



HUNTER WATER CORPORATION

ANNUAL REPORT

2012-13

Hunter Water Corporation

The Hunter Water Corporation Annual Report 2012-13 has been prepared in accordance with the relevant legislation for the shareholders the Hon Barry O'Farrell, MP, Premier and the Hon Michael Bruce Baird, MP, Treasurer, and for the information of the Hon Andrew Constance, MP, Minister for Finance and Services.

Feedback

We welcome feedback on this Annual Report and you are encouraged to provide comments or suggestions to Hunter Water.

Electronic copies of this Annual Report are available at www.hunterwater.com.au/annualreport

Version: 1.2

Disclaimer

Hunter Water makes every effort to ensure the accuracy of the information provided. However, Hunter Water accepts no responsibility for incorrect information and encourages the public to contact us directly for verification.

Hunter Water Corporation Annual Report 2012-2013

36 Honeysuckle Drive
NEWCASTLE NSW 2300

PO BOX 5171, HRMC NSW 2310
Service hours: 24 hours, 7 days
Business Hours: 9.00am - 5.00pm
T: 1300 657 657 F: 02 4949 9414
Website: www.hunterwater.com.au

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About This Annual Report

This Annual Report outlines the activities and performance of Hunter Water Corporation from 1 July 2012 to 30 June 2013.

It covers highlights from the year, as well as reports from Hunter Water's Board of Directors and Executive Management Team.

Financial reports, further statistical information and performance against regulatory frameworks are provided.

The activities of Hunter Water Corporation's subsidiary company, Hunter Water Australia Pty Limited are also included.

This report is accurate as of 31 October 2013.

Letter of Submission



Hunter Water Corporation
ABN 46 228 513 446

PO Box 5171
HFBMC NSW 2310
36 Honeycastle Drive
NEWCASTLE NSW 2300
1300 657 657
(02) 4979 9625 (F)
enquiries@hunterwater.com.au

31 October 2013

The Hon Barry O'Farrell, MP
Premier
Member for Western Sydney
Parliament House
Macquarie Street
SYDNEY NSW 2000

The Hon Michael Bruce Baird, MP
Treasurer
Minister for Industrial Relations
Member for Manly
Parliament House
Macquarie Street
SYDNEY NSW 2000

The Hon Andrew Constance, MP
Minister for Finance and Services
Member for Bega
Parliament House
Macquarie Street
SYDNEY NSW 2000

Dear Premier, Treasurer and Minister

We take pleasure in submitting the Annual Report for Hunter Water Corporation for the financial year ended 30 June 2013, for presentation to the Parliament of New South Wales in accordance with the *Annual Reports (Departments) Act 1985*.

The 2012-13 Annual Report provides an overview of performance and business highlights as well as the consolidated financial statements for Hunter Water Corporation, and its subsidiary company, Hunter Water Australia Pty Limited.

Hunter Water Corporation will make the 2012-13 Annual Report available electronically at www.hunterwater.com.au following acceptance of its Annual Report in the Parliament of New South Wales.

Yours sincerely

Handwritten signature of Terry Lawler in black ink.

Terry Lawler
Chairman

Handwritten signature of Kim Wood in black ink.

Kim Wood
Managing Director

Our Business

Overview

Hunter Water Corporation (Hunter Water) is a company under the *Hunter Water Act 1991* (NSW) and was the first government-owned enterprise to be proclaimed within New South Wales pursuant to the *State Owned Corporations Act 1989* (NSW) in 1992.

Hunter Water collects, treats and reticulates drinking water to customers and then transports, treats and disposes of the region's wastewater. Hunter Water operates within an area that covers some 5,366km² and serves a population approaching 570,000 people within the local government areas of Lake Macquarie, Newcastle, Maitland, Port Stephens, Cessnock, Dungog and parts of Singleton. In addition Hunter Water owns and operates a limited amount of stormwater infrastructure in the local government areas of Lake Macquarie, Newcastle and Cessnock. Bulk water is also provided to Mid Coast Water for supply to North Karuah and water supplies of up to 35ML per day are able to be provided to the Central Coast when required.

