



chapter 8

# hunter water australia financials

## **COMPANY PARTICULARS**

### **Directors**

Mr R Robson

*Chairman*

Mr K Young

*Managing Director*

Mr R Chappel

Mr J Eather

*Appointed 9 June 2009*

### **Company Secretary**

Ms A Swan

*Appointed 28 November 2008*

Mr P Dennis

*Resigned 28 November 2008*

## **REGISTERED OFFICE**

The registered office and principal place of business of the company is  
Hunter Water Australia Pty Limited  
ABN – 19 080 869 905  
Incorporated in Australia  
19 Spit Island Close, Steel River,  
Mayfield West NSW 2304

## **AUDITORS**

Audit Office of New South Wales

## **BANKERS**

Commonwealth Bank of Australia

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# 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 2009.

## **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 K Young  
Mr RChappel  
Mr J Eather

## **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. Mr Robson is also a Director of the Lower Hunter Development Corporation, a Director of Robson Health Care Pty Ltd, Chairman of Banlaw Pipeline Pty Ltd, Chairman of Australian Film and Pipe Pty Ltd, Chairman of Cromford Pty Ltd and Patron of Newcastle/Hunter Valley Rugby Union.

### **KJ YOUNG**

#### **B Eng, MBA, FIE Aust, CPENG, FAICD**

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. Mr Young is the Deputy Chairperson of the Water Services Association of Australia (WSAA) and is Chairperson of WSAA's Asset Management Committee. He is also a Director of Together Today, the Hunter Valley Research Foundation and a member of the Advisory Board for the Faculty of Business and Law at the University of Newcastle.

### **RA CHAPPEL**

#### **BE (Civil), Dip T & RP, Hon FIE Aust, FTSE**

Mr Chappel was appointed as a Director on 26 July 2007 and is also a Director of Hunter Water Corporation. He is a former Director of Connell Wagner, a large consulting engineering practice, and Chairman of the Australian Underground Construction and Tunnelling Association. He has experience in directing and managing large technical projects including water and wastewater projects.

### **JR EATHER**

#### **B.Com, CPA, FCIM**

Mr Eather was appointed as a Director on 9 June 2009 and is also a Director of Hunter Water Corporation. Mr Eather is the Managing Director of the Callaghan Institute, a Business and Economic Research and advisory practice he established in 2007. Previously, he was CEO Media for the SOUL Group, where he was directly responsible for the running of NBN Television. During his 27 years with the NBN and SOUL Groups, he was actively involved in the expansion of the Group from its media base to the converging world of telecommunications. Mr Eather is Chairman of the Newcastle University Foundation and is a Director of the Mayumarri Trust, a healing centre for survivors of child abuse.

	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS HELD DURING THE TIME THE DIRECTOR HELD OFFICE
	A	B
<b>R Robson</b>	11	12
<b>R Chappel</b>	11	12
<b>K Young</b>	12	12
<b>J Eather</b>	1	1

### PRINCIPAL ACTIVITIES

The principal activities of the Company in 2008/09 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 activities occurred during the year.

### REVIEW OF OPERATIONS

The net profit after tax, for the financial year ended to 30 June 2009, was \$5,374,632 compared with a net profit after tax of \$4,399,527 for the previous year.

The entity comprises five Business Units whose performance is independently monitored. All businesses achieved a good performance.

### DIVIDENDS PAID

During the year, a dividend was paid to the Majority Shareholder of \$2,854,416 that was declared at 30 June 2008.

A dividend of \$3,755,627 has been declared for the year ending 30 June 2009. This will be paid to the Majority Shareholder during 2009/10.

### 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 insurance premium to cover the indemnity is paid for by the Parent Company. The Company pays a Management Fee to the Parent Company to cover this expense. This relates to:

- unlimited 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.
- unlimited 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 2009.

### TRUE AND FAIR VIEW

The financial statements and notes give a true and fair view of the financial position as at 30 June 2009 and the performance for the financial year ended 30 June 2009.

## **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 119.

## **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 REGULATIONS**

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.



**Mr R Robson**  
**Chairman**



**Mr R Chappel**  
**Director**

**Dated: 23 September 2009**  
**Newcastle**

# independent audit report



GPO BOX 12  
Sydney NSW 2001

## INDEPENDENT AUDITOR'S REPORT

### Hunter Water Australia Pty Limited

To Members of the New South Wales Parliament and Members of Hunter Water Australia Pty Limited

I have audited the accompanying financial report of Hunter Water Australia Pty Limited (the Company), which comprises the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### Auditor's Opinion

In my opinion the financial report:

- 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 2009 and its performance for the year ended on that date; and
  - complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001
- is in accordance with *section 41B* of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2005
- also complies with International Financial Reporting Standards as disclosed in Note 1A.

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

#### Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the PF&A Act and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1A, the directors also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial report complies with International Financial Reporting Standards.

#### Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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.

#### Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards, *Corporations Act 2001* and other relevant ethical requirements. 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 of New South Wales are not compromised in their role by the possibility of losing clients or income.

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Hunter Water Australia Pty Limited on 17 September 2009, would be in the same terms if provided to the directors as at the date of this auditor's report.



M T Spriggins  
Director, Financial Audit Services

29 September 2009  
SYDNEY



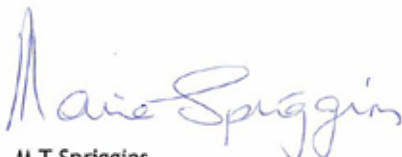
GPO BOX 12  
Sydney NSW 2001

To the Directors  
Hunter Water Australia Pty Limited

#### Auditor's Independence Declaration

As auditor for the audit of the financial report of Hunter Water Australia Pty Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- any applicable code of professional conduct in relation to the audit.



M T Spriggins  
Director, Financial Audit Services

17 September 2009  
SYDNEY

# income statement

	Notes	2009 \$	2008 \$
<b>INCOME</b>			
Services	2	31,850,847	25,862,112
Other income, excluding fair value movements in financial instruments	2	910,587	1,162,142
<b>TOTAL INCOME</b>		<b>32,761,434</b>	<b>27,024,254</b>
Expenses	3	(25,096,891)	(20,705,165)
<b>PROFIT BEFORE INCOME TAX</b>		<b>7,664,542</b>	<b>6,319,089</b>
Income tax on profit	4	(2,289,910)	(1,919,562)
<b>PROFIT FOR THE YEAR</b>	<b>1 (P)</b>	<b>5,374,632</b>	<b>4,399,527</b>
Attributable to:			
Members of the parent entity		5,374,632	4,399,527
Minority interest		-	-
		5,374,632	4,399,527

The Income Statement should be read in conjunction with the accompanying notes on pages 125 to 152.

