS</b>	<b>32.9</b>	<b>31.1</b>	<b>31.0</b>	<b>34.8</b>	<b>31.4</b>
<b>SUPERANNUATION ADJUSTMENT</b>	<b>19.5<sup>2</sup></b>	<b>-11.8<sup>2</sup></b>	<b>2.2<sup>2</sup></b>	<b>-8.4<sup>2</sup></b>	<b>-11.8<sup>2</sup></b>
<b>PROFIT BEFORE CONTRIBUTIONS FOR CAPITAL WORKS</b>	<b>52.4</b>	<b>19.3</b>	<b>33.2</b>	<b>26.4</b>	<b>19.6</b>
<b>CONTRIBUTION FOR CAPITAL WORKS</b>	<b>43.1<sup>3</sup></b>	<b>36.6<sup>3</sup></b>	<b>8.2</b>	<b>7.6</b>	<b>6.7</b>
<b>NET PROFIT</b>	<b>95.5</b>	<b>55.9</b>	<b>41.4</b>	<b>34.0</b>	<b>26.3</b>

<sup>1</sup> 2005/06 and 2004/05 have been restated for AIFRS but the remaining years are reported under AGAAP

<sup>2</sup> Movement in Superannuation liabilities as advised by Pillar Administration

<sup>3</sup> Includes Contributions for Capital Works from Developers at full value for 2004/05 and 2005/06. In past years these contributions were written down to zero as projected cash flows did not support their carrying value

**3 FINANCIAL RATIOS**

Profit included in calculating ratios is Profit before Abnormal Items and Contributions for Capital Works.

	2005-06 <sup>1</sup>	2004-05 <sup>1</sup>	2003-04	2002-03	2001-02
a - Gross Profit %	47.59	47.54	50.46	50.62	51.63
b - Working Capital	0.53	0.38	0.76	0.75	1.52
c - Cash Ratio	0.21	0.05	0.33	0.47	1.07
d - Equity to Total Liabilities	2.34	2.46	7.44	7.33	7.82
e - Interest Cover (times)	3.32	4.07	4.34	4.85	4.80
f - Return on Equity (%)	4.57	4.58	6.69	7.27	6.17
g - Real Rate of Return (%)	2.02	1.74	1.76	1.97	1.84
h - Return on Total Net Assets (%)	2.01	1.84	1.57	1.82	1.69

<sup>1</sup> 2005/06 and 2004/05 have been restated for AIFRS but the remaining years are reported under AGAAP

## COMMENTS ON FINANCIAL RATIOS

For ratios calculated with reference to profit, it is the profit before superannuation adjustments that has been used. It is believed that due to the inherent variability of the superannuation adjustment between financial years, if this was included in profit then valid ratio comparisons between years could not be performed.

### GROSS PROFIT

- A Gross Profit is calculated as gross margin divided by total revenue. Increasing margins are an indication of potential profitability and the increases should correlate to increases in gross operating revenue and thus ensure that the benefits of increased income from services are not being eroded by increased costs of providing the services.

### WORKING CAPITAL

- B Working Capital is calculated as current assets divided by current liabilities and provides an indication of liquidity and capacity to realise current assets to meet current commitments. The reduction over recent years reflects a conscious reduction in the levels of cash being held as well as an increase in debt.

### CASH RATIO

- C Cash Ratio is calculated as current investments divided by current liabilities and is similar to the working capital ratio in that it provides an indication of liquidity. This ratio has increased this year due to a higher level of cash being held due to the timing of payments to creditors.

### EQUITY TO TOTAL LIABILITIES

- D Equity to Total Liabilities is calculated as total equity divided by total liabilities. This ratio provides an indication of the longer term solvency of the Corporation, in that it shows the level of financial equity in the Corporation as represented by how many times net assets if liquidated would cover total liabilities. The ratio has decreased in the past two years due to changes in the measurement of certain items in the balance sheet due to adoption of AIFRS.

### INTEREST COVER

- E Interest Cover is calculated as funds from operations plus interest expense and financial charges divided by interest expense and financial charges. This ratio provides an indicator of the ability to meet interest commitments. This ratio shows that the Corporation is achieving profits sufficient to cover financing costs.

### RETURN ON EQUITY

- F Return on Equity is calculated as operating profit divided by the sum of Issued Capital and Retained Profits. ROE for 2005-06 is 4.57%.

### REAL RATE OF RETURN

- G Real Rate of Return is calculated as operating profit plus net interest plus financial charges divided by written down book value of infrastructure assets and works in progress and reflects the implicit rate of return generated from operating activities. For inter-agency comparison purposes the Water Services Association of Australia (WSAA) utilises a RRR in order to capture the major economic indicators of commercial performance ie capital costs, recurrent costs and revenue. The rate of return the Corporation may earn is used to pay real interest costs on debt and a return on equity which may in fact be a contribution to Government by way of dividends or re-investment in the organisation. The current year's result is 2.02%.

### RETURN ON TOTAL NET ASSETS

- H Return on Total Net Assets is calculated as operating profit divided by the difference between total assets and total liabilities. This ratio is used to facilitate comparisons with making an investment in a risk free environment or other investment opportunities where greater security is offered for the investment made. The 2005-06 RONA is 2.01%.

**TARIFF STRUCTURES 2006-07**

	WATER	SEWER	DRAINAGE
<b>RESIDENTIAL</b>			
<b>SERVICE CHARGE</b>			
Stand alone dwelling 20mm	\$35.02	\$283.85	\$49.00
Flats and Units (Minimum)		\$160.00	
Other Meter Sizes (See table below)			
<b>USAGE CHARGE</b>			
0-1000 Kilolitres	1.14 \$/kl	0.44 \$/kl *	
>1000 ≤ 50000 Kilolitres	1.10 \$/kl	0.44 \$/kl *	
No Water Connection (Maximum)		\$21.08	

**NON-RESIDENTIAL**

<b>VALUATION BASED CHARGE (AAV)</b>			0.99 c/\$
<b>SERVICE CHARGE</b>			
Base 20mm	\$35.02	\$567.70 *	\$49.00 < 1,000m <sup>2</sup>
Other Meter Sizes (See table below)			\$64.58 1,000 - 10,000m <sup>2</sup>
			\$251.46 10,001 - 45,000m <sup>2</sup>
			\$734.21 > 45,000m <sup>2</sup>
<b>USAGE CHARGE</b>			
0-1000 Kilolitres	1.14 \$/kl	0.44 \$/kl	
>1000 ≤ 50000 Kilolitres	1.10 \$/kl	0.44 \$/kl	
>50000 Kilolitres			
Kooragang/Stockton	0.909 \$/kl		
Tomago	0.951 \$/kl		
South Wallsend	0.915 \$/kl		
Warners Bay/Valentine	0.951 \$/kl		
Seaham/Hexham	0.989 \$/kl		
Newcastle/Highfields	1.000 \$/kl		
Raymond Terrace	1.016 \$/kl		
Port Stephens	1.019 \$/kl		
Kurri/Cessnock	1.023 \$/kl		
Lookout	1.021 \$/kl		
Edgeworth/West Wallsend	1.049 \$/kl		
Dungog	0.617 \$/kl		
Other	1.100 \$/kl		

**EXEMPT PROPERTIES**

Water Service Charge: a charge of \$14.33 for 20mm and \$22.35 for 25mm services, then as per the non-residential water service charge  
Sewer Service Charge:\* a charge of \$108.93 x meter size ratio  
Usage Charge: see usage charges (above)

**ENVIRONMENTAL IMPROVEMENT CHARGE**

Environmental Improvement Charge of \$51.57 levied on properties liable for sewerage or properties to be provided with sewerage in the Hunter Sewerage Project, excluding eligible pensioners.

**SERVICE CHARGES TABLE**

Base charges for a 20mm meter are listed above, however, customers with larger pipes should use the table below.

Pipe Size	Meter Ratio	Water	Sewer *
20mm	1.00	\$35.02	\$567.70
25mm	1.56	\$54.64	\$885.61
32mm	2.56	\$89.66	\$1,453.31
40mm	4.00	\$140.10	\$2,270.81
50mm	6.25	\$218.90	\$3,548.14
65mm	10.56	\$369.85	\$5,994.94
80mm	16.00	\$560.38	\$9,083.24
100mm	25.00	\$875.60	\$14,192.57
150mm	56.25	\$1,970.10	\$31,933.28
200mm	100.00	\$3,502.40	\$56,770.27
250mm	156.25	\$5,472.50	\$88,703.55
300mm	225.00	\$7,880.39	\$127,733.11
350mm	306.25	\$10,726.09	\$173,858.96
375 mm	351.56	\$12,313.02	\$199,581.56
400mm	400.00	\$14,009.58	\$227,081.09
500mm	625.00	\$21,889.98	\$354,814.20

\* Subject to discharge factor - the assessed percentage of water disposed of through the sewer (50% for residential customers)

**TARIFF STRUCTURES 2005-06**

	WATER	SEWER	DRAINAGE
<b>RESIDENTIAL</b>			
<b>SERVICE CHARGE</b>			
Stand alone dwelling 20mm	\$32.22	\$267.56	\$43.37
Flats and Units (Minimum)		\$140.00	
Other Meter Sizes (See table below)			
<b>USAGE CHARGE</b>			
0-1000 Kilolitres	1.09 \$/kl	0.43 \$/kl *	
>1000 ≤ 50000 Kilolitres	1.03 \$/kl	0.43 \$/kl *	

**NON-RESIDENTIAL**

<b>VALUATION BASED CHARGE (AAV)</b>			1.25 c/\$
<b>SERVICE CHARGE</b>			
Base 20mm	\$32.22	\$535.10	\$43.37
Other Meter Sizes (See table below)			
<b>USAGE CHARGE</b>			
0-1000 Kilolitres	1.09 \$/kl	0.43 \$/kl	
>1000 ≤ 50000 Kilolitres	1.03 \$/kl	0.43 \$/kl	
>50000 Kilolitres			
Dungog	0.590 \$/kl		
Kooragang/Stockton	0.868 \$/kl		
South Wallsend	0.874 \$/kl		
Tomago	0.908 \$/kl		
Warners Bay/Valentine	0.908 \$/kl		
Seaham/Hexham	0.944 \$/kl		
Newcastle/Highfields	0.955 \$/kl		
Raymond Terrace	0.970 \$/kl		
Port Stephens	0.973 \$/kl		
Lookout	0.975 \$/kl		
Kurri/Cessnock	0.977 \$/kl		
Edgeworth/West Wallsend	1.010 \$/kl		
Other	1.030 \$/kl		

**EXEMPT PROPERTIES**

Water Service Charge: a charge of \$13.18 for 20mm and \$20.56 for 25mm services, then as per the non-residential water service charge  
Sewer Service Charge:\* a charge of \$108.93 x meter size ratio  
Usage Charge: see usage charges (above)

**ENVIRONMENTAL IMPROVEMENT CHARGE**

Environmental Improvement Charge of \$50.17 levied on properties liable for sewerage or properties to be provided with sewerage in the Hunter Sewerage Project, excluding eligible pensioners.

**SERVICE CHARGES TABLE**

Base charges for a 20mm meter are listed above, however, customers with larger pipes should use the table below.

Pipe Size	Meter Ratio	Water	Sewer *
20mm	1.00	\$32.33	\$535.10
25mm	1.56	\$50.27	\$834.75
32mm	2.56	\$82.49	\$1,369.86
40mm	4.00	\$128.88	\$2,140.40
50mm	6.25	\$201.38	\$3,344.37
65mm			
80mm	16.00	\$515.52	\$8,561.60
100mm	25.00	\$805.50	\$13,377.50
150mm	56.25	\$1,812.38	\$30,099.38
200mm	100.00	\$3,222.00	\$53,510.00
250mm	156.25	\$5,034.38	\$83,609.37
300mm	225.00	\$7,249.50	\$120,397.50
350mm	306.25	\$9,867.38	\$163,874.37
375 mm			
400mm	400.00	\$12,888.00	\$214,040.00
500mm	625.00	\$20,137.50	\$334,437.50

\* Subject to discharge factor - the assessed percentage of water disposed of through the sewer (50% for residential customers)

## 1 RECEIVABLES

Receivables are shown as a current asset on the Balance Sheet and total \$26.883M.

	Jun 06 \$M	Jun 05 \$M
Tariff Income - billed	7.105	9.686
Tariff Income - unbilled	11.849	10.402
Sundry Debtors	2.621	8.659
Net GST Receivable from ATO	2.711	1.480
Community Service Obligations	0.014	0.400
Treasury Funding (RLMC)	2.599	3.451
Miscellaneous Debtors	0.003	0.010
	<b>26.902</b>	<b>34.088</b>
Less Provision for Doubtful Debts	0.019	0.030
	<b>26.883</b>	<b>34.058</b>

Information regarding the major categories follows.

- A *Tariff Income – unbilled* – This item is an estimate of water and sewer usage for properties up to the reporting date that has been accrued.
- B *Net GST Receivable from ATO* - The Economic Entity is liable to pay GST on all taxable acquisitions. For the Parent Entity, however, GST is only collected on a few taxable revenue items (e.g. external sales). In accordance with relevant accounting standards and treasury circulars, the balance of receivables and payables are recorded as GST-inclusive. As the majority of sales by the Parent Entity are GST-free, but its purchases predominantly include GST, the Parent Entity receives a net refund of GST paid from the Australian Taxation Office on a monthly basis. The net amount refundable for the Economic Entity at 30 June 2006 (inclusive of accruals) and included in Receivables was \$2.711M (this includes a net GST receivable of \$0.464M from the Controlled Entity, Regional Land Management Corporation Pty Ltd).

For the Controlled Entity Hunter Water Australia Pty Ltd, a net liability for GST of \$0.315M was recorded as at 30 June 2006.

- C *Community Service Obligations* - The Parent Entity seeks financial reimbursement for providing services other than on a commercial basis. These services are titled Community Service Obligations (CSO's). Claims for reimbursement of CSO's are submitted each year to the relevant portfolio Minister for endorsement and inclusion in the State Budget.

Approval for payment of the CSO claim is provided as part of Parliament's sanction of the State Budget, after which a payment schedule is agreed with the Department of Energy, Utilities and Sustainability (DEUS). The Parent Entity's CSO claims for 05-06 were for tariff rebates given to pensioners and exempt properties, for example, churches. The 2005-06 claim and cash received were as follows:

	Amount Claimed \$M	Cash Received \$M	Outstanding (Prepayment) \$M
Pensioner Rebate	8.322	8.309	0.014
Exempt Properties	1.181	1.181	0.000
<b>TOTAL</b>	<b>9.503</b>	<b>9.490</b>	<b>0.014</b>

The net under recoupment of \$0.014M is due to variations in actual rebates claimed compared to rebates budgeted for 2005-06. This under recoupment will be added to the 2006-07 claim. For 2006-07 the forecast CSO's included in State Budget estimates provided to NSW Treasury in November 2005 are Pensioner Rebates \$8.332M and Exempt Properties \$0.926M.

	Reimbursable Due \$M
RLMC Reimbursable from Treasury	2.599

This amount will be claimed by Regional Land Management Corporation Pty Ltd from Treasury on a quarterly basis in arrears.

## 2 INVESTMENTS

The Economic Entity's investment powers are as set out in Part 2 of the *Public Authorities (Financial Arrangements) Act*.  
A profile of the Portfolio is as follows:

	Jun 06 \$M	Jun 05 \$M
Cash at Bank	3.588	3.920
TCorp Deposits	15.743	2.496
Inscribed Stock - Government Issues (at market value)	10.291	10.626
	<b>29.622</b>	<b>17.042</b>
Interest Earned	1.324	1.132
Average Interest (on average monthly investment balance)	6.97%	7.27%
Investments are split on the Balance Sheet into:		
Current	19.331	6.416
Non Current	10.291	10.626
	<b>29.622</b>	<b>17.042</b>

The Inscribed Stock is classified as being available for sale and as such has been revalued to market value in accordance with AASB139 *Financial Instruments: Recognition and Measurement* and NSW Treasury Policy & Guidelines Paper *Accounting for Financial Instruments* (TPP06-04).

## 3 FIXED ASSETS - PROPERTY PLANT AND EQUIPMENT

	Jun 06 \$M	Jun 05 \$M
Opening WDBV	2,227.485	1840.462
Less - Depreciation Charge	(31.794)	(28.330)
Less - Disposals	(2.396)	(9.670)
Add - Additions	85.242	42.170
Add - Externally Funded Assets	22.630	18.794
Revaluation - Increment (Impairment) / Impairment Reversal	84.126 (218.818)	46.759 317.300
<b>TOTAL PROPERTY, PLANT &amp; EQUIPMENT</b>	<b>2,166.475</b>	<b>2,227.485</b>

The total fixed assets of \$2,166M represents an decrease of \$61.010M on the balance as at 30 June 2005.

## 4 INTANGIBLE ASSETS

	Jun 06 \$M	Jun 05 \$M
Opening WDBV	3.696	4.377
Less - Amortisation Charge	(0.815)	(1.751)
Less - Disposals	-	-
Add - Additions	4.814	0.272
(Impairment) / Impairment Reversal	(0.266)	0.798
<b>TOTAL INTANGIBLE ASSETS</b>	<b>7.429</b>	<b>3.696</b>

The Economic Entity's intangible assets consist of easements (a right of access to property), software and other intangible assets (including some development expenditure).

## 5 BORROWINGS

The Parent Entity has engaged NSW TCorp to provide a Liability Advisory Role to assist in the management and structuring of the Financial Asset & Liability Portfolios. Management of the Portfolio is in accordance with the approved parameters. These parameters are to maintain a Portfolio structure which comprises debt that has an average life to maturity of between 3 years and 5 years. At 30 June 2006 the portfolio duration is 4.457. During 2005-06 the face value of the Parent Entity's debt portfolio increased by \$67.165M.

The average interest yield cost of debt held at 30 June 2006 was 6.00%. A profile of the Parent Entity's Financial Liability Portfolio is as follows:

	Jun 06	Jun 05
	\$M	\$M
Number of Loans	25	19
Face Value	235.021	164.356
Market Value	238.569	173.437
Come and Go Facility	-	1.560
Interest bearing liabilities included in the Balance Sheet are:	235.021	165.916
	<b>235.021</b>	<b>165.916</b>
Debt Maturity Profile		
Come and Go Facility	-	1.560
Within 1 year	-	36.331
Between 1-5 years	163.896	43.936
Over 5 years	71.125	84.089
	<b>235.021</b>	<b>165.916</b>

## 6 NET DISCOUNT / PREMIUM ON LOANS

The Parent Entity's Treasury Corporation Debt portfolio includes loans taken up at premiums and discounts. These arise because loans are issued at a premium or discount to their face value to reflect the current market value.