The primary water sources for Hunter Water are: Grahamstown Dam (182,305ML), Chichester Dam (18,356ML), Tomago Sandbeds (60,000ML) and Anna Bay Sandbeds (16,024ML).

Hunter Water has a wholly owned subsidiary, Hunter Water Australia Pty Limited (Hunter Water Australia). Hunter Water Australia provides specialist technical and operational services to its parent - Hunter Water, water agencies, local government and industry in Australia and overseas.

Operations at a Glance

| | |
|---|-------------|
| Water connections | 232,964 |
| Wastewater connections | 221,434 |
| Water supplied | 68,622ML pa |
| Water network | 4,820km |
| Sewer network | 4,852km |
| Total water storage | 276,685ML |
| Water pumping stations | 124 |
| Wastewater pumping stations | 422 |
| Water treatment plants | 6 |
| Wastewater treatment works | 19 |
| Calls received by call centre | >150,000 pa |
| Website visitors | 240,332 pa |
| Budgeted full time equivalent employees | 477 |

Our People

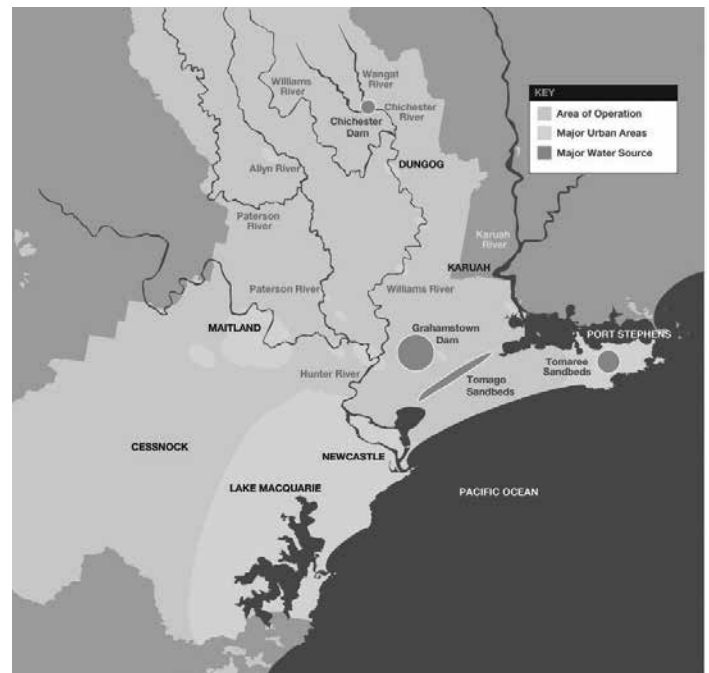
Approximately 480 people worked at Hunter Water during 2012-13 to deliver safe, affordable, reliable and essential water services to the communities of the Lower Hunter. Our employees worked side-by-side with contractors, alliance partners, stakeholders and the community to help ensure a sustainable water future for our region.

Our History

The Hunter Water that exists today has a long and rich history from its humble beginnings in the 1880s when water was first delivered to Newcastle from a temporary pumping station on the Hunter River at Oakhampton.

The constitution of the first Board was approved in 1892 and New South Wales' second water authority was born. Hunter Water is governed under the *State Owned Corporations Act 1989* and in 1992 the Hunter District Water Board was incorporated under the *Hunter Water Act 1991* and began trading as it is known today, Hunter Water Corporation.

Hunter Water is proud of its long history of service to the local community, its environmental stewardship, record of leadership in water industry reform and the individual and collective contribution and achievements of employees and partners.