# statement of recognised income and expense

	Notes	2009 \$	2008 \$
<b>PROFIT FOR THE YEAR</b>		<b>5,374,632</b>	<b>4,399,527</b>
Superannuation actuarial gains/ (losses)	22(f)	(4,380,831)	(1,622,799)
Income tax on superannuation actuarial gains/ (losses)		1,314,249	486,840
<b>NET INCOME/ (LOSS) RECOGNISED DIRECTLY IN EQUITY</b>		<b>(3,066,582)</b>	<b>(1,135,959)</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD</b>		<b>2,308,051</b>	<b>3,263,568</b>
<b>Effect of change in accounting policy</b>			
Profit for the year as reported in 2008			3,263,568
Change of policy - actuarial losses			1,135,959
<b>Restated profit for the period</b>			<b>4,399,527</b>

The Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes on pages 125 to 152.

# balance sheet

	Notes	2009 \$	2008 \$
<b>CURRENT ASSETS</b>			
Cash & cash equivalents	6	3,277,223	5,512,316
Trade and other receivables	7	3,763,031	3,178,947
Other	8	3,363,760	2,632,671
<b>TOTAL CURRENT ASSETS</b>		<b>10,404,014</b>	<b>11,323,933</b>
<b>NON-CURRENT ASSETS</b>			
Plant & equipment	9	4,372,629	1,462,275
Intangible assets	10	181,804	97,382
Capital Work in Progress	11	0	94,675
Investments	12	5,000,000	5,000,000
Overfunded Defined Benefit Super	13	0	276,428
Deferred tax assets	14	1,729,894	957,675
<b>TOTAL NON-CURRENT ASSETS</b>		<b>11,284,328</b>	<b>7,888,435</b>
<b>TOTAL ASSETS</b>		<b>21,688,341</b>	<b>19,212,369</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	2,120,623	2,307,641
Current tax liabilities	16	424,881	842,141
Provisions	17	6,775,013	5,986,778
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,320,517</b>	<b>9,136,560</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	17	334,640	264,513
Underfunded Defined Benefit Super	18	3,669,465	0
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>4,004,105</b>	<b>264,513</b>
<b>TOTAL LIABILITIES</b>		<b>13,324,622</b>	<b>9,401,073</b>
<b>NET ASSETS</b>		<b>8,363,720</b>	<b>9,811,296</b>
<b>EQUITY</b>			
Contributed equity	19	900,010	900,010
Retained profits		7,463,710	8,911,286
<b>TOTAL EQUITY</b>		<b>8,363,720</b>	<b>9,811,296</b>

The Balance Sheet should be read in conjunction with the accompanying notes on pages 125 to 152.

# cash flow statement

	Notes	2009 \$	2008 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		33,161,771	28,002,716
Payments to suppliers and employees (inclusive of GST)		(27,313,057)	(23,106,457)
		5,848,714	4,896,259
Interest received		456,022	743,912
Interest paid		-	-
Income taxes paid		(2,165,141)	(1,305,384)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>20</b>	<b>4,139,595</b>	<b>4,334,787</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment		(3,543,185)	(1,092,160)
Proceeds from sales of property, plant and equipment		20,209	4,281
Loan to Parent Entity		-	-
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>(3,522,976)</b>	<b>(1,087,879)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Dividends paid	5	(2,854,416)	(2,173,477)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(2,854,416)</b>	<b>(2,173,477)</b>
Net increase / (decrease) in cash held		(2,237,797)	1,073,430
Cash at beginning of financial period		5,512,316	4,447,352
Effects of exchange rate changes on cash		2,704	(8,466)
<b>CASH AT THE END OF THE FINANCIAL YEAR</b>	<b>6</b>	<b>3,277,223</b>	<b>5,512,316</b>

The Cash Flow Statement should be read in conjunction with the accompanying notes on pages 125 to 152.

# notes to and forming part of the financial statements

## **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.

The Company's financial report for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Board on xx September 2009.

### **A. Basis of Preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and 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 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).

#### *Historical cost convention*

The financial statements have been prepared on an accruals basis using the historical cost convention.

#### *Rounding*

All amounts in the financial report are reported to the nearest dollar.

#### *Currency*

All amounts in the financial report are reported in Australia dollars.

### **B. Revenue Recognition**

Revenue is recognised when 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.

Revenue includes changes in work in progress. Refer to Note 1F for further details on work in progress.

Investment income represents earnings on surplus cash invested in the Company's bank accounts, NSW TCorp deposits or in the Parent Entity. Interest is recognised on a time proportioned basis using the effective interest method.

### **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 Company lodges Income Tax returns in both Canada and the United States. These are nil returns as any assessable income is assessed in the Company's Australian Income Tax in accordance with the relevant tax treaty's Australia has with each of those countries.

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 original invoice amount less provision for doubtful debts. Recognition at original invoice amount is adopted as this is not materially different to amortised cost, given the short term nature of receivables.

Collectability 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.

Trade receivables are required to settle within 21-28 days.

#### **F. Work In Progress**

Work in progress is stated as 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. Any credit balance in work in progress is reclassified as income in advance at 30 June 2009.

When the outcome of the project cannot be estimated reliably, revenue is only recognised to the extent that the costs incurred are recoverable.

#### **G. Plant and Equipment**

Plant and equipment is carried at cost less, where applicable, any accumulated depreciation. Depreciated cost of these assets is considered to equate to fair value.

All items of property, plant and equipment acquired by the Company are recognised initially at the cost of acquisition. Cost is the amount of cash or cash equivalents paid, or the fair value of other consideration given to acquire the asset, including costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Items costing \$500 or more individually and having a minimum expected working life of 12 months are capitalised.

The carrying amount of plant and equipment is reviewed annually by Management to ensure it is not in excess of the recoverable amount from those assets (refer to Note 1 section (J) 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:

<i>Class of Asset</i>	<i>Useful Life</i>
Computers	4 years
Support Assets	3 to 10 years
Leasehold Improvements	5 to 40 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 one to three years. Other intangible assets consist of access fees for high speed internet services and are amortised over two years.

Following initial recognition, the cost model is applied as it is considered that there is no active market that can be referenced for performing revaluations to a market-based fair value in respect of the particular items within each class of the Company's intangible assets.

#### **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 where 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 levels for which there are separately identifiable cash inflows (cash generating units).