As an example a loan with a face value of \$1.0M with an interest cost of 12% is expensive in the current market. For a buyer (eg Hunter Water Corporation) to purchase that loan of \$1.0M with a fixed cost of 12% in a market where the cost of borrowings are 8%, the seller (eg NSW TCorp) will provide an amount of cash in excess of the face value to compensate for the higher interest cost.

The buyer (eg Hunter Water Corporation) receives a loan with a face value of \$1.0M plus the additional cash premium. The buyer's commitment to repay is still only the face value of the debt. The premium is amortised as income in the Income Statement to offset the high interest cost of the debt. The opposite applies to discounts.

Movement in respect of discounts (premiums) for the year to 30 June 2006 is as follows:

	\$M	\$M	\$M
	Discounts	Premiums	Net
Opening Balance 1 July 05	1.211	(3.327)	(2.116)
Amortisation 1 July 05 to 30 June 06	1.557	0.611	1.168
Debt Traded	(0.733)	(0.551)	(1.284)
<b>BALANCE 30-6-06</b>	<b>2.035</b>	<b>(3.267)</b>	<b>(1.234)</b>

## 7 EMPLOYEE PROVISIONS

Overview: at 30 June 2006 the liability for Employee Provisions totalled \$33.046M representing a decrease of \$23.163M during the year and comprised:

	Liability Jun 06 \$M	Liability Jun 05 \$M
Long Service Leave	14.860	14.133
Defined-Benefit Superannuation	12.164	36.563
Accrued Sick / Annual Leave	6.022	5.513
	<b>33.046</b>	<b>56.209</b>

These liabilities are split on the Balance Sheet into:

	Liability Jun 06 \$M	Liability Jun 05 \$M
Current	20.135	18.990
Non Current	12.911	37.219
	<b>33.046</b>	<b>56.209</b>

At 30 June 2006 the Economic Entity's superannuation portfolio was under-funded in total by \$12.164M. At 30 June 2005 the portfolio was net under-funded by \$36.563M.

Note the Long Service Leave (LSL) entitlements have been disclosed at the present value of expected future cash outflows in accordance with accounting standard AASB119 *Employee Benefits*.

## 8 BREAKDOWN OF LANDHOLDINGS 30 JUNE 2006

Code	Description	Number of Properties	Value \$M
1	Land fully utilised as an integral part of the Parent Entity's system	359	29.627
2	Land partly used with the unused residue required for future integral needs	3	0.435
3	Land not currently used but fully required for future integral needs	25	6.401
4	Land being partly used, the residue having potential for alternative use	41	13.592
5	Land with significant potential for alternative use	18	0.894
	<b>TOTAL</b>	<b>446</b>	<b>50.949</b>

Landholdings are re-valued and assessed in accordance with the NSW Treasury Accounting Policy – *Valuation of Physical Non-Current Assets at Fair Value*. The last full land revaluation was undertaken at 30 June 2003.

Land holdings in Codes 1 to 4 have been re-valued to Fair Value based on existing use, whilst land holdings in Code 5 have been re-valued to Fair Value based on highest and best use.

## 9 PROPERTY DISPOSALS

There were four parcels of land disposed of during the financial year. Total proceeds of \$2.5M were received at settlement. The properties were no longer required for operational purposes by the Parent Entity. The proceeds from the sale of these properties have been reinvested in the Economic Entity's operations and access to documents relating to the disposal of the land can be obtained under the Freedom of Information Act.

**10 MATERIAL CAPITAL EXPENDITURE CONTRACTS AS AT 30 JUNE 2006 (GST-Inclusive)**

Contracted for at balance date but not provided for.

<b>Contract Number</b>	<b>Contract Description</b>	<b>Committed Amount \$M</b>
CP227702	Construction Phase - Major Sewer Rising Main by Trenchless Technology	8.400
CP206608	Wyong Water Supply Stage 3 - Northern Pipeline - Balmoral to Dora Creek	5.250
CP243502	Wyong Water Supply Stage 3 - Pipe Supply	2.618
CP186200	Construction of Fern Bay WW Reticulation & Regional Transportation System	2.479
CP246700	Construction of Lochinvar Sewerage Scheme	1.997
CP167000	Construction of Cessnock WWTW & No.1 WWPS Upgrade	1.484
CP184400	Warners Bay – Valentine Package 3	1.299
CP206202	George Schroder Water Pumping Station Modifications	1.140
CP107700	Replacement of CTGM between Tarro and Shortland	0.609
CP229800	Recommissioning of Whitebridge WPS	0.567
CP250600	Raymond Terrace WWTW Stage 2/3 Upgrade	0.543
CP245304	Wyong Water Supply Stage 3 - Northern Pipeline - Contract Management Services	0.503
CP237300	Dora Creek WWTW Effluent Main	0.418
CP232100	Dora Creek Wastewater Treatment Works Capacity Review	0.347
CP214000	Backlog Sewer Area	0.340
CP246800	Watermain Replacements at Various Locations	0.325
CP246700	Construction of Lochinvar Sewerage Scheme - Contract Management Services	0.315
CP246800	Watermain Replacements at Various Locations	0.309
CP249200	Nulkaba WWPS and Cessnock Wastewater Transportation Upgrade Design	0.308
CP248300	Thornton North Trunkmain Upgrade	0.294
CP249600	Dudley - Charlestown WW Upgrades - Stage 1	0.243
CP165401	Newcastle Sewerage System Upgrade - Stage 1 Works	0.223
CP167000	D&C Cessnock WWTW Tertiary Treatment Plant	0.222
CP247700	Paxton - Concept Design & EIA	0.212
CP227400	Construction of Kitchener Sewerage Scheme - Contract Management Services	0.184
CP246800	Watermain Replacements at Various Locations	0.177
CP249100	Trunk watermain replacements Fennell Bay, Boolaroo & Toronto	0.157
CP229400	Redhead and Branxton No.2 WWPS Upgrade	0.153
CP246800	Watermain Replacements at Various Locations	0.147
CP227703	Construction of Additional Storage at Mayfield West & Lambton No.1 WWPSs	0.139
CP246800	Watermain Replacements at Various Locations	0.139
CP206202	George Schroder Water Pumping Station Modifications - Contract Management Services	0.125
CP184400	Warners Bay - Valentine Package 2	0.122
CP167000	Construction of Cessnock WWTW - Contract Management Services	0.105
CP207200	Cockle Creek 500mm Aerial Trunkmn Rehab	0.092
CP245100	Morpeth WWTW Stage 2 Upgrade	0.092
CP195400	Design & Construction of PAC Handling & Dosing Facility George Schroder Pumping Station	0.085
	United Group - Burwood Beach	0.072
CP230200	Edgeworth WWTW Capacity Assessment and Upgrade Strategy	0.065
CP206403	Tomago-Grahamstown Trunk Delivery Main	0.064
CP228105	Customer drainage plans review - storage and management into the future	0.061
	OTHER MISCELLANEOUS	0.431
		<b>32.925</b>



# HUNTER WATER CORPORATION

## STATUTORY & STATISTICAL INFORMATION 2005-06

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## 1 Board of Directors

Hunter Water Corporation's Board of Directors is comprised of eight members (including the Chief Executive Officer) appointed by the voting shareholders (the NSW Treasurer and the NSW Special Minister of State). Hunter Water's constitution requires that, on an annual basis, two of the Directors (with the exception of the Chief Executive Officer) shall retire from office and be eligible for reappointment.

For details on Directors refer to the Directors' Report in the financial statements.

## 2 Current Committees & Memberships

Committee and Membership	Corporate Support and Contact	Meeting Frequency	Major Areas of Coverage
<b>Remuneration</b> R Robson (Chairman) R Knights	K Young	Twice yearly and as required	To provide overall guidance and endorsement of methods of appointment of senior managers, including their remuneration.
<b>Environment &amp; Community</b> B Crossley (Chairman) W Elliott K Young A Chappel G Kennedy	H Vorlicek	Twice yearly	To ensure the Corporation continues to maintain a pro-active and strategic approach in relation to relevant environmental initiatives / issues.
<b>Audit &amp; Compliance</b> D Boyd (Chairman) R Robson R Knights W Elliott	A Fullick	Four meetings per year	To assist the Board in ensuring Hunter Water Corporation meets its financial, compliance and regulatory requirements across (but not limited to) the areas of financial, safety, environmental and engineering.
<b>Capital Works</b> R Knights D Boyd G Kennedy K Young A Chappel	C Turnbull	Three meetings per year	To provide a strategic overview of the longer term Capital Program of the Corporation, up to 20 years out. To review progress of all major capital works projects and oversee post completion reviews.
<b>Corporate Governance</b> R Robson R Knights B Crossley K Young	J O'Hearn	Twice yearly	To overview Board strategic direction and business performance
<b>Major Customers</b> K Young R Robson B Crossley D Boyd	J O'Hearn	As required	To provide strategic oversight for the management of projects in respect of both new and existing major customers and its implications for other similar proposals.

### 3 Attendance of Directors At Hunter Water Corporation Committee Meetings

#### COMMITTEE AND MEMBERSHIPS

	Remuneration		Environmental		Capital Works		Major Customers	
	A	B	A	B	A	B	A	B
R Robson	3	3	*	*	*	*	4	4
R Knights	3	3	*	*	3	3	*	*
P Barrack	*	*	2	2	*	*	*	*
W Elliott	*	*	2	2	*	*	*	*
K Young	*	*	2	2	3	3	4	4
B Crossley	*	*	2	2	*	*	4	4
A Chappel	*	*	2	2	3	3	*	*
D Boyd	*	*	*	*	2	3	4	4
G Kennedy	*	*	*	*	1	1	*	*

A = Number of meetings attended.

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

\* = Not a member of the relevant committee.

For information on attendance at Board Meetings and the Audit & Compliance and Corporate Governance Committee Meetings refer to the Directors' Report in the financial statements

### 4 Executive Positions At 30 June 2006 (paid at equivalent of SES Level 1 or above)

POSITION	2004-05	2005-06
Managing Director	1	1
Senior executives	8	5
Number of roles filled by women	2	2

All executive staff are employed under personal contract. They are not members of the NSW Executive Service (SES) nor are their conditions of employment aligned with the SES.

### 5 Performance Statement

#### PERFORMANCE STATEMENT

Name:	Kevin Young
Position:	Managing Director
Appointed:	19 July 2004
Remuneration Package:	\$313,922.12
Performance Pay:	\$52,448.00

Continued the strong overall performance of the Corporation. Achieved Operating Licence requirements and physical system performance criteria during 2005 -2006. Strong business performance & Statement of Corporate Intent outcomes. Strong leadership in water resource planning and preparation of the organisation for competition. Achieved strategic initiatives including excellent safety record, high customer satisfaction and lower operational costs. Effective management of an expanded capital program.

### 6 The Corporation's Customer Base

Customer	Number of properties	Income Raised 2005-06 \$M Actual
Residential	165,597	92.99
Multi-Residential	33,015*	10.63
Commercial	10,203	25.43
Industrial	844	8.11
Other	4,254**	3.09
<b>TOTAL</b>	<b>213,913</b>	<b>140.25</b>

**Note:** Customers classifications have been revised slightly from last year

\* Includes total number of individual flats

\*\* Includes some Hunter Water properties from which no revenue is raised

**7 Rainfall Received (Millimetres) - 12 Months ending 19 April 2006**

Year	Newcastle	Grahamstown	Chichester
1999-00	1,604	1,390	1,341
2000-01	704	820	1,298
2001-02	1,351	1,201	1,171
2002-03	788	837	1,032
2003-04	999	819	1,244
2004-05	910	1242	1,299
2005-06	695	835	1016
Long Term Average	1,121	1,027	1,264
Years of Record	141	39	80

**8 Water Supplied (Megalitres) - 12 Months ending 19 April 2006**

Source	2004	2005	2006
Chichester	*28,070	*27,957	*29,366
Tomago	16,098	5,176	9,056
Grahamstown	26,338	35,360	31,487
<b>Total Major Sources</b>	<b>70,506</b>	<b>68,493</b>	<b>69,909</b>
Anna Bay	1,586	2,212	2,128
Lemon Tree Passage	790	911	793
<b>TOTAL</b>	<b>*72,882</b>	<b>*71,616</b>	<b>*72,830</b>

Note: Above figures for Anna Bay include water supplied from the Glovers Hill & the Anna Bay Water Treatment Plants.

\*To comply with DIPNR requirements, an additional 5,110ML was released from Chichester Dam to meet environmental obligations.

**9 Water Consumption (Megalitres) - 12 Months ending April 19 2006**

	2004 ML	2004 %	2005 ML	2005 (%)	2006 ML	2006 (%)
Domestic	40,068	55.0	38,558	53.8	40,553	55.7
Non-Domestic	21,239	29.1	21,901	30.6	23,090	31.7
Other	651	0.9	484	0.9	649	0.9
<b>Total Consumption</b>	<b>61,958</b>	<b>85.0</b>	<b>60,943</b>	<b>85.1</b>	<b>64,292</b>	<b>88.3</b>
Gross Non-Revenue Generating	10,924	15.0	10,673	14.9	8,537	11.7
Estimated Losses	5,669	7.8	3,432	4.8	3,169	4.4
Unidentified Real Loss	5,255	7.2	7,241	10.1	5,368	7.3
<b>TOTAL SUPPLY</b>	<b>72,882</b>	<b>100.0</b>	<b>71,616</b>	<b>100.0</b>	<b>72,830</b>	<b>100.0</b>

**10 Water System Incidents**

Incident / Solution	2002-03	2003-04	2004-05	2005-06
Poor pressure	403	132	115	185
Pump problem	1	2	1	2
Seepage	136	132	230	143
Main flush	2,314	1,333	1,245	1,330
Main repair	2,057	2,034	1,891	2,030
Hydrant defect	1,165	960	1,038	1,156
Valve defect	437	366	382	377
Repair pathcock / maincock	3,528	3,177	2,852	2,941
Meter defect	389	228	193	237
Service defect repaired by Hunter Water's Operations staff	1,576	1,653	1,585	1,658
Service defect repaired by Private Plumber	489	466	520	553
Complaint unconfirmed	405	332	339	318
Other	2,345	2,163	1,925	2,209
Tap rewashers	150	133	87	89
Trunkmain repairs	4,017	3,912	3,808	3,936
<b>TOTAL</b>	<b>19,412</b>	<b>17,023</b>	<b>16,211</b>	<b>17,164</b>

### 11 Water Transport System Reliability

	2002-03	2003-04	2004-05	2005-06
Main breaks per 100kms main - trunkmains included in length of mains	46.6	*45.9	*42.2	*44.6
Discoloured water complaints per 1000 properties connected (tenancy)	9.8	5.8	5.1	4.6

\* **Note:** Water Breaks for 2003-04, 2004-05 & 2005-06 include all breaks, bursts and leaks in all diameter mains in the reporting period. It excludes those in the service connection to internal plumbing. It does not completely exclude those minor repairs to above ground mains that can be fixed without shutting down the main (as in WSAA and IPART definitions) as these repairs could not be identified in the current system, depending on job call off.

### 12 Water Supply Continuity 2005-2006: Properties Affected by Water Supply Interruption

Total Interruption	Planned	Unplanned	* Combined	** Total %
0-5 Hours (<300)	10,799	42,753	45,850	21.43
5-20 Hours (300<>1200)	1,462	10,048	12,885	6.02
>20 Hours (>1200)	-	200	248	0.12
No Interruption			154,930	72.43

\* **Note:** Combined is cumulative totals of all interruptions - therefore the total will not agree to the sum of planned & unplanned.

\*\* **Note:** Combined % of total properties - the total number of water connections (tenancy) is 213,913.

### 13 Wastewater System Incidents

Incident / Solution	2002-03	2003-04	2004-05	2005-06
Chokage cleared - main	2,787	2,731	2,927	2,529
Chokage cleared - branch	2,233	2,368	2,744	2,672
Private plumbers job *	606	470	503	548
House drains cleared	8	1	3	4
Storm surcharge	63	145	313	96
Gravity sewer break	42	32	46	23
Rising main break	27	27	37	40
Pump Station malfunction	5	-	2	7
Vacuum Sewer Jobs	192	136	162	160
Pump Effluent Line	4	1	3	4
No work required	123	125	193	169
Complaint unconfirmed	232	198	192	211
Charge job **	-	-	2	1
Other	1,188	1,143	1,055	1,093
<b>TOTAL</b>	<b>7,510</b>	<b>7,377</b>	<b>8,182</b>	<b>7,557</b>

\* **Note:** Problem in customer's private drains or fittings.

\*\* **Note:** completed by Corporation & customer billed.