Our Vision & Mission

Vision

“We aspire to be a Leading Water Business”

We desire to maximise the potential of the business through superior performance. We desire to demonstrate outstanding customer service, financial discipline, unprecedented levels of compliance, exceptional delivery of core services and to be regarded as an employer of choice.

We will provide affordable and reliable services. We will have an unrelenting focus on addressing the needs of all stakeholders. We will build into all we do, a responsible and sustainable approach to the protection of the environment and public health. We will create a culture that empowers our people to achieve and keeps them safe. We will embrace the highest standards of corporate governance and financial management.

Mission

Our Values

Working Safe

Nothing is more important than working safely. In everything we do we will ask “how do we guarantee the safety of all involved?” We will continuously seek better safety outcomes.

Right Solutions

We plan and provide for efficient solutions in order to meet the demand for water and wastewater services in our region. We strive to avoid the twin evils of being too late or “gold plating”. We implement the right solutions at the right time to deliver the best value.

Financially Responsible

We recognise the need for financial discipline so that we can efficiently fund the demand for service in our region, while remaining one of Australia’s most cost-effective water businesses. We optimise affordability for our customers while delivering sustainable water services.

People Matter

We will encourage a working environment that promotes excellence, personal responsibility, decisiveness, urgency and mutual respect. We will identify and reward superior performance and innovation. We will play our part in developing our talent.

Committed to our Community

We have a long tradition of service to our community by providing reliable and safe water and wastewater services. We will maintain an unrelenting focus on understanding the needs of our community. Hunter Water and its employees will proactively engage in aligned community initiatives.

Respect for the Environment

We understand the importance to the community of meeting our environmental obligations. We take responsibility for these obligations and will operate sustainably.

Keeping Promises

We understand the community’s desire for consultation and engagement. We will be frank and honest in our interactions. We will build trust by meeting or exceeding our commitments. We are committed to maintaining the highest levels of honesty and integrity in everything we do.

Continuous Improvement

We know that better ways consistently emerge. We will challenge accepted ways of doing things and address tough issues. We aim to leave our business in a better shape.

Professional Recovery

Sometimes things go wrong. We will identify our risks. We will prepare and rehearse. We will mobilise and recover professionally.

Leadership is a Skill

Leadership is a skill independent of professional capability. Whilst professional performance is a fair catalyst for promotion, we encourage those with the responsibility for others, to understand and actively develop their skills as a leader of people.

Balanced Scorecard

Hunter Water will realise its vision of becoming a leading water business through a continued focus on the following five elements.

Our People

Hunter Water will provide a safe and healthy workplace for our employees and partners. We will ensure that we have the right people in the right jobs with the right skills.

Financially Responsible

Hunter Water will manage its financial position in a sustainable manner in order to ensure that the business remains one of the most affordable service providers whilst also meeting obligations to shareholders.

Right Infrastructure

Hunter Water will pursue excellence in all it does and deliver and maintain the right infrastructure at the right time at the right costs.

Satisfied Community

Hunter Water will work to build stronger stakeholder relationships. We will resolve customer issues quickly and effectively.

Effective Governance

Effective governance will deliver comprehensive strategic control of the business. We will comply with legislative and regulatory requirements. We will ensure we have in place effective risk management protocols and behave ethically at all times.

Chairman & Managing Director's Report

A Message from the Chairman and Managing Director

Hunter Water has delivered a pleasing result across its operating business in the 2012-13 financial year, largely driven by improvements to working capital management and a focus on operating margins. Our company is unique in that we provide the community with an essential service while at the same time running a business that delivers a rate of return to our Shareholders. For the past year, the economic entity that is Hunter Water has delivered growth in gross profit (refer to page 87) of more than 17% and a 26% increase in the Real Rate of Return to 3.42%.