In accordance with the requirements of AASB136 and NSW Treasury Circular TPP07-01, an assessment has been made of the value in use, which is 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.

Key assumptions of the asset impairment test are a discount rate of 12%, inflation of 3% and remaining asset life of an average of five years. These assumptions are consistent with modelling for the prior year.

#### **J. Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis and allocated 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.

Payables are recognised at cost, which is considered to approximate amortised cost due to the short term nature of payables. They are not discounted as the effect of discounting would not be material for these liabilities.

Trade Accounts payable are normally settled within 30 days.

## **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 and all unconditional employee benefits 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 applicable Commonwealth Government bond rate. This is consistent with the estimated term of the post-employment benefit obligations.

### *(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.

The defined benefit superannuation fund receives fixed contributions from the Company and the Company's legal/constructive obligation is limited to these contributions.

## **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. The dividend payable of \$3.76M (2008: \$2.85M) is calculated based on profit adjusted for certain non-cash items. In the Income Statement, this is based on a percentage of the line item 'Profit before financial instrument fair value movement' \$5.37M (2008: \$4.06M). As a result of the changed treatment of superannuation actuarial gains and losses (refer Note 1(R)), in the dividend calculation, there is no longer a need to adjust profit to exclude these gains/ losses, as they are now recognised outside profit/ loss.

## **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. Change in Accounting Policy**

According with NSW Treasury policy, the entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses are now recognised outside of profit or loss in the “statement of recognised income and expense”. Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 Employee Benefits.

The change in policy has been adopted on the basis that recognition outside profit or loss provides reliable and more relevant information as it better reflects the nature of actuarial gains and losses. This is because actuarial gains/losses are re-measurements, based on assumptions that do not necessarily reflect the ultimate cost of providing superannuation.

Recognition outside of profit or loss also harmonises better with the Government Finance Statistics/ GAAP comprehensive income presentation for the whole of government and general government sector, required under AASB 1049 Whole Government and General Government Sector Financial Reporting. A comprehensive income presentation will also be available at the entity level from 2009/10 under AASB 101 Presentation of Financial Statements.

The change in accounting policy increases 2009 ‘profit for the year’ from \$2.3m to \$5.4m (2008: from \$3.3m to \$4.4m), by excluding from profit the superannuation actuarial loss line item (2009: \$4.4m, 2008: \$1.6m), along with the associated and offsetting income tax revenue (2009: \$1,314K, 2008: \$487K). Both these items are now recognised in the ‘statement of recognised income and expense’ rather than the ‘income statement’.

**Q. Accounting Standards and Australian Accounting Interpretations issued but not yet operative**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Company’s assessment of the impact of these new standards and interpretations is set out below:

(i) *AASB 123 Borrowing Costs - This standard is applicable to reporting periods beginning on or after 1 July 2009.*  
The application of this standard will not impact on the Company’s financial results.

(ii) *AASB 101 Presentation of Financial Statements (effective 1 January 2009)*  
Revision to this standard requires the presentation of a statement of comprehensive income and makes changes to the statement of recognised income and expense, but will not affect any of the amounts recognised in the financial statements. Hunter Water Australia Pty Limited will apply the revised standard from 1 July 2009.

**NOTE 2. REVENUE**

	Notes	2009 \$	2008 \$
<b>SERVICES</b>			
Sale of services		31,850,847	25,862,112
		31,850,847	25,862,112
<b>OTHER INCOME</b>			
Interest from controlling entity		231,496	343,092
Interest from financial institutions		240,094	326,114
Superannuation Income		434,938	489,818
Net Gain from the sale of assets		1,588	-
Other		2,471	3,117
		910,587	1,162,142
<b>TOTAL INCOME</b>		<b>32,761,434</b>	<b>27,024,254</b>

**NOTE 3. EXPENSES**

	Notes	2009 \$	2008 \$
<b>Profit before tax includes the following net gains and expenses:</b>			
<b>(a) EXPENSES</b>			
Employee related expenses (see note B. below)		12,520,723	11,579,185
Project and contract outlays		8,000,781	5,791,034
Motor vehicles (excluding minimum lease payments)		807,793	384,759
Minimum lease payments		1,276,793	998,476
Information technology and communications		589,027	448,344
Foreign currency loss/(gain)		(6,979)	15,384
Loss on disposal of assets		-	11,708
Bad debts - trade receivables		-	-
Interest expense		-	-
Other		1,277,319	955,124
		24,465,456	20,184,013
<b>DEPRECIATION AND AMORTISATION</b>			
Amortisation - Intangibles		60,778	80,583
Depreciation - Property, Plant & Equipment		563,685	451,157
		624,463	531,740
<b>OTHER CHARGES AGAINST ASSETS</b>			
Doubtful debt provision - trade receivables		6,972	(10,588)
<b>TOTAL EXPENSES</b>		<b>25,096,891</b>	<b>20,705,165</b>
<b>(b) EMPLOYEE RELATED EXPENSES</b>			
Salaries		10,454,210	9,285,252
Employee benefits		885,941	1,206,266
Superannuation relating to Defined Benefit Schemes		374,229	371,041
Superannuation relating to Defined Contribution Plans		806,343	716,625
		12,520,723	11,579,185

#### NOTE 4. INCOME TAX ON PROFIT BEFORE FINANCIAL INSTRUMENT FAIR VALUE MOVEMENTS

Notes	2009 \$	2008 \$
<b>(a) INCOME TAX EXPENSE</b>		
Current tax	3,062,129	2,246,982
Deferred tax	(760,892)	(348,501)
Under/(over) provided in prior years	(11,327)	21,081
	2,289,910	1,919,562
<b>(b) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE</b>		
Profit before income tax and financial instrument fair value movements	7,664,542	6,319,089
Tax at the Australian rate of 30%	2,299,363	1,895,727
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Tax consolidation benefit	-	-
Non-deductible depreciation and amortisation	-	-
Assessable externally funded assets (post July 2001)	-	-
Non-assessable contributions to capital works	-	-
Sundry items	1,874	2,754
	2,301,237	1,898,481
Under (over) provision in prior years	(11,327)	21,081
	2,289,910	1,919,562

#### **(c) CHANGE IN ACCOUNTING POLICY**

According with NSW Treasury policy, the entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses are now recognised outside of profit or loss in the "statement of recognised income and expense". Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 Employee Benefits.

In accordance with this policy, an amount of \$1,314,249 of deferred tax is recognised directly in equity as opposed to net profit or loss.