### 14 Wastewater Transport System Reliability

	Number of Main Surcharges	Length of Sewermain Kilometres	Ratio of Main Surcharges per 100km of Main
Northern	679	1,132	60.0
Central	930	1,625	57.2
Southern	1,189	1,720	69.1
<b>TOTAL</b>	<b>2,798</b>	<b>4,477</b>	<b>62.5</b>

	Number of Branch/Shaft Surcharges	No of Wastewater Properties	Ratio of Discharges per 1000 Properties
Northern	646	63,200	10.2
Central	1,209	66,770	18.1
Southern	1,030	72,133	14.3
<b>TOTAL</b>	<b>2885</b>	<b>202,103</b>	<b>14.3</b>

## 15 General Statistics

<b>Water</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Population in area [1]	507,460	512,432	517,403
Population supplied with water [1]	496,346	501,089	505,719
Properties where water is available [2]	215,076	218,144	220,690
Properties connected to water (metered) [2]	208,542	211,212	213,913
Capacity of major sources (ML) [3]	228,000	248,000	288,000
Total supply from sources (ML) [4]	72,882	71,616	72,830
Average day net supply (ML)	199.7	196.2	199.5
Maximum day net supply (ML)	292.7	294.9	304.8
Maximum week net supply (ML/day)	262.9	258.4	286.9
Minimum day net supply (ML)	149.8	151.4	144.7
Average consumption per residential tenement (kl/annum) [5]	207.6	210.0	204.8
Watermains laid during year (km)	79.0	56.1	79.1
Watermains abandoned during year (km)	19.0	13.3	20.5
Watermain length revisions during the year (km)	(45.0)	(5.2)	10.1
Total watermains in service (km) [6]	4,429.0	4,479.0	4547.7
Length of watermain per connected property (m)	21.3	21.2	21.3
Water supplied free of charge: charitable, public & miscellaneous purposes (kl)	383,903	404,452	383,712
Water supplied free of charge: dollar value	\$456,845	\$489,387	\$494,988

<b>Wastewater</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Population supplied with water & sewer [1]	477,154	481,882	486,526
Properties where sewer is available [2]	205,028	208,001	210,610
Properties connected to sewer [2]	196,306	199,214	202,103
Sewer mains laid during the year (km)	106.7	51.7	70.7
Sewer mains abandoned during the year (km)	6.4	5.5	6.7
Sewer main length revisions during the year (km)	0.2	0.0	0.3
Total sewer mains in service (km) [6], [8]	4,367.0	4,413.0	4,477.3
Length of sewer main per liable property (m) [8]	22.2	22.2	22.2

<b>Drainage</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Properties liable [2]	58,192	58,635	64,525

## DISSECTION OF POPULATION - JUNE 2005 [1]

<b>Region</b>	<b>Population in Area</b>	<b>Served Water</b>	<b>Served Sewer</b>
Newcastle	149,001	149,001	148,318
Lake Macquarie	194,045	190,500	185,402
Maitland	61,155	59,500	57,885
Cessnock	48,314	42,000	38,610
Port Stephens	64,888	61,000	56,217
<b>SUB TOTAL</b>	<b>517,403</b>	<b>502,001</b>	<b>486,432</b>
Dungog (Bulk and from CTGM)	-	3,465	-
Singleton (Part Branxton)	-	168	94
Great Lakes (East Karuah/Alicetown)	-	85	-
<b>TOTAL</b>	<b>517,403</b>	<b>505,719</b>	<b>486,526</b>

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Ratio of properties connected to water & sewer, and water only [7]	96.8%	96.8%	96.6%

Financial	2003-04	2004-05	2005-06	
	\$M	\$M	\$M	
Total Core Revenue	137.768	139.406	153.121	
Capital Indebtedness - external	124.91	164.36	235.02	
Staffing	2003-04	2004-05	2005-06	
	Salaried	253	271	274
	Wages	121	116	112
	Engineers	54	50	51
TOTAL	428	437	437	

[1] Population figures have been adjusted using data from the 2001 Census.

[2] Property numbers have been revised: includes Hunter Water properties.

[3] Full Supply Level of Grahamstown increased from RL11.4m to RL12.8m.

[4] Supply & consumption figures are based on Water Year, that is, 12 months ending 19 April.

[5] Target is to not exceed 215KL/annum, based on 5-year rolling average.

[6] The length of watermains and sewer mains in service has been revised.

[7] Includes 5 main local Government areas only

[8] For 2002-03, sewer length reported was based on: Effluent main, gravity pressure branches, gravity pressure mains, relief main, rising main, vacuum main, vent line & estimated length of property branch/shaft. However to be consistent with IPART and WSAA definitions, length of sewer main now only includes trunk, pressure and reticulation mains, but excludes property connection sewers and effluent mains. Figures for 2002-03 have been revised to reflect this change in definition.

## 16 Employee Safety Performance

	2002-03	2003-04	2004-05	2005-06	Change %
Lost time frequency rates	13.99	23.55	6.84	0.00	100.00 -
Total hours lost	3,421	2,973	2,402	2,458	2.33 +
Lost time injuries	10	17	5	0	100.00 -
Minor injuries	139	91	93	91	2.15 -
Property damage	29	50	27	10	62.96 -
Prosecutions	Nil	Nil	1	0	100.00 -

## 17 Workforce Profile

	2003	2004	2005	2006
Males	296	295	303	307
Females	128	133	134	130
TOTAL	424	428	437	437
Permanent	374	381	358	358
Temporary	11	8	26	26
Part-time	39	39	53	53
TOTAL	424	428	437	437
Redundancies	12	7	3	5
Recruitment	37	31	34	42
Unplanned absences (%)	2.71	3.39	2.93	2.29

## 18 Trends in the Representation of EEO Groups<sup>1</sup>

	Benchmark or Target	% of Total Staff <sup>2</sup>				
		2002	2003	2004	2005	2006
Women	50%	32%	32%	34%	33%	30%
Aboriginal people and Torres Strait Islanders	2%	1.1%	1.1%	1.1%	1.1%	0.9%
People whose first language was not English	20%	5%	5%	5%	5%	5%
People with a disability	12%	7%	7%	7%	6%	5%
People with a disability requiring work-related adjustment	7%	1.1%	1.1%	1.1%	0.8%	0.7%

### Notes:

- Staff numbers are as at 30 June
- Excludes casual staff

**Note:** Data from employees with a physical disability, Aboriginality and people whose first language was not English, is collected on a voluntary basis

## 19 Freedom of Information Requests

Three applications were received during this financial year - few FOI applications have ever been received by the Corporation.

<b>FOI Requests</b>	<b>Personal</b>	<b>Other</b>	<b>Total</b>	
New	-	3	3	
Brought forward (incomplete)	-	-	-	
<b>Total to process</b>	-	<b>3</b>	<b>3</b>	
Complete	-	2	2	
<b>TOTAL PROCESSED</b>	-	<b>2</b>	<b>2</b>	
Unfinished (Carried Forward)	-	1	1	
<b>Result of FOI Request</b>	<b>Personal</b>	<b>Other</b>	<b>Total</b>	
Granted in Full	-	2	2	
Granted in Part	-	-	-	
Deferred	-	1	1	
Withdrawn	-	-	-	
<b>COMPLETED</b>	-	<b>2</b>	<b>2</b>	
<b>Number of requests requiring formal consultations</b>	<b>Issued</b>		<b>Total</b>	
<b>TOTAL</b>	-		-	
<b>Grounds on which internal review requested</b>				
	<b>Upheld</b>	<b>Personal Varied</b>	<b>Other Upheld</b>	<b>Varied</b>
<b>TOTAL</b>	-	-	-	-
<b>Basis for Disallowing or Restricting Access</b>		<b>Personal</b>	<b>Other</b>	
S.19 application incomplete, wrongly directed		-	-	
S.22 deposit not paid		-	-	
S.25 (1)(a1) unreasonable diversion of resources		-	-	
S.25 (1)(a) exempt		-	-	
S.25 (1)(b)(b1)(c)(d) otherwise available		-	-	
S.28 (1)(b) documents not held		-	-	
S.24 (2) deemed refused over 21 days		-	-	
S.31 (4) releases to medical practitioner		-	-	
<b>TOTAL</b>		-	-	
<b>Costs &amp; Fees of Requests Processed</b> (including all processed and withdrawn FOI requests)		<b>Assessed Costs</b>	<b>FOI Fees Received</b>	
All requests		\$330	\$330	
<b>TOTAL</b>		<b>\$330</b>	<b>\$330</b>	
<b>Type of discount allowed on fees charged</b>		<b>Personal</b>	<b>Other</b>	
Public interest		-	-	
Financial hardship – Pensioner/Child		-	-	
Financial hardship – Non-profit Organisation		-	-	
<b>TOTAL</b>		-	-	
<b>Days to Process</b>		<b>Personal</b>	<b>Other</b>	
Elapsed time				
0-21 days		-	1	
22-35 days		-	1	
Over 35 days		-	-	
<b>TOTAL</b>		-	<b>2</b>	
<b>Processing hours</b>		<b>Personal</b>	<b>Other</b>	
0-10 hours		-	1	
11-20 hours		-	-	
21-40 hours		-	1	
Over 40 hours		-	-	
<b>TOTAL</b>		-	<b>2</b>	

## 20 Social Responsibility Statement

IN ACCORDANCE WITH S.26 (5) OF THE STATE OWNED CORPORATIONS ACT 1989

“(5) The material referred to in subsection (1) (i) must be accompanied by a statement describing how the State owned corporation has, during the financial year concerned, exhibited a sense of social responsibility, including:

(a) a summary of any community interests considered under section 8 (c) or 20E (1) (c) the accommodation of which was thought to be incompatible with its principal objectives, and

(b) an assessment of the costs that would have been incurred in accommodating any such interests.”

Hunter Water Corporation embraces social responsibility in all its operations. Major activities addressing social responsibility in 2005-06 included:

- Providing for the community’s well being through standards of service that meet or exceed operating licence requirements for drinking water quality, water supply continuity, water pressure at the customers’ properties and reliable transport of sewage. This performance is outlined in detail on pages 10 and 11 of the main report.
- Responsible dealings with customers. We have in place a customer contract which clearly outlines the Corporation’s obligations to customers. There are also internal complaint handling mechanisms in place and a capacity for external dispute resolution. Provision is also made for payment assistance through a Code of Debt and Disconnection and further assistance is available through a scheme administered for the Corporation by local welfare agencies. Various mechanisms are available to facilitate dealings with the Corporation by people of non-English speaking background. Details of these relationships with customers are covered in the main report starting on page 37.
- Several avenues for community consultation. These include a formal Community Consultative Forum constituted in line with the requirements of s5.4 of the Operating Licence, “open” sessions of the monthly meeting of the Board of Directors covering key performance measures and matters of broad community interest, community consultation on proposed works activities and participation at major community events. These topics are outlined more fully in the main report starting on page 34.
- Continuation of a focussed program of community partnerships and sponsorships that contribute to sustainability and environmental awareness. Details are available in the main report on pages 35 and 52.
- Further progress on provision of sewerage services to smaller communities in the Hunter region under the Government’s Priority Sewer Program. Details of progress in 2005-06 are on page 36 of the main report.
- A wide range of programs to protect the health and safety of our staff, to improve staff communications and provide them with training, personal development and new skills. These are covered in the main report starting on page 38.
- A range of other supporting services to our customers. These include free chemical collection for unwanted household chemicals and water-use efficiency programs such as refit kits for households and rainwater tank rebates.

Other community, environmental and social initiatives that together make up the Corporation’s triple bottom line approach to sustainable operations are outlined in the main report.

At no time were these activities incompatible with the Corporation’s strategic objectives set out in its Strategic Business Plan for the period from 2004 to 2007 and attached to the Statement of Corporate Intent for 2005/06. None of these activities is considered to be incompatible with the Corporation’s objectives.

## 21 Statement of Corporate Intent

The annual Statement of Corporate Intent (SCI) specifies commercial performance targets agreed by Hunter Water Corporation and its voting shareholders.

These targets are in turn driven down through Hunter Water Corporation in business unit budgets. The SCI performance targets for the 2005/06 financial year and the actual results are as follows:

	<b>2005-06 SCI Target</b>	<b>2005-06 Actual</b>
Operating Profit before Income Tax Expense	54.9	95.5
Income Tax Expense	13.7	20.6
Income Tax Payable	19.2	22.8
Net Debt	210.7	206.6

Operating profit and income tax expense were both proportionately higher than target primarily due to the favourable superannuation fund performance for the year.

## 22 Research & Development

### RESEARCH & DEVELOPMENT 2005-06

During 2005-06 the Corporation undertook research & development on three projects covering water & corrosion subjects. This research was conducted both internally and in collaboration with other organisations such as the CSIRO and Hunter-Central Rivers Catchment Management Authority.

	\$
1 Ongoing research with CSIRO into pitting corrosion of copper tubes.	11,685
2 Williams River Best Management Practice farm demonstration site (with Hunter-Central Rivers CMA)	36,784
3 Rainwater tank water chemistry	11,970

## 23 Consultants from 1 July 2005 to 30 June 2006

### CONSULTANTS OVER \$30,000

Consultant	Project	Cost
<b>Engineering</b>		
ADS Environmental Services P/L	Flow Gauging - Edgeworth Catchments	\$59,534
Aqua Environmental	Water Main Leak Detection Study On Newcastle and Surrounding Suburbs	\$106,886
Cardno MBK (NSW) Pty Ltd	WWTW Assets Revaluation 2005/06	\$92,500
CH2M Hill Australia Pty Ltd	Belmont WWTW Upgrade Stage 3 Detail Design	\$34,460
CH2M Hill Australia Pty Ltd	Burwood Beach WWTW Capacity Review Upgrade Strategy	\$226,093
CH2M Hill Australia Pty Ltd	Recycled Water Strategy Study	\$34,243
Connell Wagner Pty Ltd	Millfield & Ellalong Sewerage Detail Design	\$421,260
Connell Wagner Pty Ltd	Morpeth Stage 1 Sewerage System Upgrade Design	\$388,796
Connell Wagner Pty Ltd	Branxton No 2 & Redhead WWPS Upgrade - Concept Detailed Design	\$141,634
Connell Wagner Pty Ltd	Newcastle Wet Weather Pump Station - Concept & Detail Design	\$129,791
Connell Wagner Pty Ltd	Lochinvar Sewerage Scheme - Concept/Detail Design	\$101,227
Connell Wagner Pty Ltd	Edgeworth/Belmont WWPS & Edgeworth Carriermain - Concept/Detail Design	\$50,103
Connell Wagner Pty Ltd	Toronto No 1 Rising Main Aerial Crossing	\$43,968
Connell Wagner Pty Ltd	Cockle Creek Watermain Aerial Crossing	\$31,765
Deloitte Touche Tohmatsu	Conduct Fraud Risk Assessment	\$34,545
GHD Pty Ltd	Tomago Trunkmain Upgrade over Ash Island	\$159,298
GHD Pty Ltd	Dora Creek WWTW Effluent Main from Eraring Power Station to Carey Bay	\$145,059
GHD Pty Ltd	Cessnock No 1 WWPS Emergency Storage - Concept & Detailed Design	\$88,133
GHD Pty Ltd	Millfield Watermain Upgrade - Design & Tender Documentation	\$69,251
GHD Pty Ltd	Whitebridge WPS Design	\$39,598
GHD Pty Ltd	Maryland-Minmi Water Servicing Strategy Study	\$38,980
GHD Pty Ltd	Boolaroo Rail Crossing - 300mm Trunkmain	\$31,734
GHD Pty Ltd	Karuah WWTW Servicing Strategy Study	\$30,751
Greenspan Technology Pty Ltd	Toronto/Dora Creek Catchment Flow Gauging	\$140,669
Hunter Water Australia	Trunkmain Condition Assessments	\$486,832
Hunter Water Australia	Boulder Bay WWTW Upgrade - Stage 2 - Concept /Detailed Design	\$188,147
Hunter Water Australia	Shortland Catchment WWPS and Rising Main Upgrades	\$126,854
Hunter Water Australia	Fern Bay Sewerage System Concept/Detailed Design	\$117,046
Hunter Water Australia	Development Servicing Plan Review 2006	\$102,050
Hunter Water Australia	Cessnock WWTW/No 1 WWPS Design	\$96,672
Hunter Water Australia	Fennell Bay Water Pump Station - Concept Detail Design	\$86,505
Hunter Water Australia	Farley WWTW Upgrade - Capacity Review	\$72,750
Hunter Water Australia	Kitchener Sewerage Scheme - Concept/ Detail Design	\$68,414
Hunter Water Australia	Morpeth WWTW Stage 2 - Investigation Work	\$65,240
Hunter Water Australia	Pre-Treatment Grahamstown Water Strategy Study	\$59,894
Hunter Water Australia	QA Procedures for WWTW - Procedure Manual	\$49,560
Hunter Water Australia	Talleen Rd WPS Detail Design	\$44,538

Hunter Water Australia	South Wallsend Reservoir - Bulge Remediation	\$40,684
Hunter Water Australia	Pre-Treatment Grahamstown Water Strategy Study	\$35,665
Hunter Water Australia	Maitland/Nth Rothbury/Tomaree Water System Servicing Strategy Study	\$35,398
Hunter Water Australia	South Wallsend Water Supply - Concept Detailed Design	\$31,100
MWH Australia Pty Ltd	Newcastle Sewer System Servicing Strategy	\$113,049
MWH Australia Pty Ltd	East Lake Macquarie Water Servicing Strategy Study	\$57,724
Parsons Brinckerhoff	Dora Creek WWTW Upgrade - Concept, EIA & Design	\$280,395
Parsons Brinckerhoff	Edgeworth WWTW Inlet Upgrade - Concept/Detailed Design	\$215,104
Parsons Brinckerhoff	Transportation Systems of Upper Hunter River Catchment	\$119,205
Parsons Brinckerhoff	Windale Gateshead Wastewater Upgrade Management Plan	\$75,843
Patterson Britton & Partners	Water - Wyong Stage 3 - Concept & Tender Documentation	\$593,984
Patterson Britton & Partners	Water - Wyong Stage 3 - Southern Work for Wyong Council	\$82,670
Patterson Britton & Partners	Buttai Reservoir Bottom Inlet Design	\$57,100
Patterson Britton & Partners	Wastewater Systems of the Lower Hunter River Catchment - Upgrade	\$50,621
Patterson Britton & Partners	Upgrade Management Plan for Wastewater System of Inland Water Catchments	\$50,249
Patterson Britton & Partners	Raymond Terrace No 4 WWPS Rising Main Replacement Review	\$42,892
Patterson Britton & Partners	Newcastle WWPS Downsizing and Dry Weather Storage - Concept/Detail Design	\$38,967
Sinclair Knight Merz	Kurri Kurri WWTW - Investigation	\$263,547
Sinclair Knight Merz	Paxton WWTW Upgrade - Concept Design & Ref	\$95,766
Sinclair Knight Merz	Branxton WWTW Upgrade Strategy	\$76,833
Sinclair Knight Merz	Hydrogeological Model of Tomago Sandbeds	\$57,409
Sinclair Knight Merz	Morpeth WWTW Interim Environmental Impact Assessment	\$49,750
<b>SUB TOTAL</b>		<b>\$6,668,735</b>

**CONSULTANTS LESS THAN \$30,000 FOR PERIOD 1 JULY 2005 TO 30 JUNE 2006**

Category	No	Cost
Engineering	59	\$929,652
Environmental	4	\$72,631
Finance & Accounting/Tax	1	\$15,876
Information Technology	3	\$48,960
Organisational Review	2	\$19,038
Training	2	\$56,453
<b>TOTAL CONSULTANTS LESS THAN \$30,000</b>	<b>71</b>	<b>\$1,142,610</b>

**24 Major Acquisitions over \$0.5 Million**

Hunter Water is required by its Operating Licence to report on major acquisitions over \$0.5M dollars:

Cessnock WWTW – Design & Construction	\$23.3M
Replacement of Assets (various watermains, sewer mains etc)	\$15.0M
Head Office Construction	\$11.7M
Warners Bay – Valentine Sewerage Transfer System	\$8.4M
IT Projects (software/hardware, CIS, MIMS Ellipse, SCADA, telephony, etc)	\$8.2M
Priority Sewer Program	\$7.1M
Grahamstown Dam – Stage 2	\$4.6M
Land Acquisitions	\$1.9M
Construct Newcastle HDD	\$1.7M
North Pipeline Wyong Water Supply	\$1.4M
Fleet	\$1.3M
Protection of Electrical Cabinets	\$0.6M
<b>TOTAL COST</b>	<b>\$85.2M</b>

## 25 Donations &amp; Sponsorships

## To Non-Government Community Organisations

Organisation	Description	\$ Amount
Blackalls Park Public School	Rainwater Tank	1,305
Coal Point Progress Association	Landscaping To Restore Threlkeld Reserve	1,860
Cooks Hill Preschool	Frog Habitat	721
Dungog High School	Stream Watch Equipment	200
Dungog Information & N/Hood Serv	Skills For Sustainable Living Course	2,500
Dungog Pedalfest	Pedalfest 2005	2,000
East Maitland Public School	Lifeskills Water Feature Quest 2005	1,818
Engineers Australia	Engineering Excellence Awards 2005-06	3,000
Fennell Bay Public School	Rainwater Tank	1,364
Fig Tree Community Garden	Integrated Water Management Demo Project	6,000
Holy Family Primary School	Landcare Research Tour	3,500
Housing Industry Association	Water Efficiency Awards	2,750
Hunter Region Botanic Gardens	Annual Sponsorship 2005-06	2,000
Hunter Region Landcare Network	Web Design	1,364
Hunter Surf Lifesaving	Sponsorship 2005-06	27,273
Hunter Valley Grammar School	Developing Wetlands 2005-06	1,500
Hunter Valley Research Foundation	Sponsorship For Regional Research Program 2005-06	8,000
Hunter Valley Research Foundation	Sponsorship Hunter Valley Omnibus Survey	2,875
Irrawang Public School	Water Efficient Plumbing	1,364
Lake Macquarie Landcare	Plumbing Works For Galgabba Pt Swansea	1,350
Merewether Hts Public School	Froggies Alive Project	1,364
Merewether Public School	Water Tanks	2,727
National Trust Of Australia	Restoration Of Water Tank On Heritage Property	1,500
Nelson Bay Town Management	Festival Of Whales 2006	2,500
Newcastle Region Maritime Museum	Sponsorship Of Tall Ship	6,364
Octapod Association	Green Day Festival	1,000
Our Lady Of Victories P/School	Rainwater Tank	2,727
Oxfam Australia	Walk Against Want	500
Society Of Frogs & Reptiles	Frog & Reptile Expo	1,500
Surfest	Surfest 2006	10,000
The Beanstalk Organic Co-Op	Seeding Equipment	1,364
The Intergral Urban House Inc	Solar Panel for Water For Life Learnscape	2,500
The Wetlands Centre	Annual Sponsorship 2005-06	15,000
The Wetlands Centre	Silver Sponsorship for 2005	1,000
The Wetlands Centre	Sponsorship of Colour Advertisement	175
The Wetlands Centre	Sponsorship of Wacky Wetlanders	2,000
Tocal Field Days Inc	Silver Sponsor Best Landcare Exhibit	5,455
Tomaree Public School	Water Saving Initiatives	1,035
Trees In Newcastle	Sponsorship For 2005-06	4,000
Warada Landcare Group	Signage and Shirts	1,500
Warners Bay High School	Waterwise Event	1,500
Wateraid Australia	Sponsorship	5,000
Woodchuck Landscape Systems	Sponsoring Landcare Equipment - Congewai	1,040
		<b>144,495</b>

**To Government Organisations**

Organisation	Description	\$ Amount
Australian Water Quality Centre	Best Practice Cost Analysis Sustainable Urban Water	20,000
Dept Energy Utilities Sustainability	Silver Supporter of 2005 Green Globe	10,000
Dungog Shire Council	Dungog Visitor Information Centre	2,000
Hunter Central Rivers CMA	Phosphorus Awareness Day	2,000
Hunter Central Rivers CMA	Waterwatch Program 2005-06	18,000
Hunter Central Rivers CMA	Williams River Catchment	3,750
Hunter Economic Development Corp	Contribution To The Regional Infrastructure Project	5,000
Lake Macquarie City Council	Stormwater Community Awareness	6,000
Lake Macquarie City Council	Consultant for Catchments Wetland Design - Winding Creek	3,445
Lake Macquarie City Council	Water Quality Monitoring	14,000
Lake Macquarie City Council	School Environment Awards 2005-06	500
Lake Macquarie City Council	Waterwatch Kit Rosedale Retire Village	627
Lake Macquarie City Council	Clean Up Lake Macquarie	3,000
Lake Macquarie City Council	St Mary's High School - Waterwatch Kit	545
Lake Macquarie City Council	Waterwatch Kit for Living Corridors Of Life (Galgabba)	455
Newcastle City Council	Sponsorship for Water Quality Monitoring	30,000
Newcastle City Council	Contribution of Stormwater Education	15,000
Newcastle City Council	Blue Gums Hills Sustainable Living Project	12,000
Newcastle City Council	Sustainable Living Workshop	2,800
Newcastle City Council	Clean Up Australia Day	3,000
Port Stephens Council	Environmental Schools Funding	455
TAFE NSW - Hunter Institute	Sponsorship "Slow the Flow"	1,318
University Of Newcastle	2006 Sponsor To Uniss Engineering	33,110
University Of Newcastle	Environmental Law Award	500
University Of Newcastle	Hunter Water Achievement Award	500
University Of Newcastle	Environment Engineering Award	500
University Of Newcastle	Chemical Engineering Award	500
University Of Newcastle	2005 Contribution To Environmental Program	88,000
		<b>227,005</b>

**26 Overseas Trips - Commenced During 2005-06**

## HUNTER WATER CORPORATION

Officer	Where	No Days	Reason
Peter Buckland	USA	5	Consultancy
Peter Buckland	Canada	15	Consultancy
Kevin Young	USA	9	Consultancy
Kevin Young	Korea	4	Conference
Kevin Young	Japan	4	Conference
Simon Zander	USA	12	Consultancy
Steve Hopton	USA	12	Consultancy

HUNTER WATER AUSTRALIA

Officer	Where	No Days	Reason
Jim Keary	USA/Canada	20	Consultancy
Jim Keary	Singapore	3	Consultancy
Jim Keary	USA/Canada	10	Consultancy
Jim Keary	USA/Canada	18	Consultancy
Jim Keary	USA/Canada	16	Consultancy
Artur Majerowski	New Zealand	4	Consultancy
Artur Majerowski	New Zealand	6	Consultancy
David Nicholas	USA	8	Consultancy
Jeffrey Gleeson	Malaysia	3	Consultancy
Jeffrey Gleeson	India	9	Consultancy
Jeffrey Gleeson	Malaysia	5	Consultancy
Peter Dennis	New Zealand	3	Consultancy
Paul Thompson	New Zealand	3	Consultancy
Craig Jakubowski	New Zealand	3	Consultancy
Raj Jairaj	Malaysia	5	Consultancy
Jason Lawson	Malaysia	5	Consultancy
Trevor Gale	Malaysia	6	Consultancy

**27 Consultative Forum**

Cr Wendy Harrison	Lake Macquarie City Council
Cr Jeffrey Maybury	Cessnock City Council
Cr Josh Hodges	Port Stephens Council
Mr John Steele	Employers' Federation of NSW
Mr Harold Sternbeck	Small Business & Consumer Affairs
Mr Robert Monteath	Newcastle & Hunter Business Chamber
Ms Carolyn Gillard	Environmental Education
Mr Kevin McDonald	Eco Edge Network Inc. (Environmental Education)
Mr Glenn Evans	Hunter-Rivers Catchment Management Authority
Mr Col Mondy	Waterwatch
Mr Alex Burns	Migrant Resource Centre
Mr Bob Hopkins	Newcastle Combined Pensioners Area Council
Cr Arch Humphery	Maitland City Council
Cr Paul Scobie	Newcastle City Council
Mr James Hopson	Williams River Total Catchment Management Committee
Prof George Kuczera	University of Newcastle

## 28 Account Payment Performance

Accounts paid on time:	88%
Total amount of accounts paid on time:	\$236,473,109.07
Total amount of accounts paid:	\$262,873,612.49

Accounts paid on time within each quarter:

	On Time Target %*	On Time Actual %	On Time \$'000	Total Paid \$'000
September Quarter	95	98.2	60,275	60,995
December Quarter	95	94.5	63,130	64,117
March Quarter	95	79.4	51,054	64,078
June Quarter	95	80.7	62,014	73,684

\* **Note:** Percentages based on number of invoices.

The number of invoices which were not paid promptly were those which were under dispute or waiting until full finalisation or satisfaction of the related work.

There was no interest paid by the Corporation with respect to late paid invoices during the financial year.

## 29 Credit Card Certification

Usage of corporate credit cards is in accordance with Corporation policy, Treasurer's directions and Premier's memoranda.

## 30 Cost of Producing Annual Report

Press Printing 500 copies	\$18,990
Photographic services	\$5,600
CD Duplication 500 copies	\$970
<b>TOTAL COST</b>	<b>\$25,560</b>



HUNTER WATER AUSTRALIA  
PTY LIMITED ABN 19 080 869 905

FINANCIAL REPORT 2005-06

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## Company Particulars

### Directors

Mr R Robson Chairman  
Mr KJ Young  
Mr RI Knights

### Company Secretary

Mr JB Keary Resigned from the position of Company Secretary 25 January 2006  
Ms S Smith Appointed to the position of Company Secretary 25 January 2006

### Auditors

Audit Office of New South Wales

### Bankers

Commonwealth Bank of Australia

## Directors' Report

The Directors submit the following report made in accordance with a resolution of the Directors of Hunter Water Australia Pty Limited for the year ended 30 June 2006.

### DIRECTORS

The names and details of the Directors of the Company at any time during or since the end of the financial year are:

Mr R Robson Chairman  
 Mr KJ Young  
 Mr RI Knights

### INFORMATION ON DIRECTORS

#### **R ROBSON**

OAM, FAIM, FAICD, JP

Mr Robson was appointed as Chairman of the Board on 22 January 1998. Mr Robson is Chairman of Hunter Water Corporation and the Regional Land Management Corporation Pty Ltd (the Corporation's subsidiary Company), a Director of Robson Health Care Pty Ltd, Chairman of the Newcastle Knights-Wests Hospitality Group Business Development Committee, Chairman of Banlaw Pipeline Pty Ltd and Patron of Newcastle/Hunter Valley Rugby Union.

#### **KJ YOUNG**

B Eng, MBA, FIE Aust, CPENG, GAICD

Mr Young was appointed as a Director on 3 November 2004 and is also Managing Director of Hunter Water Corporation. Mr Young has extensive experience working in private consulting both in Australia and overseas and working for government utilities. He has previously held a diverse range of positions at Hunter Water Corporation including Chief Operating Officer, Company Secretary, Manager Corporate Planning & Government Regulation and Manager Assets.

#### **RI KNIGHTS**

Dip Civ Eng, MIE Aust, M Aust IMM, FAICD

Mr Knights was appointed as a Director on 22 January 1998 and is also a Director of Hunter Water Corporation and a Director of the Regional Land Management Corporation Pty Ltd. Mr Knights was previously Chairman of the Broke Fordwich Private Irrigation District, Deputy Managing Director of Peabody Resources Ltd, a member of the Hunter Economic Development Council and Chairman of Newcastle Coal Shippers Pty Ltd.

### MEETINGS OF DIRECTORS

#### BOARD MEETINGS

	Number of meetings attended	Number of meetings held during the time the Director held office
R Robson	11	12
R Knights	12	12
K Young	11	12

## **PRINCIPAL ACTIVITIES**

The principal activities of the Company in the course of the year were the provision of specialist support and operations services in the fields of water, wastewater, stormwater, environmental and strategic services.

No significant change in the nature of these activities occurred during the year.

## **REVIEW OF OPERATIONS**

The operating profit after tax, for the financial year ended to 30 June 2006, was \$4,057,363 compared with an operating profit after tax of \$929,981 for the previous year which was a good result.

The entity comprises five Business Units whose performance is independently monitored. All businesses achieved a very good performance.

## **SUBSEQUENT EVENTS**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## **DIRECTORS INDEMNIFICATION**

The Company has an agreement to indemnify the Directors and Secretary of the Company, this relates to:

- any civil liability to a third party (other than Hunter Water Australia Pty Limited or a related entity) unless the liability arises out of conduct involving lack of good faith.
- any costs or expenses of defending proceedings in which judgement is given in favour of the officer.

No liability has arisen under these indemnities as at the date of this report.

## **CHANGE IN STATE OF AFFAIRS**

Other than matters reported in the Directors' Report, in the opinion of the Directors there were no significant changes in the state of affairs of the Company during the year ended 30 June 2006.

## **TRUE AND FAIR VIEW**

The financial statements and notes give a true and fair view of the financial position as at 30 June 2006 and the performance for the financial year ended 30 June 2006.

## **FUTURE DEVELOPMENTS**

The Company expects to maintain the present status and level of operations.

Further information on likely developments in the Company's operations and expected results of operations have not been included in this report because Directors believe it would be likely to result in unreasonable prejudice to the Company.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration is included on page 8.

## DIRECTORS' BENEFITS

During or since the financial year no Director of the Company has received or become entitled to receive a benefit, other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown in the accounts, by reason of a contract entered into by the Company with:

- a Director, or
- a firm of which a Director is a member, or
- an Entity in which a Director has a substantial financial interest.

## CODE OF CONDUCT

Hunter Water Australia Pty Limited has a Code of Conduct that must be adhered to by all employees. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia.

## ENVIRONMENTAL REGULATION

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, or of a State or Territory law.

Signed in accordance with a resolution of the Directors of Hunter Water Australia Pty Limited.



R ROBSON  
Chairman



R KNIGHTS  
Director

NEWCASTLE 20 SEPTEMBER 2006



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDIT REPORT

### HUNTER WATER AUSTRALIA PTY LIMITED

To Members of the New South Wales Parliament and Members of Hunter Water Australia Pty Limited

#### Audit Opinion

In my opinion, the financial report of Hunter Water Australia Pty Limited (the Company) is in accordance with:

- the *Corporations Act 2001*, including:
  - giving a true and fair view of the Company's financial position as at 30 June 2006 and its performance for the year ended on that date, and
  - complying with Accounting Standards in Australia and the *Corporations Regulations 2001*,
- other mandatory financial reporting requirements in Australia, and
- section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

#### Scope

##### *The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and directors' declaration for the Company, for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with both the PF&A Act and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

##### *Audit Approach*

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament and the members of the Company that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Company's directors had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

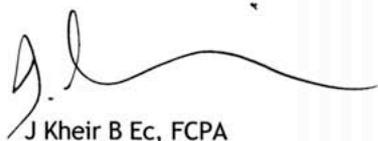
- about the future viability of the Company,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

#### Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

My Declaration of Independence dated 18 September 2006 would have been made on the same terms if it had been made at the date of this report.



J Kheir B Ec, FCPA  
Director, Financial Audit Services

SYDNEY  
27 September 2006



GPO BOX 12  
Sydney NSW 2001

To the Directors  
Hunter Water Australia Pty Limited  
PO Box 5171  
HRMC NSW 2310

### Auditor's Independence Declaration

As auditor for the audit of Hunter Water Australia Pty Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The independence requirements of the *Corporations Act 2001* in relation to the audit, and
- Any applicable code of professional conduct in relation to the audit.



J Kheir  
Director, Financial Audit Services

18 September 2006  
SYDNEY

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Revenue</b>			
Services	2	19,244,335	16,855,503
Other income	2	326,263	246,330
<b>Total Revenue</b>		<u>19,570,598</u>	<u>17,101,833</u>
<b>Expenditure</b>			
Operational costs		(14,035,335)	(12,669,573)
Employee Benefits		(989,641)	(919,998)
Depreciation and amortisation	3	(388,760)	(371,225)
Superannuation (expense)/revenue	3	1,750,982	(2,105,453)
<b>Total Operating Expenditure</b>		<u>(13,662,754)</u>	<u>(16,066,249)</u>
<b>Profit Before Income Tax Expense</b>		5,907,844	1,035,584
Income tax expense	4	(1,850,481)	(105,603)
<b>Profit for the Year</b>		<u>4,057,363</u>	<u>929,981</u>

*The Income Statement should be read in conjunction with the accompanying notes on pages 13 to 33.*

## BALANCE SHEET AS AT 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Current Assets</b>			
Cash & cash equivalents	6	4,100,755	2,575,416
Trade and other receivables	7	2,611,598	2,081,842
Other	8	1,625,434	2,112,096
Total Current Assets		<u>8,337,787</u>	<u>6,769,354</u>
<b>Non-Current Assets</b>			
Plant & equipment	9	839,474	839,905
Intangible assets	10	150,315	197,876
Investment	11	3,500,000	3,500,000
Deferred tax assets	12	1,261,616	1,926,429
Total Non-Current Assets		<u>5,751,405</u>	<u>6,464,210</u>
<b>Total Assets</b>		<u>14,089,192</u>	<u>13,233,564</u>
<b>Current Liabilities</b>			
Payables	13	1,275,643	1,759,516
Current tax liabilities	14	483,664	321,540
Provisions	15	4,555,545	2,793,497
Total Current Liabilities		<u>6,314,852</u>	<u>4,874,553</u>
<b>Non-Current Liabilities</b>			
Provisions	15	478,273	3,081,218
Total Non-Current Liabilities		<u>478,273</u>	<u>3,081,218</u>
<b>Total Liabilities</b>		<u>6,793,125</u>	<u>7,955,771</u>
<b>Net Assets</b>		<u>7,296,067</u>	<u>5,277,793</u>
<b>Equity</b>			
Contributed equity	16	900,010	900,010
Retained profits	17	6,396,057	4,377,783
<b>Total Equity</b>		<u>7,296,067</u>	<u>5,277,793</u>

*The Balance Sheet should be read in conjunction with the accompanying notes on pages 13 to 33.*

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
Total equity at beginning of year	17	5,277,793	4,847,812
<b>Net Income Recognised Directly in Equity for the Year</b>	17	-	-
Dividends provided for	5	(2,039,089)	(500,000)
Profit for the Year		4,057,363	929,981
<b>Total Equity at End of Financial Year</b>		<u>7,296,067</u>	<u>5,277,793</u>

*The Statement of Changes in Equity should be read in conjunction with accompanying notes on pages 13 to 33.*

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$	2005 \$
<b>Cash Flow from Operating Activities</b>			
Receipts from customers (inclusive of goods and services tax)		21,098,843	18,464,151
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(18,027,008)</u>	<u>(15,147,729)</u>
		3,071,835	3,316,422
Interest received		324,905	221,617
Interest paid		(481)	(47)
Income taxes paid		<u>(1,023,544)</u>	<u>(755,703)</u>
<b>Net Cash Flows from Operating Activities</b>	18	<u>2,372,715</u>	<u>2,782,289</u>
<b>Cash Flow from Investing Activities</b>			
Purchases of property, plant and equipment		(351,567)	(464,046)
Proceeds from sales of property, plant and equipment		3,782	9,000
Loan to Parent Entity		<u>-</u>	<u>(3,500,000)</u>
<b>Net Cash Flow from Investing Activities</b>		<u>(347,785)</u>	<u>(3,955,046)</u>
<b>Cash Flow from Financing Activities</b>			
Dividends paid	5	<u>(500,000)</u>	<u>(500,000)</u>
<b>Net Cash Flows from Financing Activities</b>		<u>(500,000)</u>	<u>(500,000)</u>
<b>Net Increase / (Decrease) in Cash Held</b>		1,524,930	(1,672,757)
Cash at beginning of financial period		2,575,416	4,244,404
Effects of exchange rate changes on cash		<u>409</u>	<u>3,769</u>
<b>Cash at the End of the Financial Period</b>	6	<u>4,100,755</u>	<u>2,575,416</u>

*The Cash Flow Statement should be read in conjunction with the accompanying notes on pages 13 to 33.*

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the entity Hunter Water Australia Pty Limited as an individual entity.