At the same time, Hunter Water has laid the foundations that will ensure the business continues to provide safe, affordable and reliable services over the medium term. Our prices for the next four years have now been determined by the Independent Pricing & Regulatory Tribunal (IPART). This will ensure that residential customers will see no price increase in real terms over this time. Many small business owners will actually see a reduction in their water bill. In particular, we will continue to support housing growth in the region having successfully secured \$21 million from the Housing Acceleration Fund (HAF) over the next three years with major infrastructure upgrades planned for the Farley wastewater network (\$7.9 million); the Lochinvar water network (\$4 million) and the Lochinvar wastewater network (\$9.1 million).

Profit for the year for the economic entity was \$32.0 million, including recognition of a \$29.26 million decrement in land and building valuation. The Board has declared a final dividend of \$15.60 million for the reporting period.

Hunter Water's first priority is health and safety of the public, our people and contractors. Drinking water supplied by us is consistently of a very high standard and well within the requirements of the Australian Drinking Water Guidelines (ADWG). Internally we have commenced work on the accreditation of a new Workplace Health and Safety (WHS) system to further strengthen internal processes, prevent unsafe actions and to reinforce safe behaviours. In June 2013, we achieved a new record of 27 months without a single Lost Time Injury (LTI) for employees. We will continue to focus on strategies and initiatives that will help deliver a zero harm workplace.

Hunter Water has honoured its Operating Licence with outstanding performance against its key service standards. The number of properties experiencing three or more service interruptions lasting more than an hour was reduced by 42% compared to the prior year, the best result ever recorded for this service standard. Similarly, Hunter Water achieved commendable outcomes in important operational areas including reducing the occurrence of wastewater overflows by 7%, reducing the total electricity consumption of water assets by 5%, and maintaining one of the highest standards in the industry for the delivery of safe, reliable, and clear drinking

water. At the same time overall customer complaints in 2012-13 fell to approximately 11 per 1,000 customers which continues the downward trend over several years and overall customer satisfaction remained high at 90%.

In March 2013, the Board engaged a consultant to undertake a review of the performance of the Board. The scope of work included a review of roles and responsibilities, composition and overall performance of the Board, an assessment of the Board's operations and a review of where the Board makes a difference.

The Review found that the Board meets all of the requisite governance standards and compliance obligations expected of a NSW State Owned Corporation. The Review identified a range of examples of good governance practice including the use of Board and Committee Charters; the maintenance of a Board Skills Profile; the monitoring of company performance and the process for reviewing the performance of the Managing Director; and the structure of the Board meeting agenda. An action plan to implement further improvement opportunities identified by the Review has been developed and implemented by the Board Corporate Governance Committee.

Over the past year, Hunter Water has worked closely with the NSW Metropolitan Water Directorate (MWD) to reduce the impact of drought on the region through the development of the Lower Hunter Water Plan (LHWP). On 30 April 2013, the NSW Minister for Finance & Services announced in Parliament those options which have been short-listed for detailed evaluation and public discussion. This work has been coupled with extensive supply-demand balance modelling by Hunter Water. The supply and demand options announced by the Minister will be assessed and released in a public discussion paper in August 2013.

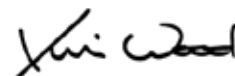
Maintaining a viable and sustainable business has been a key focus for the Board and management team. To this end much attention has been given to preserving an investment-grade credit rating to ensure our ability to access capital for growth. In addition, we have implemented a new credit management and account assistance program to improve our working capital and prevent the accumulation of long-standing customer debt.

Finally, we would like to sincerely thank the people, businesses and government stakeholders associated with Hunter Water Corporation – from our customers and partners, to our employees and to the communities in which we live and work.

As we continue to grow our business and consolidate Hunter Water's position as one of Australia's most affordable water utility, we take pride in sharing this success with all of our stakeholders, now and into the future.



Terry Lawler
Chairman



Kim Wood
Managing Director

Our Board

Board Management

Under the *Hunter Water Act 1991*, our Board of Directors is comprised of up to nine members, including the Managing Director, together with a Chairman and seven independent Directors appointed by the voting Shareholders of the Corporation.