#### **(d) TAX CONSOLIDATION LEGISLATION**

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 24). 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**

	Notes	2009 \$	2008 \$
Opening balance		2,854,416	2,173,477
Add dividend declared		3,755,627	2,854,416
Less dividend paid		2,854,416	2,173,477
		3,755,627	2,854,416
Dividend per share		\$4.17	\$3.17

Under the national tax equivalent regime, the Hunter Water Australia Pty Limited is not required to maintain a dividend franking account.

**NOTE 6. CASH AND CASH EQUIVALENTS**

	Notes	2009 \$	2008 \$
Cash at bank and on hand		1,277,723	583,548
Foreign currency account		-	-
Deposits at call		1,999,500	4,928,767
		3,277,223	5,512,316

Deposits at call are bearing an interest rate of 2.95% at 30 June 2009 (2008: between 2.95% and 7.2%)

**BANK OVERDRAFT FACILITY**

The Company has a bank overdraft facility available to the extent of \$200,000. As at 30 June 2009 the whole amount of the overdraft was unused.

**NOTE 7. TRADE AND OTHER RECEIVABLES**

	Notes	2009 \$	2008 \$
Trade debtors		3,769,483	3,177,220
Provision for doubtful debts		(6,972)	-
Other current receivables		520	1,727
		3,763,031	3,178,947

**NOTE 8. OTHER CURRENT ASSETS**

	Notes	2009 \$	2008 \$
Prepayments		253,959	222,377
Work in Progress		2,108,569	1,350,278
Security Deposit		2,940	77,966
Accrued Income		952,592	951,917
Accrued Interest		45,700	30,132
		3,363,760	2,632,670

There has been a change in classification of Income in Advance. In previous years, Income in Advance has been included in the carrying value of Work in Progress as part of Other Current Assets. These amounts, including the 2008 comparative, are now being disclosed as part of Trade and Other Payables. This classification is a more accurate classification given the nature of the amounts.

**NOTE 9. PLANT AND EQUIPMENT**

	Notes	2009 \$	2008 \$
<b>GENERAL SUPPORT ASSETS</b>			
Fixed assets comprise the following			
Computers - Cost		1,365,043	897,494
Computers - Accumulated depreciation		(546,753)	(440,633)
		818,290	456,861
Support facilities - Cost		3,904,907	2,498,661
Support Facilities - Accumulated depreciation		(1,557,838)	(1,493,247)
		2,347,069	1,005,414
Leasehold Improvements - Cost		1,219,975	0
Leasehold Improvements - Accumulated depreciation		(12,705)	0
		1,207,270	0
		4,372,629	1,462,275

**RECONCILIATION - GENERAL SUPPORT ASSETS**

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:

Carrying amount – Opening Balance		1,462,275	979,021
Additions		3,492,659	950,400
Disposals		(18,621)	(15,989)
Depreciation expense		(563,685)	(451,157)
Carrying amount - Closing Balance		4,372,628	1,462,275

**NOTE 10. INTANGIBLE ASSETS**

	Notes	2009 \$	2008 \$
<b>INTANGIBLE ASSETS</b>			
Intangible assets comprise the following at cost			
Software		473,602	444,465
Other		101,823	4,300
Accumulated amortisation		(393,621)	(351,383)
		181,804	97,382

**RECONCILIATION - SOFTWARE**

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:

Carrying amount – Opening Balance		97,382	130,521
Additions		43,378	47,086
Disposals		-	-
Amortisation expense		(59,826)	(80,225)
Carrying amount - Closing Balance		80,934	97,382

**RECONCILIATION - OTHER**

Carrying amount – Opening Balance		-	358
Additions		101,822	-
Disposals		-	-
Amortisation expense		(952)	(358)
Carrying amount - Closing Balance		100,870	-

**NOTE 11. CAPITAL WORK IN PROGRESS**

	Notes	2009 \$	2008 \$
<b>CAPITAL WORK IN PROGRESS</b>			
Capital work in progress		-	94,675
Accumulated amortisation		-	-
		-	94,675

**RECONCILIATION - CAPITAL WORK IN PROGRESS**

Carrying amount – Opening Balance		94,675	94,675
Additions		-	94,675
Disposals		(94,675)	-
Amortisation expense		-	-
Carrying amount - Closing Balance		-	94,675

**NOTE 12. INVESTMENTS**

	Notes	2009 \$	2008 \$
<b>NON-CURRENT</b>			
Loan with Parent Entity	25	5,000,000	5,000,000
		5,000,000	5,000,000

**NOTE 13. OTHER NON-CURRENT ASSETS**

	Notes	2009 \$	2008 \$
<b>NON-CURRENT</b>			
Provision for overfunded defined benefit superannuation	22	-	276,428
		-	276,428

**NOTE 14. DEFERRED TAX ASSETS**

	Notes	2009 \$	2008 \$
<b>NON-CURRENT</b>			
The balance comprises temporary differences attributable to:			
AMOUNTS RECOGNISED IN PROFIT & LOSS			
Doubtful debts		2,092	(3,176)
Work in Progress		(557,124)	(220,271)
Workers Compensation prepayment		(13,179)	(13,371)
Employee benefits		2,296,784	936,133
Other operating expenditure payable		6,525	232,912
Depreciation		(10,102)	25,232
Unrealised tax foreign currency loss		38	
Unused tax Losses		4,861	
Formation costs to claim		-	216
		1,729,894	957,675
MOVEMENTS:			
Opening balance at 1 July		957,675	609,173
Credited/(charged) to the Income Statement		760,892	348,502
Under/(over) provided in previous years		11,327	-
Closing balance at 30 June		1,729,894	957,675

**CHANGE IN ACCOUNTING POLICY**

According with NSW Treasury policy, the entity has changed its policy on the recognition of superannuation actuarial gains and losses. Such actuarial gains and losses are now recognised outside of profit or loss in the "statement of recognised income and expense". Previously, actuarial gains and losses were recognised through profit or loss. Both options are permissible under AASB 119 Employee Benefits.

In accordance with this policy, an amount of \$1,314,249 of deferred tax is recognised directly in equity as opposed to the deferred tax asset balance.

**NOTE 15. TRADE AND OTHER PAYABLES**

	Notes	2009 \$	2008 \$
<b>CURRENT</b>			
Trade creditors		1,506,624	1,285,065
Other creditors		362,512	406,534
Income in Advance		251,487	616,042
		2,120,623	2,307,641

There has been a change in classification of Income in Advance. In previous years, Income in Advance has been included in the carrying value of Work in Progress as part of Other Current Assets. These amounts, including the 2008 comparative, are now being disclosed as part of Trade and Other Payables. This classification is a more accurate classification given the nature of the amounts.