### a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the *Public Finance & Audit Act 1983*.

The financial statements also incorporate financial reporting requirements specified in the *Public Finance and Audit Regulation 2005*, the *Annual Reports (Statutory Bodies) Act 1984*, *Annual Reports (Statutory Bodies) Regulation 1995* and the relevant Treasurer's Directions.

Proper accounts and records for all of the Company's operations have been kept as required under Section 41(1) of the *Public Finance and Audit Act 1983*.

#### *Compliance with IFRSs*

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards (IFRSs).

#### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

These financial statements are the first financial statements of the Company to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing these financial statements, management has amended certain accounting methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. In accordance with NSW Treasury mandates, the Company has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. Under previous Accounting Standards, financial instruments were recognised at cost.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Company's equity and its net income are given in Note 21. This note also includes separate disclosure of the 1 July 2005 equity adjustments arising from the adoption of AASB 132 and AASB 139.

#### *Historical cost convention*

The financial statements have been prepared on an accruals basis using the historical cost convention, except for the non-current physical assets which are shown at valuation.

### b) Revenue recognition

Revenue is recognised when the Company has passed on control of the good, it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Investment income represents earnings on surplus cash invested in the Company's bank accounts, NSW TCorp deposits or in the Parent Entity.

**c) Income tax**

The Company is subject to the National Tax Equivalent Regime (NTER). An "equivalent" or "notional income tax" is payable to the NSW Government through the Office of State Revenue. The liability for income tax is primarily assessed in accordance with the *Income Tax Assessment Act* (1997) (ITAA) and is administered by the Australian Taxation Office.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or the liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Tax consolidation legislation*

The Company and its Parent Entity, Hunter Water Corporation, decided to implement the tax consolidation legislation as of 1 July 2003.

The head entity, Hunter Water Corporation, and the Company continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in Note 4.

**d) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**e) Trade receivables**

Trade receivables are recognised at fair value less provision for doubtful debts.

Collectibility of receivables is reviewed on an ongoing basis and debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the entity will not be able to collect all amounts due.

**f) External contracts work in progress**

External contracts work in progress is stated at the aggregate of costs incurred to date plus recognised profits less recognised losses and progress billings. Cost includes all costs directly related to specific contracts, and an allocation of overhead costs attributable to contract activity in general.

Project profits are recognised on the stage of completion basis and measured using the proportion of costs incurred to date as compared to expected total costs. Where losses are anticipated they are provided for in full.

Project revenue has been recognised on the basis of the terms of the contract adjusted for any variations or claims allowable under the contract.

**g) Plant and equipment**

Plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation. Depreciated cost of these assets is considered to equate to fair value. The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets (refer to section (i) Impairment of assets below).

**Depreciation**

Depreciation is calculated using the straight line method on all plant and equipment at rates calculated to allocate their cost, net of their residual values, over their estimated useful lives. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

<b>Class of Asset</b>	<b>Useful Life</b>
Computers	4 years
Support Assets	3 to 10 years

**h) Intangible assets**

Intangible assets consist of software and other intangible assets. Research expenditure is recognised as an expense as incurred.

Software assets are classified as intangible assets and are amortised over three years. Other intangible assets consist of access fees for high speed internet services and are amortised over two years.

**i) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash generating units).

In accordance with the requirements of AASB136 and NSW Treasury Circular NSWTC01/03, an assessment has been made of the expected net cash flows to be received over the remaining life of the existing asset base to determine the extent of any difference in the economic value and the carrying value of the assets.

**j) Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**k) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid.

**l) Employee benefits**

**(i) Wages and salaries, annual leave and sick leave**

Liabilities for salaries and wages including annual leave expected to be settled within 12 months of the reporting date are recognised as current employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Long service leave**

The liability for long service leave is recognised as an employee benefit and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary and wage levels, trends of employee departures and periods of service. Expected future payments are discounted using the 10 year Commonwealth Government bond rate.

(iii) *Superannuation*

Employees of the Company are members of either defined benefit superannuation funds or defined contribution superannuation funds. The defined benefit superannuation funds provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of the defined benefit plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any past service cost. The assessment of these liabilities and assets is undertaken by the funds' administrator, Pillar Administration.

**m) Dividends**

Provision is made for any dividend declared by the Directors of the Company on or before the end of the financial year but not distributed at balance date.

**n) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of the GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis.

**o) Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into Australian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

**p) Accounting Standards and UIG Interpretations Issued but not yet Operative**

At the reporting date, certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) *UIG4 Determining whether an Asset Contains a Lease*

UIG4 is applicable to reporting periods beginning on or after 1 January 2006. The Company will apply UIG4 in its 2007 financial statements and the UIG4 transition provisions. Implementation of UIG4 is not expected to change the accounting for any of the Company's current arrangements.

(ii) *UIG5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

UIG5 is applicable to reporting periods beginning on or after 1 January 2006. Implementation of this interpretation is not expected to affect the Company's financial statements.

(iii) *AASB7 Financial Instruments: Disclosure and AASB2005-10 Amendments to Australian Accounting Standards (AASB132, AASB101, AASB114, AASB117, AASB133, AASB139, AASB1, AASB4, AASB1023 and AASB1038)*

AASB7 and AASB2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to the Company's financial instruments.

(iv) *AASB2005-9 Amendments to Australian Accounting Standards (AASB4, AASB1023, AASB139 and AASB132)*

AASB2005-9 is applicable to reporting periods beginning on or after 1 January 2006. Application of the standards will not affect the financial results of the Company.

- (v) *AASB119 Employee Benefits and AASB2004-3 Amendments to Accounting Standards (AASB1, AASB101 and AASB124)*

These amended standards are applicable to reporting periods beginning on or after 1 January 2006. The application of these standards will not affect the financial results of the Company as NSW Treasury has issued an indicative mandate that the two additional options allowed by AASB119 are not to be used by NSW public sector entities.

The following standards and UIG Interpretations have no impact on any disclosure or reporting by the Company as they relate to transactions or structures that are not undertaken or applicable to the Company:

*AASB2005-1 Amendments to Australian Accounting Standards (AASB139)*

*AASB2005-5 Amendments to Australian Accounting Standards (AASB1 and AASB139)*

*AASB2006-1 Amendments to Australian Accounting Standards (AASB121)*

*UIG6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

*UIG7 Applying the Restatement Approach under AASB129 Financial Reporting in Hyperinflationary Economies*

*UIG8 Scope of AASB2*

*UIG9 Assessment of Embedded Derivatives*

**NOTE 2. REVENUE**

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Services</b>		
Sale of goods / services	19,244,335	16,855,503
	<u>19,244,335</u>	<u>16,855,503</u>
<b>Other Income</b>		
Interest from Hunter Water Corporation	193,936	107,934
Interest from financial institutions	136,215	129,578
Net Gain/(loss) from the sale of assets	(4,613)	7,832
Other	725	986
	<u>326,263</u>	<u>246,330</u>
<b>Total Income</b>	<u><b>19,570,598</b></u>	<u><b>17,101,833</b></u>

**NOTE 3. PROFIT BEFORE INCOME TAX**

Profit before tax includes the following net gains and expenses:

**Net gains**

Foreign exchange gain / (loss)	3,573	(11,558)
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**Expenses**

Depreciation and Amortisation

Amortisation	69,954	76,402
Depreciation	318,806	294,823
	<u>388,760</u>	<u>371,225</u>

Other charges against assets

Doubtful debts - trade debtors	(19,320)	19,320
Bad debts - trade debtors	19,320	-
	<u>-</u>	<u>19,320</u>

Borrowing costs

Other interest & financial charges payable	481	47
	<u>481</u>	<u>47</u>

Rental expense relating to operating leases

Minimum lease payments	535,582	331,969
	<u>535,582</u>	<u>331,969</u>

Superannuation expense (revenue)

	(1,750,982)	2,105,453
	<u>(1,750,982)</u>	<u>2,105,453</u>

**NOTE 4. INCOME TAX**

	Notes	2006	2005
		\$	\$
<b>(a) Income Tax Expense</b>			
Current tax		1,113,665	761,743
Deferred tax		664,813	(523,972)
Under/(over) provided in prior years		72,003	(132,168)
		<u>1,850,481</u>	<u>105,603</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>			
Profit before income tax expense		<u>5,907,844</u>	<u>1,035,584</u>
Tax at the Australian rate of 30% (2005 - 30%)		1,772,353	310,675
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Tax Consolidation Benefit		-	(78,542)
Non-deductible depreciation and amortisation		-	-
Assessable externally funded assets (post July 2001)		-	-
Non-assessable contributions to capital works		-	-
Sundry items		6,125	5,638
		<u>1,778,478</u>	<u>237,771</u>
Under (over) provision in prior years		72,003	(132,168)
		<u>1,850,481</u>	<u>105,603</u>
<b>(c) Amounts recognised directly in equity</b>			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity			
Current tax - debited directly to equity			
Net deferred tax - debited directly to equity		-	-
		<u>-</u>	<u>-</u>
<b>(d) Tax Losses</b>			
Future income tax benefit attributable to tax losses		-	-
		<u>-</u>	<u>-</u>
This benefit for tax losses will only be obtained if:			

Hunter Water Corporation and its wholly-owned Australian controlled entity, Hunter Water Australia Pty Limited decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision. The accounting policy on implementation of the legislation is set out in Note 1. The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

The wholly-owned entity has been fully compensated for deferred tax assets transferred to Hunter Water Corporation on the date of implementation of the legislation. No compensation was due to Hunter Water Corporation from the wholly-owned entity as it did not assume any deferred tax liabilities as a result of implementing the tax consolidation legislation.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entity will reimburse Hunter Water Corporation for any current income tax payable by Hunter Water Corporation arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current tax-related receivable by Hunter Water Corporation (see Note 7). In the opinion of the Directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entity in case of a default by Hunter Water Corporation.

#### NOTE 5. DIVIDENDS PAID OR PROVIDED FOR

	2006 \$	2005 \$
Opening Balance	-	-
Add dividend declared	2,039,089	500,000
Less dividend paid	500,000	500,000
	<u>1,539,089</u>	<u>-</u>

Under the national tax equivalent regime, the Hunter Water Australia Pty Limited is not required to maintain a dividend franking account.

#### NOTE 6. CASH & CASH EQUIVALENTS

Cash at bank and on hand	319,744	42,166
Foreign currency account	5,611	42,825
Deposits at call	3,775,400	2,490,425
	<u>4,100,755</u>	<u>2,575,416</u>

Deposits at call are bearing interest rates between 5.45% and 5.70% (2005: 5.20% and 5.45%)

#### Bank Overdraft Facility

The Company has a bank overdraft facility available to the extent of \$200,000.

**NOTE 7. RECEIVABLES**

	<b>2006</b>	<b>2005</b>
	\$	\$
<b>Current</b>		
Trade debtors	2,597,837	2,086,677
Provision for doubtful debts	-	(19,320)
Other current receivables	13,761	14,485
	<u>2,611,598</u>	<u>2,081,842</u>

**NOTE 8. OTHER ASSETS**

<b>Current</b>		
Prepayments	244,355	136,584
Work in Progress	900,283	1,321,986
Accrued Income	464,168	637,631
Accrued Interest	16,628	15,895
	<u>1,625,434</u>	<u>2,112,096</u>

**NOTE 9. PLANT & EQUIPMENT**

*FIXED ASSETS COMPRISE THE FOLLOWING ALL AT COST*

**General Support Assets**

Computers	813,883	695,697
Support Facilities	2,043,972	2,557,965
Accumulated depreciation	(2,018,381)	(2,413,757)
	<u>839,474</u>	<u>839,905</u>

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current and previous financial years are set out below:

<b>General Support Assets</b>	<b>2006</b>	<b>2005</b>
	\$	\$
Carrying amount – Opening Balance	839,905	614,393
Additions	328,130	521,503
Disposals	(9,755)	(1,168)
Depreciation expense	(318,806)	(294,823)
Carrying amount - Closing Balance	<u>839,474</u>	<u>839,905</u>

**NOTE 10. INTANGIBLE ASSETS**

	2006	2005
	\$	\$
INTANGIBLE ASSETS COMPRISE THE FOLLOWING ALL AT COST		
<b>Intangible Assets</b>		
Software	462,123	443,939
Other	4,300	-
Accumulated Amortisation	(316,108)	(246,063)
	<u>150,315</u>	<u>197,876</u>

**Reconciliations**

Reconciliations of the carrying amounts of each class of intangible asset at the beginning and end of the current and previous financial years are set out below:

<b>Intangible Assets – Software</b>	<b>2006</b>	<b>2005</b>
	\$	\$
Carrying amount – Opening Balance	197,876	198,368
Additions	18,184	75,910
Disposals	(91)	-
Amortisation expense	(68,162)	(76,402)
Carrying amount - Closing Balance	<u>147,807</u>	<u>197,876</u>

<b>Intangible Assets – Other</b>	<b>2006</b>	<b>2005</b>
	\$	\$
Carrying amount – Opening Balance	-	-
Additions	4,300	-
Disposals	-	-
Amortisation expense	(1,792)	-
Carrying amount - Closing Balance	<u>2,508</u>	<u>-</u>

**NOTE 11. INVESTMENTS**

	2006	2005
	\$	\$
<b>Non Current</b>		
Loan to Parent Entity	3,500,000	3,500,000
	<u>3,500,000</u>	<u>3,500,000</u>

**NOTE 12. DEFERRED TAX ASSETS**

	2006	2005
	\$	\$
<b>Non Current</b>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	-	5,796
Employee benefits	1,048,418	1,762,414
Other operating expenditure payable	145,606	88,320
Depreciation	57,227	61,278
Unrealised tax foreign currency loss	8,823	5,167
Formation costs to claim	1,542	3,454
	<u>1,261,616</u>	<u>1,926,429</u>
 Movements:		
Opening balance at 1 July 2005	1,926,429	1,402,457
Credited/(charged) to the Income Statement	(664,813)	523,972
Closing balance at 30 June 2006	<u>1,261,616</u>	<u>1,926,429</u>

**NOTE 13. PAYABLES**

<b>Current</b>		
Trade creditors	960,550	1,471,620
Other creditors	315,093	287,896
	<u>1,275,643</u>	<u>1,759,516</u>

**NOTE 14. CURRENT TAX LIABILITIES**

<b>Provision for Income Tax Payable</b>		
Opening Balance	321,540	257,199
Add under provision for income tax in prior year	72,003	(132,168)
Less amount paid relating to prior year	393,543	125,031
Add amount payable for current year	1,113,665	761,743
Less amount paid relating to current year	630,001	440,203
	<u>483,664</u>	<u>321,540</u>

**NOTE 15. PROVISIONS**

<b>Current</b>		
Employee benefits – short term	1,344,560	1,243,481
Employee benefits – long term	1,671,896	1,550,016
Dividend provided	1,539,089	-
	<u>4,555,545</u>	<u>2,793,497</u>
<b>Non-Current</b>		
Employee benefits	209,703	157,413
Provision for Under-funded Superannuation	268,570	2,923,805
	<u>478,273</u>	<u>3,081,218</u>

## NOTE 16. CONTRIBUTED EQUITY

	2006	2005
	\$	\$
Issue and paid up capital 900,010 ordinary shares each fully paid	900,010	900,010

### FULLY PAID ORDINARY SHARES

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held

## NOTE 17. RETAINED PROFITS

### Retained Profits

Retained profits at the beginning of year	4,377,783	3,897,802
Net profit after income tax expense	4,057,363	979,981
Dividends provided for or paid	<u>(2,039,089)</u>	<u>(500,000)</u>
Retained profits at end of year	<u>6,396,057</u>	<u>4,377,783</u>

## NOTE 18. CASH FLOW STATEMENT

### *Reconciliation of profit after income tax to the net cash flows from operating activities*

Profit after income tax	4,057,363	929,981
Depreciation and amortisation	388,760	371,225
(Profit)/loss on sale of non-current assets	4,613	(7,832)
Net exchange differences	(3,573)	11,558
<i>Change in operating assets and liabilities</i>		
(Increase)/decrease in trade debtors	(511,158)	708,407
(Increase)/decrease in inventories	421,703	(556,074)
(Increase)/decrease in future income tax benefit	-	-
(Increase)/decrease in tax related receivable	664,813	(657,830)
(Increase)/decrease in other operating assets	65,683	(222,953)
Increase/(decrease) in trade creditors	(507,119)	517,046
Increase/(decrease) in other operating liabilities	9,493	23,868
Increase/(decrease) in provision for income taxes payable	-	-
Increase/(decrease) in inter-company tax payable	162,124	7,729
(Decrease)/increase in other provisions	<u>(2,379,987)</u>	<u>1,657,164</u>
<i>Net cash inflow from operating activities</i>	<u>2,372,715</u>	<u>2,782,289</u>

## NOTE 19. LEASE EXPENDITURE COMMITMENTS

*Operating lease commitments in relation to non-cancellable operating leases are payable as follows:*

	<b>2006</b>	<b>2005</b>
	\$	\$
Within one year	527,665	514,627
Later than one year but not later than five years	389,006	846,569
	<u>916,671</u>	<u>1,361,196</u>

There are three major operating leases of the Company. The first is a non-cancellable lease with a 5-year term expiring in June 2009 with an option to renew the lease at the end of this term for an additional five years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by the greater of CPI or 2.5%. Another is a non-cancellable lease with a 3-year term expiring in May 2007 with an option to extend the lease for an additional 2 years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 3%. Both of the above two leases do not allow for subletting of the lease area. The final lease is a non-cancellable lease with a 2-year term expiring in June 2007 with an option to extend the lease for an additional 2 years. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased by 3%. This lease allows for subletting of the lease area.