All Non-Executive Directors are skills-based with the Managing Director, the only non-independent Director, appointed in accordance with the Constitution and the *State Owned Corporations Act 1989*, upon the recommendation of the Board.

The Board of Directors is at the centre of the corporate governance process. The Board oversees the policies, management and performance of the business. It sets the strategic direction and ensures the achievement of business and regulatory commitments.

Hunter Water's subsidiary company, Hunter Water Australia, is incorporated under the *Corporations Act 2001* and is governed by its own Board of Directors.

Hunter Water has a strong corporate governance framework that underpins strategic objectives and its commitment to its customers, shareholders and the community. The Board's Corporate Governance, and Audit and Risk Committees play a key role in setting the corporate governance culture.

For details on the Board of Directors refer to the Director's Report.

Terry Lawler Chairman

BCom, FCA,
FAICD, FAIM



Kim Wood Managing Director

BEng, DipEng,
MBA, FIEAust, FAIM,
CPEng



Jeff Eather Deputy Chair

BCom (Newcastle),
CPA, FCIM, MAICD



Richard Alan Chappel

BE (Civil), Dip T & RP, Hon
FIE Aust, FTSE
Retired 31 December 2012



Barbara Crossley

BNatRes (Hons),
MEIA, GAICD



Professor Maree Gleeson

BSc, PhD, FAICD



Peter Dalglish

BSc, P.DMktgMgmt



Susan Ivens

BA, DipEd, MBA,
LLB, FAICD



Cristina Cifuentes

BEC (Sydney),
LLB (UTS) (Hons)
Retired 31 May 2013



Effective Governance

Regulatory Framework

Hunter Water is governed by the *State Owned Corporations Act 1989* and the *Hunter Water Act 1991*. The NSW Government regulates the operations through a number of regulatory bodies and instruments.

Operating Licence

Hunter Water's Operating Licence is set by the Independent Pricing and Regulatory Tribunal of NSW (IPART) and is issued by its Portfolio Minister.

Hunter Water has a five year Operating Licence which came into effect on 1 July 2012.

The Operating Licence is the overarching regulatory instrument. The Operating Licence sets out operating responsibilities, system standards, service standards and customer rights. It also establishes systems for water quality, environmental and asset management. The Customer Contract also forms part of the Operating Licence. The current Customer Contract came in to effect on 1 July 2011.

IPART conducts an annual independent audit to assess Hunter Water's compliance against the Operating Licence. The audit assesses our performance in meeting the service standards and other conditions of the Licence. The results of audits and reviews are made publicly available by IPART upon completion.

Pricing

Hunter Water's overall pricing structure is periodically reviewed and determined by IPART. Prices that applied for 2012-13 were set by IPART in 2009 and indexed every year for a four year period. The most recent price determination sets the prices for a further four years and came into effect in July 2013. The applicable pricing during 2012-13 is listed in the statistical information pages of this report.

For further details on pricing refer to the Pricing Structure in the Statistical Information (page 89) and the Hunter Water website. Information about the price determination process can be found on IPART's website.

Wastewater Systems

Since February 2012 the Environment Protection Authority (EPA) has been responsible for the issue of licences under the *Protection of the Environment Operations Act 1997* for the wastewater pipe network, pumping stations and treatment systems. Prior to this the function was undertaken by the Office of Environment and Heritage.

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 performance reporting for the wastewater pipe network and pumping stations.

Access to Water

Hunter Water extracts water from the Williams, Paterson and Allyn Rivers as well as groundwater sources under conditions set out in licences issued by the NSW Office of Water. These licences are issued under the *Water Management Act 2000*. Further information about water access licensing arrangements can be obtained from the NSW Office of Water website.