**NOTE 16. CURRENT TAX LIABILITIES**

	Notes	2009 \$	2008 \$
<b>PROVISION FOR INCOME TAX PAYABLE</b>			
Opening balance		842,141	366,302
Add under provision for income tax in prior year		-	21,081
Less amount paid relating to prior year		(842,141)	(387,384)
Add amount payable for current year		1,747,881	1,760,142
Less amount paid relating to current year		(1,323,000)	(918,000)
		424,881	842,141

**NOTE 17. PROVISIONS**

	Notes	2009 \$	2008 \$
<b>CURRENT</b>			
Employee benefits – short term		2,099,665	1,478,672
Employee benefits – long term		919,721	1,653,690
Dividend provided		3,755,627	2,854,416
		6,775,013	5,986,778
<b>NON-CURRENT</b>			
Employee benefits		334,640	264,513
		334,640	264,513

Current employee benefits classified as long term are expected to be settled after 12 months from the reporting date.

## NOTE 18 OTHER NON-CURRENT LIABILITIES

	Notes	2009 \$	2008 \$
<b>NON- CURRENT</b>			
Provision for underfunded defined benefit superannuation		3,669,465	-
		3,669,465	-

## NOTE 19. CONTRIBUTED EQUITY

	Notes	2009 \$	2008 \$
Issued 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. The shares have no par value.

## NOTE 20. CASH FLOW STATEMENT

	Notes	2009 \$	2008 \$
Total profit in the year		5,374,632	4,399,527
Superannuation gains/(losses) net of Income Tax		(3,066,582)	(1,135,959)
Depreciation and amortisation		624,463	531,740
(Profit)/loss on sale of non-current assets		(1,588)	11,708
Net exchange differences		(6,979)	15,384
<b>CHANGE IN OPERATING ASSETS AND LIABILITIES</b>			
(Increase)/decrease in trade debtors		(579,808)	(256,730)
(Increase)/decrease in work in progress		(758,291)	(155,970)
(Increase)/decrease in tax related receivable		(772,219)	(348,502)
(Increase)/decrease in other operating assets		27,201	28,722
Increase/(decrease) in trade creditors		(187,018)	(541,779)
Increase/(decrease) in other operating liabilities		-	-
Increase/(decrease) in inter-company tax payable		(417,260)	475,839
(Decrease)/increase in other provisions		3,903,044	1,310,807
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>		<b>4,139,596</b>	<b>4,334,786</b>

## NOTE 21. COMMITMENTS

	Notes	2009 \$	2008 \$
<b>LEASE COMMITMENTS</b>			
Commitments in relation to leases contracted for the reporting date but not recognised as liabilities, payable:			
Within one year		1,333,632	808,086
Later than one year but not later than five years		4,421,485	300,351
Later than five years		4,120,619	-
		<b>9,875,736</b>	<b>1,108,437</b>
<b>Representing:</b>			
Cancellable operating leases		726,651	587,123
Non-cancellable operating leases		9,149,086	521,314
		<b>9,875,737</b>	<b>1,108,437</b>

There are two significant non-cancellable operating leases of the Company for the lease of Head Office premises and a laboratory. The general office space lease commits Hunter Water Australia to a 10 year non-cancellable lease with two 5 year options to renew. There is an option to sub-let subject to council planning approvals. This lease commenced on 14 November 2008 and is the major contributing factor in the significant increase in lease commitments in the year.

A 5 year option to renew the lease for the laboratory was taken during the year. There is no option to sub-let under the current lease of the laboratory.

### NON-CANCELLABLE OPERATING LEASE COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year		952,095	521,315
Later than one year but not later than five years		4,076,372	-
Later than five years		4,120,619	-
		<b>9,149,086</b>	<b>521,315</b>

## NOTE 22. SUPERANNUATION

	SSS	SASS	SANCS	2009	2008
	\$	\$	\$	\$	\$

### (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 Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- Police Superannuation Scheme (PSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)

The State Authorities Superannuation Scheme closed on 18 December 1992. All the Schemes are closed to new members.

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 schemes only.

### (b) SUPERANNUATION POSITION

Following is the 30 June 2009 superannuation position:

<b>Member Numbers</b>					
Contributors	10	14	24	48	50
Deferred benefits	3	-	-	3	2
Pensioners	5	-	-	5	5
Pensions fully commuted	3	-	-	3	2
<b>Superannuation Position</b>					
Accrued liability	12,462,877	3,526,522	862,061	16,851,460	14,252,029
Estimated reserve account balance	(9,560,930)	(2,961,233)	(659,832)	(13,181,995)	(14,528,458)
	2,901,947	565,289	202,229	3,669,465	(276,429)
Future service liability (Note1)	(372,367)	(669,026)	(371,527)	(1,412,920)	(1,259,559)
Surplus in excess of recovery available from schemes	-	-	-	-	-
<b>Net (asset)/liability to be recognised in balance sheet</b>	<b>2,901,947</b>	<b>565,289</b>	<b>202,229</b>	<b>3,669,465</b>	<b>(276,429)</b>

### (c) ACCOUNTING POLICY

In 2008/09 NSW Treasury mandated a change in policy for all NSW public sector agencies to recognise actuarial gains and losses immediately outside profit and loss in the year in which they occur. Previously actuarial gains and losses were recognised in profit or loss. This change must be applied retrospectively, as advised in NSW Treasury Circular NSWTC 09/01.