## NOTE 20. SUPERANNUATION

### (a) Superannuation Plan

Some employees are entitled to benefits on retirement, disability or death. The superannuation plans are administered by Pillar Administration (formerly the Superannuation Administration Corporation) and provide defined benefits based on years of service and final average salary. Employees contribute to the plans at various percentages of their wages and salaries. The Company also contributes to the plans.

The State Authorities Superannuation Scheme closed on 18 December 1992. Superannuation benefits for new entrants are now provided through First State Super (FSS), which is an accumulation type scheme. The Company has made full provision for these commitments.

The following sets out details in respect of the defined benefits section only.

### (b) Balance Sheet Amounts

The amounts recognised in the Balance Sheet are determined as follows:

	2006 \$	2005 \$
Present Value of Defined Benefit Obligations	13,961,639	14,456,399
Fair Value of Plan Assets	(13,693,069)	(11,532,593)
	<u>268,570</u>	<u>2,923,806</u>
Surplus in Excess of Recovery Available from Schemes	-	-
Unrecognised Past Service Cost	-	-
Net (Asset)/Liability	<u>268,570</u>	<u>2,923,806</u>

### (c) Reconciliation

Net (Asset)/Liability at Start of Year	2,923,806	1,613,915
Net Expense Recognised in the Income Statement	(2,264,628)	1,657,864
Contributions	(390,608)	(347,973)
Net (Asset)/Liability	<u>268,570</u>	<u>2,923,806</u>

### (d) Amounts Recognised in the Income Statement

The amounts recognised in the Income Statement are as follows:

Current Service Cost	316,752	300,390
Interest on Obligations	826,332	733,588
Expected Return on Plan Assets	(877,408)	(737,579)
Net Actuarial Losses (Gains) Recognised in Year	(2,530,304)	1,361,465
Change in Surplus in Excess of Recovery Available from Scheme	-	-
Past Service Cost	-	-
Losses (Gains) on Curtailments and Settlements	-	-
Total included in "Superannuation (expense) revenue"	<u>(2,264,628)</u>	<u>1,657,864</u>

### (e) Actual Return on Plan Assets

Actual Return on Plan Assets	1,775,588	1,301,596
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**(f) Principal Actuarial Assumptions**

The principal actuarial assumptions used (expressed as weighted averages) at the reporting date were as follows:

Discount Rate	5.9% pa
Expected Return on Plan Assets	7.6%
Expected Salary Increases	4.0% pa to 2008; 3.5% pa thereafter.
Expected Rate of CPI Increase	2.5% pa

**(g) Employer Contributions**

Employer contributions to the defined benefit section of the plan are based on the recommendations of the plan's actuary. The last triennial update of demographic assumptions used to calculate the gross superannuation liability of the various defined benefit schemes was undertaken in 2003.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding Method. The method adopted affects the timing of the cost to the employer. Under the aggregate funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

The recommended contribution rates for the Company are:

State Superannuation Scheme 1.60X (multiple of member contributions)

State Authorities Superannuation Scheme 1.90X (multiple of member contributions)

State Authorities Non-Contributory Superannuation Scheme 2.5% (% of member salary)

The economic assumptions used by the actuary to make the funding recommendation were a investment return on fund assets of 7.3% pa, a salary increase rate of 4.0% pa, and an inflation rate of 2.5% pa.

**(h) Net Financial Position of Plan**

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2006), and a surplus of \$1,378,790 was reported.

**(i) Historic Summary**

	SSS	SASS	SANCS	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000
Accrued Liability	9,946	3,243	773	13,962	14,456
Estimated Reserve Account Balance	(9,835)	(3,116)	(742)	(13,693)	(11,533)
Unfunded Liability / (Prepaid Contributions)	111	127	31	269	2,923

SSS - State Superannuation Scheme

SASS - State Authorities Superannuation Scheme

SANCS - State Authorities Non-Contributory Superannuation Scheme

**NOTE 21. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs**

(1) Reconciliation of profit for the year ended 30 June 2005

	Notes	Previous AGAAP \$	Effect of transition to AIFRS	AIFRS \$
<b>Revenue</b>				
Services		16,855,503	-	16,855,503
Other income		246,330	-	246,330
<b>Total Revenue</b>		<u>17,101,833</u>	-	<u>17,101,833</u>
<b>Expenditure</b>				
Operational costs		(12,669,573)	-	(12,669,573)
Employee benefits		(919,998)	-	(919,998)
Depreciation and amortisation		(371,225)	-	(371,225)
Superannuation (expense) revenue	a	(588,463)	(1,516,990)	(2,105,453)
<b>Total Operating Expenditure</b>		<u>(14,549,259)</u>	<u>(1,516,990)</u>	<u>(16,066,249)</u>
<b>Profit before income tax expense</b>		<b>2,552,574</b>	<b>(1,516,990)</b>	<b>1,035,584</b>
Income tax expense		(498,603)	393,000	(105,603)
<b>Profit for the Year</b>		<u><b>2,053,971</b></u>	<u><b>(1,123,990)</b></u>	<u><b>929,981</b></u>

(2) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP \$	Effect of transition to AIFRS	AIFRS \$
<b>Current Assets</b>				
Cash and cash equivalents		4,244,404	-	4,244,404
Trade and other receivables		2,993,250	-	2,993,250
Other		1,333,339	-	1,333,339
Total current assets		<b>8,570,993</b>	-	<b>8,570,993</b>
<b>Non-Current Assets</b>				
Property, plant & equipment		888,671	(193,566)	695,105
Intangible assets		-	193,566	193,566
Investment		-	-	-
Deferred tax assets	b	784,599	484,000	1,268,599
Total non-current assets		<b>1,673,270</b>	<b>484,000</b>	<b>2,157,270</b>
Total assets		<b>10,244,263</b>	<b>484,000</b>	<b>10,728,263</b>
<b>Current Liabilities</b>				
Trade and other payables		1,606,288	-	1,606,288
Current tax liabilities		56,612	-	56,612
Provisions		1,075,349	-	1,075,349
Total current liabilities		<b>2,738,249</b>	-	<b>2,738,249</b>
<b>Non-Current Liabilities</b>				
Provisions	a	1,696,179	1,446,023	3,142,202
Deferred tax liabilities		-	-	-
Other		-	-	-
Total non-current liabilities		<b>1,696,179</b>	<b>1,446,023</b>	<b>3,142,202</b>
Total liabilities		<b>4,434,428</b>	<b>1,446,023</b>	<b>5,880,451</b>
<b>Net Assets</b>		<b>5,809,835</b>	<b>(962,023)</b>	<b>4,847,812</b>
<b>Equity</b>				
Contributed equity		900,010	-	900,010
Retained profits		4,909,825	(962,023)	3,947,802
<b>Total Equity</b>		<b>5,809,835</b>	<b>(962,023)</b>	<b>4,847,812</b>

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP \$	Effect of transition to AIFRS	AIFRS \$
<b>Current Assets</b>				
Cash and cash equivalents		2,575,416	-	2,575,416
Trade and other receivables		2,081,842	-	2,081,842
Other		2,112,096	-	2,112,096
Total current assets		<b>6,769,354</b>	-	<b>6,769,354</b>
<b>Non-Current Assets</b>				
Property, plant & equipment		1,037,781	(197,876)	839,905
Intangible assets		-	197,876	197,876
Investment		3,500,000	-	3,500,000
Deferred tax asset	c	1,049,429	877,000	1,926,429
Total non-current assets		<b>5,587,210</b>	<b>877,000</b>	<b>6,464,210</b>
Total assets		<b>12,356,564</b>	<b>877,000</b>	<b>13,233,564</b>
<b>Current Liabilities</b>				
Trade and other payables		1,759,516	-	1,759,516
Current tax liabilities		321,540	-	321,540
Provisions	d	1,243,481	1,550,016	2,793,497
Total current liabilities		<b>3,324,537</b>	<b>1,550,016</b>	<b>4,874,553</b>
<b>Non-Current Liabilities</b>				
Provisions	d	1,668,221	1,412,997	3,081,218
Total non-current liabilities		<b>1,668,221</b>	<b>1,412,997</b>	<b>3,081,218</b>
Total liabilities		<b>4,992,758</b>	<b>2,963,013</b>	<b>7,955,771</b>
<b>Net Assets</b>		<b>7,363,806</b>	<b>(2,086,013)</b>	<b>5,277,793</b>
<b>Equity</b>				
Contributed equity		900,010	-	900,010
Retained profits		6,463,796	(2,086,013)	4,377,783
<b>Total Equity</b>		<b>7,363,806</b>	<b>(2,086,013)</b>	<b>5,277,793</b>

There is no note disclosure regarding the Cash Flow Statement for AIFRS as there are no material adjustments.

a), b) & c) AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This has increased the superannuation liability, reduced opening accumulated funds and increased the annual superannuation expense. During 2004-05 the long term bond rate fell by nearly one per cent, resulting in a significant increase in the superannuation liability and expense. The increase in the superannuation liability has had a corresponding impact on the Company's deferred tax asset.

d) In accordance with AASB 101 *Presentation of Financial Statements*, liabilities must be classified as current where there is no unconditional right to defer the settlement of a liability for at least 12 months after the reporting date. As such an amount of \$1,550,016 has been identified as unconditional long service leave and, while still recognised and measured as a long term employee benefit (per AASB 119), has been moved from Non-Current to Current Liabilities in the Balance Sheet.

## NOTE 22. CONTINGENT LIABILITIES

No significant claims for damages are being negotiated. This does not include matters covered by insurance.

## NOTE 23. AUDITORS' REMUNERATION

*Amounts received or due and receivable by the auditors, from the Company*

	2006 \$	2005 \$
Audit review of financial reports (exclusive of GST)	15,000	10,400
	<u>15,000</u>	<u>10,400</u>

## NOTE 24. RELATED PARTY DISCLOSURES

Transactions between related parties are conducted using commercial conditions no more favourable than those available to other parties unless otherwise stated.

### A CONTROLLING ENTITY

The Controlling Entity Hunter Water Corporation owns 100% of the issued ordinary shares of Hunter Water Australia Pty Limited.

Sales were made to the parent entity under normal commercial terms and conditions no more favourable than those available to other parties.

Purchases from the parent entity were made under normal commercial terms and conditions no more favourable than those available to other parties.

A loan of \$3,500,000 was made to the parent entity during 2004/2005. A formal loan agreement has been entered into under normal terms and conditions. Interest is payable quarterly at market rates.

### B THE FOLLOWING RELATED PARTY TRANSACTIONS OCCURRED DURING THE FINANCIAL YEAR:

	Entity	2006 \$'000	2005 \$'000	
<b>Transactions with Controlled Entities</b>				
Sales	Contracts & Consultancy Services	HWC/RLMC	11,973	10,627
Purchases	Contracts	HWC	415	459
	Consultancy Services	HWC	180	152
Total purchases			<u>595</u>	<u>611</u>
Interest Received		HWC	194	107
Dividend Paid		HWC	500	500
<b>Outstanding balances with Controlled Entities</b>				
Receivables	Sales and purchases	HWC	2,037	1,562
	Tax funding agreements	HWC	1,262	1,926
	Inter-company loan	HWC	3,500	3,500
Total receivables			<u>6,799</u>	<u>6,988</u>
Payables	Sales and purchases	HWC	77	105
	Tax funding agreements	HWC	483	322
	Dividend payable	HWC	1,539	-
Total payables			<u>2,099</u>	<u>427</u>

C THE FOLLOWING RELATED PARTY TRANSACTION OCCURRED DURING THE FINANCIAL YEAR.

Director Mr RI Knights and Chairman Mr R Robson, are also a Director and Chairman respectively of Regional Land Management Corporation Pty Ltd. Hunter Water Australia Pty Limited provided consulting services to Regional Land Management Corporation Pty Ltd during the year. These services were based on normal commercial terms and conditions no more favourable than those available to other parties. The aggregate value of these services in the year was \$51,476.

## NOTE 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

### A DIRECTORS AND ANY DIRECTOR RELATED ENTITIES

The Directors of Hunter Water Australia Pty Limited during the financial year were:

Mr R Robson  
 Mr K Young  
 Mr RI Knights

All Directors of Hunter Water Australia Pty Limited were also Directors of the parent entity, Hunter Water Corporation during the year.

### B OTHER KEY MANAGEMENT PERSONNEL

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial year:

<b>Name</b>	<b>Position</b>
Mr J Keary	Chief Executive
Mr J Gleeson	Manager, Engineering
Mr P Dennis	Manager, Process & Operations
Ms A Swan	Manager, Laboratories
Mr D Nicholas	Manager, Materials Engineering
Mr P Bartlett	Manager, Asset Mapping
Ms M Griffin	Chief Financial Officer (2006: 1 January 2006 to 30 June 2006; 2005: 1 July 2004 to 31 December 2004)
Ms N Wilson	Commercial Manager (2005: 1 January 2005 to 31 December 2005)

### C KEY MANAGEMENT PERSONNEL COMPENSATION

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Short term employee benefits	1,126,318	1,069,182
Long term employee benefits	66,340	29,512
	<u>1,192,658</u>	<u>1,098,694</u>

## NOTE 26. SEGMENT INFORMATION

The Company operated predominantly in the industry of water, sewerage and drainage in the geographical area of Australia.

## NOTE 27. ECONOMIC DEPENDENCY

Hunter Water Australia Pty Limited operated independently of the parent entity. All transactions were on normal commercial terms and conditions. A significant portion of sales are derived from the parent entity, Hunter Water Corporation.

## NOTE 28. EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affect or may affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## NOTE 29. FINANCIAL INSTRUMENTS

### A INTEREST RATE RISK

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

<b>2006</b>	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	Between – 5 years	Over 5 Years	Non Interest Bearing	Total
<b>Financial assets</b>							
Cash	5.5%	3,775,400				325,355	4,100,755
Receivables	N/A	-				2,611,598	2,611,598
Investment	5.6%	3,500,000					3,500,000
Total Financial Assets		<u>7,275,400</u>				<u>2,936,953</u>	<u>10,212,353</u>
<b>Financial liabilities</b>							
Payables	N/A	-	-	-	-	1,275,643	1,275,643
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,275,643</u>	<u>1,275,643</u>

<b>2005</b>	Weighted Average Effective Interest Rate	Floating Interest Rate	Within 1 Year	Between – 5 years	Over 5 Years	Non Interest Bearing	Total
<b>Financial assets</b>							
Cash	5.2%	2,490,425				84,991	2,575,416
Receivables	N/A	-				2,081,842	2,081,842
Investment	5.3%	3,500,000					3,500,000
Total Financial Assets		<u>5,990,425</u>				<u>2,166,833</u>	<u>8,157,258</u>
<b>Financial liabilities</b>							
Payables	N/A	-	-	-	-	1,759,516	1,759,516
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,759,516</u>	<u>1,759,516</u>

### B CREDIT RISK EXPOSURES

The credit risk on financial assets of the Company, which have been recognised on the Balance Sheet, is generally the carrying amount, net of any provisions for doubtful debts.

The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

### C NET FAIR VALUES

Financial assets and liabilities included in the Balance Sheet are carried at amounts that approximate net fair values.

## END OF AUDITED FINANCIAL STATEMENTS

## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors, Clause 14 of the *Public Finance and Audit Regulation 2005*, and pursuant to Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983*, in the opinion of the Directors:

- 1) The accompanying financial statements and notes:
  - (a) Comply with the *Public Finance and Audit Act 1983*, Accounting Standards and the *Corporations Act 2001*; and
  - (b) Exhibit a true and fair view of the financial position of Hunter Water Australia Pty Limited as at 30 June 2006 and transactions for the year then ended.
- 2) In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 3) We are not aware of any circumstances, which would render any particulars included in these statements to be misleading or inaccurate.

On behalf of the Directors



R ROBSON  
Chairman



R KNIGHTS  
Director

NEWCASTLE 20 SEPTEMBER 2006



# REGIONAL LAND MANAGEMENT CORPORATION

PTY LTD ABN 38 103 702 530

## FINANCIAL REPORT 2005-06

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## Company Particulars

### Directors

Mr R Robson Chairman  
Cr J Tate  
Mr D Simmons  
Mr R Knights

### Company Secretary

Mrs S Smith

### Registered Office

The registered office and principal place of business of the Corporation is:

First Floor  
Administration Building  
99 Selwyn Street  
MAYFIELD NSW 2304

### Auditors

Audit Office of New South Wales

### Bankers

Commonwealth Bank of Australia

## Directors' Report

The Directors submit the following report made in accordance with a resolution of the Directors of the Regional Land Management Corporation Pty Ltd for the year ended 30 June 2006.

### DIRECTORS

The names of Directors in office at any time during or since the end of the financial year and up to the date of this report are:

Mr R Robson Chairman  
Mr J Tate  
Mr D Simmons  
Mr R Knights

### INFORMATION ON DIRECTORS

#### RON ROBSON

OAM, FAIM, FAICD, JP

Mr Robson was appointed Chairman of the Regional Land Management Corporation Pty Ltd on 5 March 2003. Mr Robson is Chairman of Hunter Water Corporation, Chairman of Hunter Water Australia Pty Limited, Chairman of the Newcastle Knights-Wests Hospitality Group Business Development Committee and Chairman of Banlaw Pipeline Pty Ltd, as well as a Director of Robson Health Care Pty Ltd and Patron of Newcastle/Hunter Valley Rugby Union.

Attended 12 of a maximum of 13 Board Meetings.