Drinking Water Quality

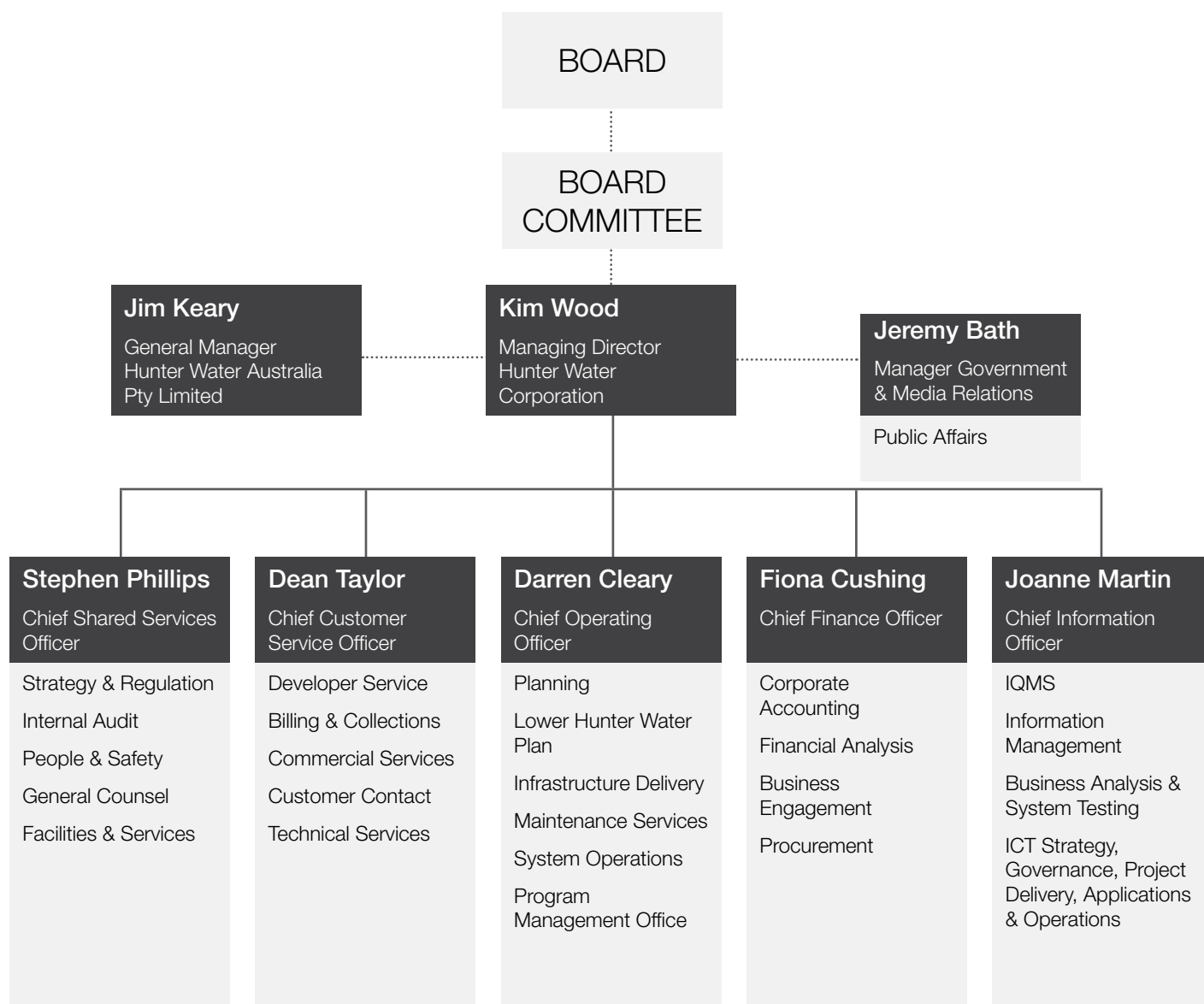
Hunter Water supplies high quality drinking water to customers. The drinking water supplied is regularly tested throughout the water supply system and consistently complies with the National Health and Medical Research Council's Australian Drinking Water Quality Guidelines. The Guidelines set out requirements for microbiological, physical and chemical requirements for drinking water.