	SSS \$	SASS \$	SANCS \$	2009 \$	2008 \$
<b>(d) RECONCILIATION</b>					
<b>Present value of partly funded defined benefit obligations at beginning of the year</b>	10,437,738	3,034,706	779,585	14,252,029	13,930,749
Current service cost	64,377	88,771	40,028	193,176	217,244
Interest cost	676,260	194,464	48,476	919,200	876,073
Contributions by fund participants	128,286	58,867	-	187,153	196,701
Actuarial (gains)/losses	1,965,899	120,809	51,919	2,138,627	(135,987)
Benefits paid	(809,683)	28,904	(57,947)	(838,726)	(832,751)
Past service cost	-	-	-	-	-
Curtailments	-	-	-	-	-
Settlements	-	-	-	-	-
Business combinations	-	-	-	-	-
Exchange rate changes	-	-	-	-	-
<b>Present value of partly funded defined benefit obligations at end of the year</b>	<b>12,462,877</b>	<b>3,526,521</b>	<b>862,061</b>	<b>16,851,459</b>	<b>14,252,029</b>
<b>Reconciliation of the fair value of fund assets</b>					
<b>Fair value of fund assets at beginning of the year</b>	10,900,142	2,889,123	739,193	14,528,458	15,340,159
Expected return on fund assets	885,236	233,964	58,729	1,177,929	1,188,931
Actuarial gains/(losses)	(1,746,818)	(368,618)	(126,768)	(2,242,204)	(1,758,786)
Employer contributions	203,767	118,992	46,625	369,384	394,205
Contributions by fund participants	128,286	58,867	-	187,153	196,701
Benefits paid	(809,683)	28,904	(57,947)	(838,726)	(832,751)
Settlements	-	-	-	-	-
Business combinations	-	-	-	-	-
Exchange rate changes	-	-	-	-	-
<b>Fair value of fund assets at end of the year</b>	<b>9,560,930</b>	<b>2,961,232</b>	<b>659,832</b>	<b>13,181,994</b>	<b>14,528,459</b>
<b>Reconciliation of the assets and liabilities recognised in the balance sheet</b>					
Present value of partly funded defined benefit obligations at end of year	12,462,877	3,526,521	862,061	16,851,459	14,252,029
Fair value of fund assets at end of the year	(9,560,930)	(2,961,232)	(659,832)	(13,181,994)	(14,528,459)
<b>Subtotal</b>	<b>2,901,947</b>	<b>565,289</b>	<b>202,229</b>	<b>3,669,465</b>	<b>(276,429)</b>
Unrecognised past service cost	-	-	-	-	-
Unrecognised gain/(loss)	-	-	-	-	-
Adjustment for limitation on net asset	-	-	-	-	-
<b>Net Liability/(Asset) recognised in balance sheet at end of year</b>	<b>2,901,947</b>	<b>565,289</b>	<b>202,229</b>	<b>3,669,465</b>	<b>(276,429)</b>

	SSS \$	SASS \$	SANCS \$	2009 \$	2008 \$
<b>(e) EXPENSE RECOGNISED IN THE INCOME STATEMENT</b>					
<b>Components Recognised in Income Statement</b>					
Current service cost	64,377	88,771	40,028	193,176	217,244
Interest cost	676,260	194,464	48,476	919,200	876,073
Expected return on fund assets (net of expenses)	(885,236)	(233,964)	(58,729)	(1,177,929)	(1,188,931)
Net actuarial losses (gains) recognised in year	-	-	-	-	-
Past service cost	-	-	-	-	-
Movement in adjustment for limitation on net asset	-	-	-	-	-
Curtailment or settlement (gain)/loss	-	-	-	-	-
<b>Expense/(income) recognised</b>	<b>(144,599)</b>	<b>49,271</b>	<b>29,775</b>	<b>(65,553)</b>	<b>(95,614)</b>

<b>(f) EXPENSE RECOGNISED IN THE STATEMENT OF RECOGNISED INCOME AND EXPENSE</b>					
Actuarial (gains)/losses	3,712,717	489,427	178,687	4,380,831	1,622,799
Adjustment for limit on net asset	-	-	-	-	-

	2009 \$	2008 \$	2007 \$	2006 \$	2005 \$	TOTAL \$
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<b>(g) CUMULATIVE AMOUNT RECOGNISED IN THE STATEMENT OF RECOGNISED INCOME AND EXPENSE</b>						
Actuarial (gains) losses	4,380,831	1,622,799	(1,322,582)	(2,530,305)	1,361,465	3,512,208

	2009 \$	2008 \$
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**(h) FUND ASSETS**

The percentage invested in each asset class at the balance sheet date:

Australian equities	32.1%	31.6%
Overseas equities	26.0%	25.4%
Australian fixed interest securities	6.2%	7.4%
Overseas fixed interest securities	4.7%	7.5%
Property	10.0%	11.0%
Cash	8.0%	6.1%
Other	13.0%	11.0%

All fund assets are invested by STC at arm's length through independent fund managers.

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns for each class are net of investment tax and investment fees.

	SSS \$	SASS \$	SANCS \$	2009 \$	2008 \$
<b>(i) ACTUAL RETURN ON PLAN ASSETS</b>					
Actual return on fund assets	(1,063,038)	(276,838)	(68,039)	(1,407,915)	(1,027,935)

	2009	2008
	\$	\$

### (j) PRINCIPAL ACTUARIAL ASSUMPTIONS

The Projected Unit Credit (PUC) valuation method was used to determine the present value of the defined benefit obligations and the related current service costs. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the obligation.

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

Salary increase rate (excluding promotional increases)	3.5% pa	3.5% pa
Rate of CPI Increase	2.5% pa	2.5% pa
Expected rate of return on assets	8.13%	8.30%
Discount rate	5.59%	6.55%

The demographic assumptions at 30 June 2009 are those that will be used in the 2009 triennial actuarial valuation.

	SSS	SASS	SANCS	2009	2008
	\$	\$	\$	\$	\$

### (k) 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 2006.

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 2008 and 2007 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)

2009: The economic assumptions used by the actuary to make the funding recommendation were an investment return on fund assets of 8.3% pa, a salary increase rate of 4.0% pa, and an inflation rate of 2.5% pa.

2008: The economic assumptions used by the actuary to make the funding recommendation were an investment return on fund assets of 7.7% pa, a salary increase rate of 4.0% pa, and an inflation rate of 2.5% pa.

The following is a summary of the 30 June 2009 financial position of the Fund calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans:

Accrued benefits	9,057,122	3,220,808	783,122	13,061,052	13,544,472
Net market value of fund assets	(9,560,930)	(2,961,233)	(659,832)	(13,181,995)	(14,528,458)
<b>Net (surplus)/deficit</b>	<b>(503,808)</b>	<b>259,575</b>	<b>123,290</b>	<b>(120,943)</b>	<b>(983,986)</b>

### (l) NATURE OF ASSET/LIABILITY

If a surplus exists in the employer's interest in the Fund, the employer may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Fund's actuary.

Where a deficiency exists, the employer is responsible for any difference between the employer's share of fund assets and the defined benefit obligation.