#### JOHN TATE

Councillor Tate was appointed as Director of the Regional Land Management Corporation Pty Ltd on 5 March 2003. Councillor Tate has been a Councillor of Newcastle City Council since September 1980 and Lord Mayor since September 1999. Councillor Tate is Chair of the Hunter Economic Development Corporation and a Director of Honeysuckle Development Corporation, Hunter Councils and the Hunter Region Tourism Organisation. Councillor Tate was also a former Director of the Westpac Rescue Helicopter Service.

Attended 13 of a maximum of 13 Board Meetings.

#### DAVID SIMMONS

OAM, BA, M.ED (HONS), FAICD

Mr Simmons was appointed as a Director of the Regional Land Management Corporation Pty Ltd on 5 March 2003. From 1983 to 1996, Mr Simmons represented the Federal Electorate of Calare in the House of Representatives and held a number of executive positions in the government. Mr Simmons is a former Chief Executive of the Hunter Business Chamber, served as Chairman of the Hunter Medical Research Institute Foundation, 2002-03, and was a Board Member of Tourism New South Wales from 1997-2003. In April 2005 Mr Simmons was appointed a Director of the National Heart Foundation (NSW Division), and recently appointed as president in April 2006.

Attended 13 of a maximum of 13 Board Meetings.

#### ROSS KNIGHTS

Dip Civ Eng, MIE Aust, M Aust IMM, FAICD

Mr Knights was appointed as a Director of the Regional Land Management Corporation Pty Ltd on 5 March 2003 and is also a Director of Hunter Water Corporation and a Director of Hunter Water Australia Pty Limited. Mr Knights was also Chairman of the Broke Fordwich Private Irrigation District until he resigned as Chairman and a member in November 2003. Mr Knights was previously Deputy Managing Director of Peabody Resources Ltd, a member of the Hunter Economic Development Council and Chairman of Newcastle Coal Shippers Pty Ltd.

Attended 12 of a maximum of 13 Board Meetings.

## PRINCIPAL ACTIVITIES

In accordance with the Regional Land Management Corporation Pty Ltd's *Implementation Agreement and Variation Agreement* with the State, the principal activities of the Corporation are to assume interim management of a number of properties in the Lower Hunter Region, and will undertake all tasks incidental thereto. During the course of the financial period such tasks may include:

- Facilitating responsible private sector development of its sites to bring jobs, investment and economic prosperity to the people of NSW and the Hunter;
- Managing the day to day business on the sites, including renting buildings and parts of the sites;
- Remediating some of the sites so that they are ready for industrial development.

## RESULTS AND DIVIDENDS

The operating profit after providing for income tax of the Corporation for the year ended 30 June 2006 amounted to \$NIL.

No dividends were declared or paid by the Corporation during the financial period.

## REVIEW OF OPERATIONS

The results of activities and levels of expenditure have been satisfactory and within the Directors' expectations.

## SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Corporation, the result of those operations, or the state of affairs of the Corporation in future financial years.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration is included on page 8.

## DIRECTORS INDEMNIFICATION

The State has an agreement with the Regional Land Management Corporation Pty Ltd by way of an *Indemnity Deed Poll* to indemnify the Directors and officers of the Corporation. The indemnity relates to:

- any civil liability to a third party (other than Regional Land Management Corporation Pty Ltd or a related entity) unless the liability arises out of conduct involving lack of good faith,
- any costs or expenses of defending proceedings in which judgment is given in favour of the officer.

No liability has arisen under these indemnities as at the date of this report.

## CHANGE IN STATE OF AFFAIRS

Other than matters reported in the Directors' Report, in the opinion of the Directors' there were no significant changes in the state of affairs of RLMC during the year ended 30 June 2006.

The Corporation was formed on 5 March 2003 to undertake the above activities after the State issued a direction to Hunter Water Corporation under section 20N of the *State Owned Corporations Act 1989* (NSW) to form a special purpose subsidiary Corporation.

In November 2004 The Cabinet Standing Committee on the Budget endorsed an extension of Regional Land Management Corporation Pty Ltd's operating term to 30 June 2008. In June 2005 a ministerial direction was received extending the operating term to 30 June 2008.

## TRUE AND FAIR VIEW

In the opinion of the Directors' the financial statements present a true and fair view of the operations of RLMC during the year ended 30 June 2006.

**FUTURE DEVELOPMENTS**

In accordance with the direction issued by the State, in June 2005, the Corporation will continue to perform the activities as set out in the *Implementation Agreement* and any subsequent variation to *Implementation Agreement* deeds between the State, Hunter Water Corporation and Regional Land Management Corporation Pty Ltd concerning, inter alia, the acquisition and management of the Land.

**DIRECTORS' BENEFITS**

During or since the financial period no Director has received or become entitled to receive a benefit, other than a remuneration benefit included in the aggregate amount of emoluments received or due and receivable by the Directors shown below, by reason of a contract entered into by the Corporation with:

- a Director; or
- a firm of which a Director is a member; or
- an entity in which a Director has a substantial financial interest.

<b>30 June</b>	<b>30 June</b>
<b>2006</b>	<b>2005</b>
<b>\$</b>	<b>\$</b>

**REMUNERATION BENEFITS OF DIRECTORS**

**DIRECTORS' REMUNERATION**

Amounts received or due and receivable by all Directors of the Corporation.

<u>98,100</u>	<u>97,765</u>
---------------	---------------

The number of Directors of the Corporation whose income from the Corporation falls within the following bands:

	No	No
\$20,000 - \$29,999	3	3
\$30,000 - \$39,999	1	1

**ENVIRONMENTAL REGULATIONS**

The Waste Emplacement Facility on Kooragang Island managed by Regional Land Management Corporation Pty Ltd, although not presently an active landfill site, remains subject to a licence issued under the *Protection of the Environment Operations Act 1997*. During the financial period the Corporation complied with the requirements of this licence and associated legislation.

The Closure Area of the former steelworks site at Mayfield is managed by Regional Land Management Corporation Pty Ltd on behalf of the State Government, who is the land owner. Environmental liability and funding relating to all remediation activities undertaken by Regional Land Management Corporation Pty Ltd resides with the State Government. This site was declared a Remediation Site under the *Contaminated Lands Management Act 1997* in June 2001 by the Department of Environmental Conservation (DEC). Regional Land Management Corporation Pty Ltd and the DEC executed a Voluntary Remediation Agreement under the *Contaminated Lands Management Act 1997* in September 2005.

Signed in accordance with a resolution of the Board of Directors.



R ROBSON  
Chairperson



D SIMMONS  
Director

NEWCASTLE 21 SEPTEMBER 2006

## INDEPENDENT AUDIT REPORT



GPO BOX 12  
Sydney NSW 2001

### INDEPENDENT AUDIT REPORT

#### REGIONAL LAND MANAGEMENT CORPORATION PTY LTD

To Members of the New South Wales Parliament and Members of Regional Land Management Corporation Pty Ltd.

#### Audit Opinion

In my opinion, the financial report of Regional Land Management Corporation Pty Ltd (the Company) is in accordance with:

- the *Corporations Act 2001*, including:
  - giving a true and fair view of the Company's financial position as at 30 June 2006 and its performance for the year ended on that date, and
  - complying with Accounting Standards in Australia and the *Corporations Regulations 2001*,
- other mandatory financial reporting requirements in Australia, and
- section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2005*.

My opinion should be read in conjunction with the rest of this report.

#### Scope

##### *The Financial Report and Directors' Responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and directors' declaration for the Company, for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with both the PF&A Act and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit Approach*

I conducted an independent audit in order to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament and the members of the Company that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing Standards and statutory requirements, and I:

- assessed the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors in preparing the financial report, and
- examined a sample of evidence that supports the amounts and disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the Company's directors had not fulfilled their reporting obligations.

My opinion does not provide assurance:

- about the future viability of the Company,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

#### Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

My Declaration of Independence dated 18 September 2006 would have been made on the same terms if it had been made at the date of this report.

  
J Kheir B Ec, FCPA  
Director, Financial Audit Services

SYDNEY  
28 September 2006



GPO BOX 12  
Sydney NSW 2001

To the Directors  
Regional Land Management Corporation Pty Ltd  
PO Box 5171  
HRMC NSW 2310

### Auditor's Independence Declaration

As auditor for the audit of Regional Land Management Corporation Pty Ltd for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The independence requirements of the *Corporations Act 2001* in relation to the audit, and
- Any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read "J. Kheir". The signature is fluid and cursive, extending to the right.

J Kheir  
Director, Financial Audit Services

18 September 2006  
SYDNEY

**INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	Note	30 June 2006 \$	30 June 2005 \$
<b>REVENUE</b>			
Revenue from operations	2	<u>8,930,807</u>	<u>6,278,878</u>
<b>EXPENDITURE</b>			
Expenditure relating to contracts and consulting		(6,730,247)	(4,029,614)
Legal fees		(131,160)	(77,977)
Property security costs		(219,442)	(276,066)
Employee benefits		(1,466,506)	(1,437,289)
Borrowing costs	3	(48,669)	(129,319)
Other		<u>(334,783)</u>	<u>(328,613)</u>
<b>TOTAL OPERATING EXPENDITURE</b>		<b>(8,930,807)</b>	<b>(6,278,878)</b>
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		-	-
Income tax expense		<u>-</u>	<u>-</u>
<b>PROFIT FOR THE YEAR</b>		<u>-</u>	<u>-</u>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		<u>-</u>	<u>-</u>

The Income Statement should be read in conjunction with the accompanying notes on pages 13 to 24.

**BALANCE SHEET AS AT 30 JUNE 2006**

	Note	30 June 2006 \$	30 June 2005 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4	1,061,739	1,242,175
Trade and other receivables	5	3,093,307	3,670,659
Other	6	34,011	13,112
		<u>4,189,057</u>	<u>4,925,946</u>
<b>TOTAL CURRENT ASSETS</b>			
		<u>4,189,057</u>	<u>4,925,946</u>
<b>TOTAL ASSETS</b>			
		<u>4,189,057</u>	<u>4,925,946</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	2,031,333	817,017
Borrowings	8	507,937	3,323,425
Provisions	9	342,448	325,473
Other	10	1,087,172	267,332
		<u>3,968,890</u>	<u>4,733,247</u>
<b>TOTAL CURRENT LIABILITIES</b>			
		<u>3,968,890</u>	<u>4,733,247</u>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	9	220,067	192,599
		<u>220,067</u>	<u>192,599</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>			
		<u>220,067</u>	<u>192,599</u>
<b>TOTAL LIABILITIES</b>			
		<u>4,188,957</u>	<u>4,925,846</u>
<b>NET ASSETS</b>			
		<u>100</u>	<u>100</u>
<b>EQUITY</b>			
Contributed equity	11	100	100
Retained profits	12	-	-
		<u>100</u>	<u>100</u>
<b>TOTAL EQUITY</b>			
		<u>100</u>	<u>100</u>

The Balance Sheet should be read in conjunction with the accompanying notes on pages 13 to 24.

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006**

	<b>Note</b>	<b>30 June 2006 \$</b>	<b>30 June 2005 \$</b>
Total equity at beginning of the year		100	100
<b>Net income recognised directly in Equity for the year</b>	12	-	-
Profit for the year		-	-
<b>Total Equity at end of financial year</b>		<u><u>100</u></u>	<u><u>100</u></u>

The Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 13 to 24.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

	<b>Note</b>	<b>30 June 2006 \$</b>	<b>30 June 2005 \$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of goods and services tax)		7,888,585	3,045,054
Payments to suppliers and employees (inclusive of goods and services tax)		(8,545,937)	(5,561,330)
Receipts from NSW Treasury		3,213,836	816,738
Interest received		121,486	30,294
Interest paid		(45,395)	(129,319)
Insurance recoveries		2,477	-
		<hr/>	<hr/>
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>13</b>	<b><u>2,635,052</u></b>	<b><u>(1,798,563)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
		<hr/> -	<hr/> -
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<hr/> -	<hr/> -
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		610,611	3,323,425
Repayment of borrowings		(3,426,099)	(1,075,161)
		<hr/>	<hr/>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b><u>(2,815,488)</u></b>	<b><u>2,248,264</u></b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		(180,436)	449,701
<b>CASH AT BEGINNING OF FINANCIAL PERIOD</b>		<hr/> 1,242,175	<hr/> 792,474
<b>CASH AT END OF FINANCIAL PERIOD</b>	<b>4</b>	<b><u>1,061,739</u></b>	<b><u>1,242,175</u></b>

The Cash Flow Statement should be read in conjunction with the accompanying notes on pages 13 to 24.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### a) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRSs), Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and the *Public Finance & Audit Act 1983*.

The financial statements also incorporate financial reporting requirements specified in the *Public Finance and Audit Regulation 2005*, the *Annual Reports (Statutory Bodies) Act 1984*, *Annual Reports (Statutory Bodies) Regulation 1995* and the relevant Treasurer's Directions.

Proper accounts and records for all of the Corporation's operations have been kept as required under Section 41(1) of the *Public Finance and Audit Act 1983*.

#### **Compliance with IFRSs**

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures the consolidated financial statements and notes of the Corporation comply with International Financial Reporting Standards (IFRSs).

#### **Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards**

These financial statements are the first financial statements of the Corporation to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of the Corporation until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing these financial statements, management has amended certain accounting methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. In accordance with NSW Treasury mandates, the Corporation has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005. As a result, comparative information for these two Standards is presented under the previous Australian Accounting Standards which applied to the year ended 30 June 2005. Under previous Accounting Standards, financial instruments were recognised at cost.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Corporation's equity and its net income are given in Note 17.

#### **Historical cost convention**

The financial statements have been prepared on an accruals basis using the historical cost convention, except for the non-current physical assets which are shown at valuation.

### b) REVENUE RECOGNITION

Revenue is recognised when the Corporation has passed on control of the good, it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

#### **(i) Rents and leases**

Rent is received for Government owned properties managed by Regional Land Management Corporation Pty Ltd in accordance with Regional Land Management Corporation Pty Ltd's *Implementation Agreement* and *Variation Agreement* with the State. Revenue from rents and leases is recognised in accordance with the lease agreements in place.

#### **(ii) Treasury funding**

Revenue from Treasury funding is recognised once expenditure that the funding relates to is incurred.

#### **(iii) Interest revenue**

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

**c) INCOME TAX**

Regional Land Management Corporation Pty Ltd is exempt from the National Taxation Equivalent Regime (NTER), NSW Tax Equivalent Regime (TER) and Income Tax Assessment Act. The exemption is based on the non-commercial nature of the Corporation and that, given the current activities of the Corporation, competitive neutrality issues are unlikely to arise. However should the activities or format of the Corporation materially change, this exemption will be reviewed.

**d) CASH AND CASH EQUIVALENTS**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**e) TRADE AND OTHER RECEIVABLES**

Trade receivables are recognised at fair value less provision for doubtful debts.

Collectibility of receivables is reviewed on an ongoing basis and debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the entity will not be able to collect all amounts due.

**f) LEASES**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**g) TRADE AND OTHER PAYABLES**

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of financial year which are unpaid.

**h) BORROWINGS**

Regional Land Management Corporation Pty Ltd has borrowed funds from the parent entity, Hunter Water Corporation, in the form of an inter-entity loan.

Interest expense is accrued on a compounding basis at the contracted rate.

**i) EMPLOYEE BENEFITS**

**(i) Wages and salaries, annual leave and sick leave**

Liabilities for salaries and wages including annual leave expected to be settled within 12 months of the reporting date are recognised as current employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Long service leave**

The liability for long service leave is recognised as an employee benefit and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary and wage levels, trends of employee departures and periods of service. Expected future payments are discounted using the 10 year Commonwealth Government bond rate.

**(iii) Superannuation**

Employees of the entities within the Corporation are members of either defined benefit superannuation funds or defined contribution superannuation funds. The defined benefit superannuation funds provide defined lump sum benefits based on years of service and final average salary.

A liability or asset in respect of the defined benefit plans is recognised in the balance sheet and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any past service cost. The assessment of these liabilities and assets is undertaken by the funds' administrator, Pillar Administration.

**j) GOODS AND SERVICES TAX**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of the GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis.

**k) ACCOUNTING STANDARDS AND UIG INTERPRETATIONS ISSUED BUT NOT YET OPERATIVE**

At the reporting date, certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods and have not been adopted earlier by the Corporation. The Corporation's assessment of the impact of these new standards and interpretations is set out below.

**(i) UIG4 Determining whether an Asset Contains a Lease**

UIG4 is applicable to reporting periods beginning on or after 1 January 2006. The Corporation will apply UIG4 in its 2007 financial statements and the UIG4 transition provisions. Implementation of UIG4 is not expected to change the accounting for any of the Corporation's current arrangements.

**(ii) UIG5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**

UIG5 is applicable to reporting periods beginning on or after 1 January 2006. Implementation of this interpretation is not expected to affect the Corporation's financial statements.

**(iii) AASB7 Financial Instruments: Disclosure and AASB2005-10 Amendments to Australian Accounting Standards (AASB132, AASB101, AASB114, AASB117, AASB133, AASB139, AASB1, AASB4, AASB1023 and AASB1038)**

AASB7 and AASB2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements but will impact the type of information disclosed in relation to the Corporation's financial instruments.

**(iv) AASB2005-9 Amendments to Australian Accounting Standards (AASB4, AASB1023, AASB139 and AASB132)**

AASB2005-9 is applicable to reporting periods beginning on or after 1 January 2006. Application of the standards will not affect the financial results of the Corporation.

**(v) AASB119 Employee Benefits and AASB2004-3 Amendments to Accounting Standards (AASB1, AASB101 and AASB124)**

These amended standards are applicable to reporting periods beginning on or after 1 January 2006. The application of these standards will not affect the financial results of the Corporation as NSW Treasury has issued an indicative mandate that the two additional options allowed by AASB119 are not to be used by NSW public sector entities.