Hunter Water's Operating Licence is required to comply with guidelines which provide a solid foundation for assessing drinking water quality.

Hunter Water also works closely with Department of Health to ensure that drinking water quality is managed appropriately.

| Regulator Stakeholder | Area of Regulation | Regulatory Instrument/s |
|--|--|---|
| Independent Pricing and Regulatory Tribunal of NSW (IPART) | Pricing, operations, service standards, customer protections, drinking water quality | Operating Licence Price Determination Customer Contract |
| NSW Treasury | Obligation to shareholders | Statement of Corporate Intent |
| NSW Environment Protection Authority (EPA) | Wastewater licensing | Environment Protection Licences |
| NSW Office of Water (NOW) - Part of the NSW Department of Primary Industries | Water extraction licensing | Water Management Licences |
| NSW Department of Planning & Infrastructure | Development assessment | Environmental Planning & Assessment Act 1979 |
| Department of Health | Drinking water quality | Memorandum of Understanding with Department of Health |

Our Organisational Structure



Executive Management

As at 30 June 2013, the Executive Management team were:

Kim Wood BEng, DipEng, MBA, FIEAust, FAIM, CPEng
Managing Director

Stephen Phillips ADipEng, GDipMgmt, GDipACG,
MBA, MComLaw, JP, MCLA, FCIS, FCSA, FAICD
Chief Shared Services Officer

Dean Taylor BCom, MEBM, CPA, AMIEAust, GAICD
Chief Customer Service Officer

Darren Cleary BE, ME
Chief Operating Officer

Fiona Cushing BSc, MAcc, CPA
Chief Finance Officer

Joanne Martin BBus (Banking & Finance), GAICD
Chief Information Officer

Performance Highlights

Obtaining Housing Acceleration Funding

Hunter Water successfully obtained \$21 million of funding over the next three years from the Housing Acceleration Fund. This funding will be used to support over 10,000 new homes in Farley and Lochinvar through the delivery of water and wastewater infrastructure.

The funding will be used to deliver:

- Farley regional wastewater network upgrades - \$7.9 million
- Lochinvar water upgrades - \$4 million
- Lochinvar wastewater upgrades – \$9.1 million

Major Customer Water Audits

Water audits for major customers were a key water efficiency initiative for Hunter Water. In 2013 five major customers signed up to the program. These were the John Hunter and Stockton Hospitals, University of Newcastle, Steggles and Sanitarium Health Foods.

The audits provided an understanding about water demand patterns and identified opportunities for the customer to become more water efficient. Hunter Water also provides a subsidy to major customers who implement identified audit initiatives.

New Prices Determined for the Next Four Years

The Independent Pricing and Regulatory Tribunal (IPART) announced in June 2013 new prices for Hunter Water's water, sewerage and stormwater services to apply from 1 July 2013 to 30 June 2017. Setting prices for four years gives customers certainty about how their bills will change over time.

For customers living in houses, typical annual water and sewerage bills will rise only in line with inflation (by 2.5% or \$26 each year over the next four years). The cost of stormwater drainage for houses will also decrease by about \$5 per year while stormwater charges for home units will fall by \$55 from 1 July 2013. Pensioner households will see an even smaller increase in their water bills, with IPART approving an increase of just \$13 each year over the four year period. Many small business owners will also benefit with their water and sewerage bills estimated to fall by \$177 over the full four year period.

IPART has approved Hunter Water's \$300 million infrastructure program for the next four years that will include projects such as upgrading both the Grahamstown and Nelson Bay Water Treatment Works and upgrading the Burwood Beach and Farley Wastewater Treatment Works.