	SSS \$	SASS \$	SANCS \$	2009 \$	
<b>(m) HISTORIC SUMMARY</b>					
Present value of defined benefit obligation	12,462,877	3,526,522	862,061	16,851,460	
Fair value of fund assets	(9,560,930)	(2,961,233)	(659,832)	(13,181,995)	
<b>(Surplus)/Deficit in Fund</b>	<b>2,901,947</b>	<b>565,289</b>	<b>202,229</b>	<b>3,669,465</b>	
Experience adjustments					
- Fund liabilities	1,965,899	120,809	51,919	2,138,627	
Experience adjustments					
- Fund assets	1,746,818	368,618	126,768	2,242,204	
	<b>2008 \$</b>	<b>2007 \$</b>	<b>2006 \$</b>	<b>2005 \$</b>	
Present value of defined benefit obligation	14,252,029	13,930,749	13,961,639	14,456,399	
Fair value of fund assets	(14,528,458)	(15,340,158)	(13,693,069)	(11,532,593)	
<b>(Surplus)/Deficit in Fund</b>	<b>(276,429)</b>	<b>(1,409,409)</b>	<b>268,570</b>	<b>2,923,806</b>	
	<b>SSS \$</b>	<b>SASS \$</b>	<b>SANCS \$</b>	<b>2009 \$</b>	<b>2008 \$</b>
Expected employer contributions	205,258	111,847	46,503	363,608	382,417

## NOTE 23. CONTINGENT LIABILITIES AND ASSETS

### LIABILITIES

No significant claims for damages are being negotiated. This does not include matters covered by Insurance. No significant claims for damages were being negotiated as at 30 June 2009.

### ASSETS

Hunter Water Australia has a contingent asset in the form of a Redundancy Guarantee from the Controlling Entity. The Redundancy Guarantee relates to current Hunter Water Australia employees who were former employees of the controlling entity upon Hunter Water Australia's formation in 1998.

The Redundancy Guarantee provides that if Hunter Water Australia were to pay current employees who were former employees of the Controlling Entity redundancy, then the Controlling entity would pay Hunter Water Australia the difference between the severance rate which would be paid at the Controlling Entities scale and the severance rate Hunter Water Australia would be required to pay in accordance with current statutory legislation.

The current Redundancy Guarantee from the Controlling Entity will expire on 30 June 2010, unless there is a change in ownership prior to this date. In the case of change of ownership, the Redundancy Guarantee would expire when Hunter Water Corporation was no longer the Controlling Entity.

The contingent asset for Redundancy Guarantee has not been valued as there is no current expectation that the guarantee will be called upon.

**NOTE 24. AUDITORS' REMUNERATION**

	2009	2008
	\$	\$
Amounts received or due and receivable by the auditors, from the Company		
Audit review of financial reports (exclusive of GST)	21,750	14,720
	21,750	14,720

**NOTE 25. RELATED PARTY DISCLOSURES**

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

The Controlling Entity Hunter Water Corporation (HWC) 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.

An additional loan of \$1,500,000 was made to the parent entity during 2005/2006, bringing the total on loan to the parent entity to \$5,000,000. A formal loan agreement has been entered into under normal terms and conditions. Interest is payable quarterly at market rates.

Hunter Water Australia's director Kevin Young is the Deputy Chair of Water Services Association of Australia (WSAA). Sales were made to the entity under normal commercial terms and conditions, no more favourable than those available to other parties.

	2009	2008	
	\$	\$	
<b>(a) CONTROLLING ENTITY</b>			
<b>Transactions with controlling entity</b>			
SALES			
Contracts & Consultancy Services	19,416,796	15,160,452	
PURCHASES			
Contracts	215,052	226,243	
Consultancy Services	55,822	29,203	
Total purchases	270,874	255,446	
INTEREST RECEIVED	231,496	343,092	
DIVIDENDS PAID	2,854,416	2,173,477	
<b>Outstanding balances at year end</b>			
RECEIVABLES			
Sales and purchases	3,057,875	2,635,512	
Tax funding agreements	1,729,894	957,675	
Inter-company loan	5,000,000	5,000,000	
Total receivables	9,787,769	8,593,187	
PAYABLES			
Sales and purchases	4,833	13,676	
Tax funding agreements	424,881	842,141	
Dividend payable	3,755,627	2,854,416	
Total payables	4,185,341	3,710,233	
<b>(b) RELATED ENTITY/PARTY</b>			
<b>Transactions with related entities</b>			
SALES			
Contracts & Consultancy Services	RLMC	-	7,157
Contracts & Consultancy Services	WSAA	8,636	-
		8,636	7,157
<b>Outstanding balances at year end</b>			
RECEIVABLES			
Sales and purchases	RLMC	-	-
Sales and purchases	WSAA	8,636	-
Total receivables		8,636	-

**NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES**

	2009	2008
	\$	\$

**(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 RA Chappel  
Mr J Eather

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:-

Mr J Keary            General Manager  
Mr P Dennis        Chief Operating Officer and Company Secretary (resigned 11/12/08)  
Mr P Thompson    Manager Process Engineering (joined management from 11/12/08)  
Mr D Bailey        Manager Treatment Operations (joined management from 11/12/08)  
Mr J Gleeson       Manager Engineering  
Ms A Swan         Manager Laboratories & Company Secretary (Company Secretary from 28/11/08)  
Mr P Bartlett      Manager Asset Mapping  
Mrs M Griffin     Chief Financial Officer (maternity leave from 3 October 2008)  
Mrs J Golledge    Chief Financial Officer (relieving from 3 October 2008)

**(c) KEY MANAGEMENT PERSONNEL COMPENSATION**

Short term employee benefits	1,270,081	1,237,685
Long term employee benefits	33,113	33,952
Post employment benefits	181,184	180,831
	1,484,378	1,452,468

#### NOTE 27. MANAGEMENT CONSULTANTS FEES

	2009	2008
	\$	\$
Management consultants paid or payable	51,446	178,392

#### NOTE 28. SEGMENT INFORMATION

The Company operated predominantly in the industry of water, sewerage and drainage in the geographical area of Australia.

#### NOTE 29. 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 30. 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 31. FINANCIAL RISK MANAGEMENT

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##### (a) CREDIT RISK

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Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

##### Trade Receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual, incorporated legal entity or government entity. Approximately 61 percent of the Company's revenue is attributable to sales transactions with the controlling entity. Geographically there is no concentration of credit risk.

The Company's credit policy requires new customers to be analysed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The Company's review includes determining the customer type and receiving credit worthiness reports for non-government entities and in some cases trade references. Credit limits are established for each customer, which represent the maximum amount without requiring approval from the General Manager; these limits are reviewed annually. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company on a prepayment basis only.

The Company does not require collateral in respect of trade and other receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The allowance is the total of specific loss component that relates to individually significant exposures.