The following standards and UIG Interpretations have no impact on any disclosure or reporting by the Corporation as they relate to transactions or structures that are not undertaken or applicable to the Corporation:

- AASB2005-1 Amendments to Australian Accounting Standards (AASB139)
- AASB2005-5 Amendments to Australian Accounting Standards (AASB1 and AASB139)
- AASB2006-1 Amendments to Australian Accounting Standards (AASB121)
- UIG6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- UIG7 Applying the Restatement Approach under AASB129 Financial Reporting in Hyperinflationary Economies
- UIG8 Scope of AASB2
- UIG9 Assessment of Embedded Derivatives

	30 June 2006 \$	30 June 2005 \$
<b>2 REVENUE</b>		
Treasury funding	2,361,545	3,451,047
Rental income	2,645,121	2,792,626
AFL access fee	3,636,957	-
Other revenues	287,184	35,205
<b>TOTAL REVENUE</b>	<u>8,930,807</u>	<u>6,278,878</u>

### 3 PROFIT FROM ORDINARY ACTIVITIES

Profit before income tax includes the following specific net gains and expenses

Borrowing costs:

- Interest and finance charges paid/payable	48,669	129,319
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Rental expense relating to operating leases:

- Minimum lease payments	35,919	58,788
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Superannuation expense	139,750	273,806
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### 4 CASH AND CASH EQUIVALENTS

Cash at bank	1,014,427	1,241,845
Cash on hand	85	330
Deposits at call	47,227	-
	<u>1,061,739</u>	<u>1,242,175</u>

Deposits at call are bearing an interest rate of 5.70%

### 5 TRADE AND OTHER RECEIVABLES

CURRENT

NSW Treasury reimbursements	2,598,756	3,451,047
Rent	113,663	26,201
Other	172	-
GST receivable	380,716	193,411
	<u>3,093,307</u>	<u>3,670,659</u>

### 6 OTHER ASSETS

CURRENT

Prepayments	<u>34,011</u>	<u>13,112</u>
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### 7 TRADE AND OTHER PAYABLES

CURRENT

Creditors and accrued expenditure	<u>2,031,333</u>	<u>817,017</u>
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	30 June 2006 \$	30 June 2005 \$
<b>8 BORROWINGS</b>		
Loans payable to Parent Entity - Hunter Water Corporation	507,937	3,323,425
	<u>507,937</u>	<u>3,323,425</u>
<b>9 PROVISIONS</b>		
<b>CURRENT</b>		
Employee benefits – short term	91,558	96,820
Employee benefits – long term	250,890	228,653
	<u>342,448</u>	<u>325,473</u>
<b>NON-CURRENT</b>		
Employee benefits	220,067	192,599
	<u>220,067</u>	<u>192,599</u>
<b>10 OTHER LIABILITIES</b>		
<b>CURRENT</b>		
Income received in advance	1,087,172	267,332
	<u>1,087,172</u>	<u>267,332</u>
<b>11 CONTRIBUTED EQUITY</b>		
<b>ISSUED AND PAID UP SHARE CAPITAL</b>		
100 (2005: 100) fully paid ordinary shares	100	100
	<u>100</u>	<u>100</u>
There were no movements in share capital during the year.		
<b>12 RETAINED PROFITS</b>		
Retained profits at the beginning of year	-	-
Net profit attributable to members of the Corporation	-	-
Retained profits at end of year	<u>-</u>	<u>-</u>
<b>13 CASH FLOW STATEMENT</b>		
<b>RECONCILIATION OF PROFIT AFTER INCOME TAX TO THE NET CASH FROM OPERATING ACTIVITIES</b>		
Profit from ordinary activities after related income tax	-	-
<b>CHANGES IN ASSETS AND LIABILITIES</b>		
- (Increase)/decrease in receivables	577,352	(2,723,508)
- (Increase)/decrease in prepayments	(20,899)	5,963
- (Decrease)/increase in payables	1,214,316	539,694
- (Decrease)/increase in provisions	44,443	382,124
- (Decrease)/increase in other liabilities	819,840	(2,836)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<u>2,635,052</u>	<u>(1,798,563)</u>

	30 June 2006	30 June 2005
Note	\$	\$
<b>14 CONTRACTUAL COMMITMENTS</b>		
CONSULTANCY COMMITMENTS		
Consultancy commitments contracted for at balance date but not recognised as liabilities:		
- Payable within one year	18,353,048	655,250
- Payable later than one year or later but no later than five years	309,630	-
	18,662,678	655,250

#### 15 LEASE EXPENDITURE COMMITMENTS

Operating lease commitments in relation to non-cancellable operating leases are payable as follows:

- Within one year	-	2,732
	-	2,732

#### 16 SUPERANNUATION

##### (a) Superannuation Plan

Some employees are entitled to benefits on retirement, disability or death. The superannuation plans are administered by Pillar Administration (formerly the Superannuation Administration Corporation) and provide defined benefits based on years of service and final average salary. Employees contribute to the plans at various percentages of their wages and salaries. The Corporation also contribute to the plans.

The State Authorities Superannuation Scheme closed on 18 December 1992. Superannuation benefits for new entrants are now provided through First State Super (FSS), which is an accumulation type scheme. The Corporation has made full provision for these commitments. The following sets out details in respect of the defined benefits section only.

##### (b) Balance Sheet Amounts

The amounts recognised in the Balance Sheet are determined as follows:

	30 June 2006	30 June 2005
Note	\$	\$
Present Value of Defined Benefit Obligations	1,286,433	941,682
Fair Value of Plan Assets	(1,094,723)	(769,805)
	191,710	171,877
Surplus in Excess of Recovery Available from Schemes	-	-
Unrecognised Past Service Cost	-	-
Net (Asset)/Liability	191,710	171,877

##### (c) Reconciliation

Net (Asset)/Liability at Start of Year	171,877	-
Net Expense Recognised in the Income Statement	36,906	192,702
Contributions	(17,073)	(20,825)
Net (Asset)/Liability	191,710	171,877

Note	30 June 2006 \$	30 June 2005 \$
<b>(d) Amounts Recognised in the Income Statement</b>		
The amounts recognised in the Income Statement are:		
Current Service Cost	25,495	18,472
Interest on Obligations	31,835	24,750
Expected Return on Plan Assets	(58,815)	(32,293)
Net Actuarial Losses (Gains) Recognised in Year	38,390	181,773
Change in Surplus in Excess of Recovery Available from Scheme	-	-
Past Service Cost	-	-
Losses (Gains) on Curtailments and Settlements	-	-
Total included in "Superannuation (expense) revenue"	36,905	192,702

**(e) Actual Return on Plan Assets**

Actual Return on Plan Assets	123,050	69,440
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**(f) Principal Actuarial Assumptions**

The principal actuarial assumptions used (expressed as weighted averages) at the reporting date were as follows:

Discount Rate:	5.9% pa
Expected Return on Plan Assets:	7.6%
Expected Salary Increases:	4.0% pa to 2008; 3.5% pa thereafter.
Expected Rate of CPI Increase:	2.5% pa

**(g) Employer Contributions**

Employer contributions to the defined benefit section of the plan are based on the recommendations of the plan's actuary. The last triennial update of demographic assumptions used to calculate the gross superannuation liability of the various defined benefit schemes was undertaken in 2003.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The method used to determine the employer contribution recommendations at the last actuarial review was the Aggregate Funding Method. The method adopted affects the timing of the cost to the employer. Under the aggregate funding method, the employer contribution rate is determined so that sufficient assets will be available to meet benefit payments to existing members, taking into account the current value of assets and future contributions.

The recommended contribution rates for the Corporation are:

**State Superannuation Scheme:** 1.90X (multiple of member contributions)

**State Authorities Superannuation Scheme:** 2.5% (% of member salary)

**State Authorities Non-Contributory Superannuation Scheme:** 1.60X (multiple of member contributions)

The economic assumptions used by the actuary to make the funding recommendation were a investment return on fund assets of 7.3% pa, a salary increase rate of 4.0% pa, and an inflation rate of 2.5% pa.

**(h) Net Financial Position of Plan**

In accordance with AAS 25 Financial Reporting by Superannuation Plans the plan's net financial position is determined as the difference between the present value of the accrued benefits and the market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2006), and a deficit of \$37,169 was reported.

(i) Historic Summary

	SSS \$'000	SASS \$'000	SANCS \$'000	05-06 \$'000	04-05 \$'000
Accrued Liability	510	104	672	1,286	942
Estimated Reserve Account Balance	(658)	(113)	(323)	(1,094)	(770)
Unfunded Liability / (Prepaid Contributions)	(148)	(9)	349	192	172

Information for years prior to 2005 is not available

- (i) SSS State Superannuation Scheme
- (ii) SASS State Authorities Superannuation Scheme
- (iii) SANCS State Authorities Non-Contributory Superannuation Scheme

17 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(1) Reconciliation of profit for the year ended 30 June 2005

	Note	Previous AGAAP \$	Effect of transition to AEIFRS \$	AEIFRS \$
<b>REVENUE</b>				
Treasury funding	a	3,213,836	237,211	3,451,047
Rental income		2,792,626	-	2,792,626
Other revenues		35,205	-	35,205
<b>TOTAL REVENUE</b>		<b>6,041,667</b>	<b>237,211</b>	<b>6,278,878</b>
<b>EXPENDITURE</b>				
Expenditure relating to contracts and consulting		(4,029,614)	-	(4,029,614)
Legal fees		(77,977)	-	(77,977)
Licence fees		(0)	-	(0)
Property security costs		(276,066)	-	(276,066)
Salaries, wages and Directors fees	a	(1,200,078)	(237,211)	(1,437,289)
Borrowing costs		(129,319)	-	(129,319)
Other		(328,613)	-	(328,613)
<b>TOTAL OPERATING EXPENDITURE</b>		<b>(6,041,667)</b>	<b>(237,211)</b>	<b>(6,278,878)</b>
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>-</b>	<b>-</b>	<b>-</b>
Income tax expense		-	-	-
<b>PROFIT FOR THE YEAR</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS</b>		<b>-</b>	<b>-</b>	<b>-</b>

(2) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian Equivalents to IFRS (AEIFRS)

(a) At the date of transition to AEIFRS (1 July 2004) there was no effect on the Corporation.

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Note	Previous AGAAP \$	Effect of transition to AEIFRS \$	AEIFRS \$
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		1,242,175	-	1,242,175
Trade and other receivables	a	3,433,448	237,211	3,670,659
Other		13,112	-	13,112
<b>TOTAL CURRENT ASSETS</b>		<b>4,688,735</b>	<b>237,211</b>	<b>4,925,946</b>
<b>NON-CURRENT ASSETS</b>				
Other	a	65,324	(65,324)	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>65,324</b>	<b>(65,324)</b>	<b>-</b>
<b>TOTAL ASSETS</b>		<b>4,754,059</b>	<b>171,887</b>	<b>4,925,946</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables		817,017	-	817,017
Borrowings		3,323,425	-	3,323,425
Provisions	b	96,820	228,653	325,473
Other		267,332	-	267,332
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,504,594</b>	<b>228,653</b>	<b>4,733,247</b>
<b>NON-CURRENT LIABILITIES</b>				
Provision for employee entitlements	a,b	249,365	(56,766)	192,599
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>249,365</b>	<b>(56,766)</b>	<b>192,599</b>
<b>TOTAL LIABILITIES</b>		<b>4,753,959</b>	<b>171,887</b>	<b>4,925,846</b>
<b>NET ASSETS</b>		<b>100</b>	<b>-</b>	<b>100</b>
<b>EQUITY</b>				
Contributed equity		100	-	100
Retained profits		-	-	-
<b>TOTAL EQUITY</b>		<b>100</b>	<b>-</b>	<b>100</b>

(3) Reconciliation of Cash flows

	Previous AGAAP	Effect of transition to AEIFRS	AEIFRS
Note	\$	\$	\$
<b>RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES</b>			
Profit from ordinary activities after related income tax	-	-	-
<b>CHANGES IN ASSETS AND LIABILITIES</b>			
- (Increase)/decrease in receivables	a (2,486,297)	(237,211)	(2,723,508)
- (Increase)/decrease in prepayments	5,963	-	5,963
- (Increase)/decrease in future income tax benefit	-	-	-
- (Increase)/decrease in prepaid/ overfunded superannuation	a (65,324)	65,324	-
- (Decrease)/increase in payables	539,694	-	539,694
- (Decrease)/increase in provisions	a 210,237	171,887	382,124
- (Decrease)/increase in other liabilities	(2,836)	-	(2,836)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<u>(1,798,563)</u>	<u>-</u>	<u>(1,798,563)</u>

a) AASB 119 *Employee Benefits* requires the defined benefit superannuation obligation to be discounted using the government bond rate as at each reporting date, rather than the long-term expected rate of return on plan assets. This has increased the superannuation liability, reduced opening accumulated funds and increased the annual superannuation expense. During 2004-05 the long term bond rate fell by nearly one per cent, resulting in a significant increase in the superannuation liability and expense. As Regional Land Management Corporation Pty Ltd is fully funded by the NSW Treasury a debtor of \$237,211 has been created to fund the superannuation revaluation.

b) In accordance with AASB 101 *Presentation of Financial Statements*, liabilities must be classified as current where there is no unconditional right to defer the settlement of a liability for at least 12 months after the reporting date. As such an amount of \$228,653 has been identified as unconditional long service leave and, while still recognised and measured as a long term employee benefit (per AASB 119), has been moved from Non-Current to Current Liabilities in the Balance Sheet.

**18 CONTINGENT LIABILITIES**

No significant claims for damages are being negotiated. This does not include matters covered by insurance. As at the date of signing this report we are not aware of any contingent liabilities in existence.

**19 AUDITORS' REMUNERATION**

	30 June 2006	30 June 2005
	\$	\$
Amounts received or due & receivable by the auditors for audit and review of the financial report	<u>9,000</u>	<u>7,200</u>

**20 RELATED PARTIES DISCLOSURES**

(a) **DIRECTORS AND ANY DIRECTOR RELATED ENTITIES**

The Directors of Regional Land Management Corporation Pty Ltd during the financial period were:

Mr R Robson  
 Cr J Tate  
 Mr D Simmons  
 Mr R Knights

Mr R Robson and Mr R Knights are also Directors of the parent entity Hunter Water Corporation and related entity Hunter Water Australia Pty Limited.

(b) **CONTROLLING ENTITY**

The controlling entity Hunter Water Corporation owns 100% of Regional Land Management Corporation Pty Ltd.

(c) **TRANSACTIONS BETWEEN RELATED PARTIES**

Transactions between related parties are conducted using commercial conditions no more favourable than those available to other parties unless otherwise stated.

(d) **OUTSTANDING BALANCES**

The Corporation has loans from the controlling entity, Hunter Water Corporation (refer Note 8), with interest payable on the loans. Loans totalling \$656,006 were drawn from the parent entity by the Corporation during the year and repayments totalling \$3,471,494 were made.

## 21 SEGMENT INFORMATION

The Corporation operates predominantly in one business and geographical segment being the management of Government owned land in the Lower Hunter Region of Australia.

The Corporation has management responsibility for five (5) parcels of Government owned land:

- former BHP steelworks site at Mayfield site (150 hectares)
- former BHP waste site at Kooragang Island (239 hectares)
- former BHP land in West Wallsend area (1545 hectares)
- land adjacent to Hunter River at Tomago (545 hectares)
- land on Kooragang Island (860 hectares)

These Government owned lands are owned and controlled by the Crown Property Portfolio.

## 22 ECONOMIC DEPENDENCY

Regional Land Management Corporation Pty Ltd is entitled under section 20N of the *State Owned Corporations Act 1989* (NSW) to be re-imbursed, from money advanced by the Treasurer, or appropriated by Parliament for the following:

- amounts equal to the net cost of performing any such activities relating to the interim management of Government owned land in the Lower Hunter Region (including the cost of capital); or
- the net cost of complying with a direction to cease to perform or not to perform such activities.

From 1 July 2005 Regional Land Management Corporation Pty Ltd is entitled under section 20N of the *State Owned Corporations Act 1989* (NSW) to be fully re-imbursed to an estimated \$77 million (in \$2004). This funding will cover the Corporation's remediation, development and operational activities from 1 July 2005 to 30 June 2008.

Regional Land Management Corporation Pty Ltd operated independently from the parent entity. All transactions were on normal commercial terms and conditions.

## 23 EVENTS OCCURRING AFTER BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

## 24 FINANCIAL INSTRUMENTS

### (a) INTEREST RATE RISK

The Corporation's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

2006	Weighted Average Effective Interest Rates	Floating Interest Rate \$	Due 1 Year or less \$	Over 1 Year to 5 Years \$	Non-Interest Bearing \$	TOTAL \$
<b>Financial Assets</b>						
<b>Current</b>						
Cash at bank	4.75%	1,014,427	-	-	-	1,014,427
Cash on hand		-	-	-	85	85
Deposits at call	5.70%	47,227	-	-	-	47,227
Receivables		-	-	-	3,093,307	3,093,307
<b>TOTAL</b>		<b>1,061,654</b>	<b>-</b>	<b>-</b>	<b>3,093,392</b>	<b>4,155,046</b>
<b>Financial Liabilities</b>						
<b>Current</b>						
Payables		-	-	-	2,031,333	2,031,333
Interest-bearing liabilities	7.59%	-	507,937	-	-	507,937
<b>TOTAL</b>		<b>-</b>	<b>507,937</b>	<b>-</b>	<b>2,031,333</b>	<b>2,539,270</b>
<b>2005</b>						
2005	Weighted Average Effective Interest Rates	Floating Interest Rate \$	Due 1 Year or less \$	Over 1 Year to 5 Years \$	Non-Interest Bearing \$	TOTAL \$
<b>Financial Assets</b>						
<b>Current</b>						
Cash at bank	4.50%	1,241,845	-	-	-	1,241,845
Cash on hand		-	-	-	330	330
Receivables		-	-	-	3,670,659	3,670,659
<b>TOTAL</b>		<b>1,241,845</b>	<b>-</b>	<b>-</b>	<b>3,670,989</b>	<b>4,912,834</b>
<b>Financial Liabilities</b>						
<b>Current</b>						
Payables		-	-	-	817,017	817,017
Interest-bearing liabilities	7.99%	-	3,323,425	-	-	3,323,425
<b>TOTAL</b>		<b>-</b>	<b>3,323,425</b>	<b>-</b>	<b>817,017</b>	<b>4,140,442</b>

### (b) CREDIT RISK EXPOSURES

The credit risk on financial assets of the Corporation, which have been recognised on the Balance Sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The Corporation does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Corporation.

### (c) NET FAIR VALUES

Financial assets and liabilities included in the Balance Sheet are carried at amounts that approximate net fair value.

## END OF AUDITED FINANCIAL STATEMENTS

The Directors of the Corporation declare that:

- 1 the financial statements and notes, set out on pages 9 to 24:
  - a) comply with Accounting Standards, the *Corporations Act* 2001 and the *Public Finance and Audit Act* 1983; and
  - b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Corporation; and
- 2 In the Directors' opinion there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable

This declaration is made in accordance with a resolution of the Board of Directors:



R ROBSON  
Chairperson



D SIMMONS  
Director

NEWCASTLE 14 SEPTEMBER 2006