		2009	2008
	Note	\$	\$

### Investments

The Company limits its exposure to credit risk by only investing in liquid securities and only with the Controlling Entity or with the New South Wales Treasury Corporation (TCorp). Management does not expect either of these counterparties to fail to meet its obligations.

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that the Company can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's strategy, which is unchanged from 2008, was to maintain a sufficient level of cash and investments to meet current and longer-term operating needs of the company.

### Exposure To Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Cash and cash equivalents	6	3,277,223	5,512,316
Trade Receivables		3,762,511	3,177,220
Other - Current	8	3,363,760	2,632,670
Investments - Non-current	12	5,000,000	5,000,000
		15,403,494	16,322,207

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Domestic	3,760,667	3,125,624
United States	-	-
Canada	1,844	51,596
	3,762,511	3,177,220

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

Controlling entity	2,315,811	1,947,146
Other Government entity	885,635	767,101
Incorporated entity (Proprietary or Public Company)	557,685	410,015
International entity	1,844	51,596
Unincorporated entity or sole trader	1,536	1,362
	3,762,511	3,177,220

For each type of customer that is not passed due or impaired, the credit quality is considered good, with no defaults in the past.

	2009		2008	
	Gross \$	Impairment \$	Gross \$	Impairment \$

### IMPAIRMENT LOSSES

The aging of trade receivables at the reporting date was:

Not past due	3,745,383	-	2,821,657	-
Past due 2 to 6 months	19,677	-	357,802	-
Past due 6 to 12 months	7,702	6,972	(2,239)	-
Past due more than one year	(3,279)	-	-	-
	3,769,483	6,972	3,177,220	-

	2009 \$	2008 \$
The movement in allowance for impairment in respect of trade receivables during the year was as follows:		
Opening Balance	-	10,588
Impairment loss recognised	6,972	(10,588)
Closing Balance	6,972	-

All trade receivables at 30 June 2009 are expected to be collected.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amount considered irrecoverable is written off against the financial asset directly.

## **(b) LIQUIDITY RISK**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains a \$200,000 bank overdraft that is unsecured. Interest would be at the rate of 8.99% per annum for an overdraft up to \$200,000 and then 13.99% for an overdraft above that. (2008: 11.52% and 16.5% respectively).

The following are the contractual maturities of financial liabilities, including interest payments.

	<b>CONTRACTUAL</b>			
	<b>Carrying Amount \$</b>	<b>Cash Outflows \$</b>	<b>3 months or less \$</b>	<b>4 months or more \$</b>
<b>2009</b>				
Trade and other payables	2,120,623	2,120,623	2,120,623	-
	2,120,623	2,120,623	2,120,623	-
<b>2008</b>				
Trade and other payables	2,307,641	2,307,641	2,307,641	-
	2,307,641	2,307,641	2,307,641	-

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**(c) MARKET RISK**

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Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Currency Risk**

The Company provides consultancy services to customers based in the United States and Canada. Currency risk arises from future commercial transactions and recognised assets denominated in a currency that is not the Company's functional currency.

The Company manages currency risk by regularly billing in hourly rates upon completion of tasks and continuous monitoring forecast cash flows. Management has set up a policy requiring the company to manage their foreign exchange risk against the Australian dollar. The Company is required to hedge any major foreign exchange risk exposure arising from future commercial transactions using forward contracts or derivatives in the form of currency option contracts.

	2009		2008	
	USD \$	CAD \$	USD \$	CAD \$
The Company's exposure to currency risk at the reporting date was as follows:				
Trade Receivables	-	1,844	-	51,596
Bank	-	-	-	-
	-	1,844	-	51,596

All carrying amounts of the financial assets and liabilities are denominated in notional Austrian dollars

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**Currency Risk Sensitivity Analysis**

A 10 percent strengthening of the Australia dollar against the following currencies at 30 June 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

	2009		2008	
	Profit or Loss	Equity	Profit or (Loss)	Equity
	\$	\$	\$	\$
United States Dollar	-	-	-	-
Canadian Dollar	(168)	(168)	(4,690)	(4,690)
	(168)	(168)	(4,690)	(4,690)

A 10 percent weakening of the Australian dollar against the above currencies at 30 June 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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**Interest Rate Risk**

The Company is not exposed to any significant interest rate risk as the company currently hold only interest bearing financial assets. These financial assets held are all variable rate instruments.

The Company has an undrawn overdraft facility approved up to a limit of \$200,00. Interest would be at the rate of 8.99% per annum for an overdraft of up to \$200,00 and then 13.99% for an overdraft over \$200,000 (2008: 11.52% and 16.5% respectively).

At the reporting date the interest profile of the company's interest bearing financial instruments were as follows;

	2009	2008
	\$	\$
Variable rate instruments		
Financial assets	8,274,227	10,508,399
Financial liabilities	-	-
	8,274,227	10,508,399

<b>Profit or (Loss) 1% increase</b>	<b>Equity 1%</b>
\$	\$

### Interest Rate Sensitivity Analysis for Variable Rate Instruments

An increase of 100 basis points in interest rates at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

#### 2009

Variable rate interest rates

	<b>Increase</b>
82,742	82,742
82,742	82,742

#### 2008

Variable rate interest rates

	<b>Decrease</b>
105,084	105,084
105,084	105,084

A decrease of 100 basis points in interest rates at the reporting date would have had the equal but opposite effect on equity and profit or loss. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2008.

### (d) Fair Values

The financial assets and liabilities in the Balance Sheet are carried at amounts assumed to approximate their net fair values.

## NOTE 32. DETAILED STATEMENT OF CHANGES IN EQUITY

	<b>2009</b>	<b>2008</b>
	\$	\$
Opening balance	9,811,296	9,402,144
Profit for the year	5,374,632	4,399,527
Superannuation actuarial gain/ (loss)	(4,380,831)	(1,622,799)
Income tax on superannuation actuarial gain/ (loss)	1,314,249	486,840
Dividend (transactions with owners as owners)	(3,755,627)	(2,854,416)
Closing balance	8,363,720	9,811,296

# directors' declaration

In accordance with a resolution of the Directors, Clause 11 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:
  - i. Comply with the Public Finance and Audit Act 1983, Accounting Standards, the Corporations Act 2001 and Treasurer's Directions; and
  - ii. Exhibit a true and fair view of the financial position of Hunter Water Australia Pty Limited as at 30 June 2009 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.

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 Chappel**  
Director

**Dated: 23 September 2009**  
**Newcastle**