Lifeline Workplace Lifesaver Award Winner

In May 2013, Hunter Water's Rodney Cade, Manager Customer Care & Complaints, was announced the dual-winner of the 2013 Lifeline Workplace Lifesaver Award. This annual award recognises a local person who makes a significant contribution to the mental health and well-being of their colleagues. Mr Cade continually keeps his team's morale high and has implemented a number of proactive initiatives to assist in the duties they undertake.

Registration of Workplace Agreements

The Association of Professional Engineers, Scientists and Managers Australia (APESMA) Hunter Water Corporation Agreement 2012 and Hunter Water Corporation Employees Enterprise Agreement 2012 were registered by Fair Work Australia. The APESMA Agreement came into effect from 17 October 2012 whilst the Hunter Water Corporation Employees Enterprise Agreement 2012 came into effect from 6 November 2012. The nominal expiry dates of both Agreements is 31 May 2015.

Environmental Training Launched Online

An online environmental training program was launched as part of the Environmental Management System in March 2013. The training, which is provided for all employees, will provide an understanding about Hunter Water's commitment to sustainable urban water management and an overview of policies and plans that relate to environmental management and sustainability. The training identifies environmental management tools that are available to all employees to assist in environmental decisions made in the day to day operations of Hunter Water.

Introduction of Centrepay

Hunter Water launched in partnership with Centrelink a Centrepay channel on the 21 June 2013. The payment channel is an important component of Hunter Water's Account Assistance Program and provides customers who receive any benefit from Centrelink with the option to nominate an amount of money to be deducted automatically from their benefits and paid toward their Hunter Water account electronically.

Supporting Nations in the Pacific Region

Hunter Water has continued to support the work of Hunter Water Australia in working with developing nations in the Pacific region through the Asian Development Bank. In February 2013, employees spent a week in Fiji as part of a twinning arrangement, with costs funded by the Asian Development Bank. The visit focused on assisting with the minimisation of non-revenue generating water, improvements to internal business processes as well as advice on process improvements that could be made to poorly performing wastewater assets. The Chairman and CEO of the Water Authority of Fiji and specialist staff visited Hunter Water in June 2013. This project follows on from work that has been carried out in Papua New Guinea for the past two years. In May 2013 a Hunter Water employee visited Papua New Guinea to assist with the mitigation of non-revenue generating water.

Hunter Business Water Savers Program

Hunter Water has conducted the Hunter Business Water Savers Program since 2010. To date over 155ML has been saved each year at 94 individual business sites. In August 2013, the Hunter Sports Centre was declared the winner of the Hunter Water Savers award for the 2012-13 program. The Centre proposed decompacting the main field area and adding compost over a three year period. This will increase the water holding capacity of the soil, improving turf growth by better utilising rainfall and result in less irrigation. The potential water savings for the project are estimated to be 3 million litres per annum.

Delivering the Lower Hunter Recycled Water Initiative

The Lower Hunter Recycled Water Initiative is the culmination of several years work on how to sustainably manage urban water in the Lower Hunter. The program comprises of eight recycling and greenhouse gas offset projects that will be delivered between 2011 and 2015.

This \$100 million program of works will save drinking water and improve water security for the Lower Hunter. The program is receiving \$8.8 million in funding from the Australian Government's Water for the Future initiative through the National Urban Water and Desalination Plan.

In October 2012 Hunter Water commissioned the Branxton recycled water scheme to supply recycled water from the Branxton Wastewater Treatment Works via a 10km purpose built pipeline to The Vintage Golf Course and other customers for irrigation purposes. The upgrade delivers several environmental benefits by reducing the amount of water extracted for irrigation and reduces the volume of treated wastewater discharged into nearby waterways.

Construction commenced in February 2013 on the Kooragang Industrial Water Scheme which will provide up to nine mega litres per day of recycled water for industrial use. Once commissioned in December 2014, the scheme will save up to 3,300 million litres of potable water each year.

A condition of the funding grant is to deliver projects that offset greenhouse gas emissions from the operation of the recycled water plants at Kooragang and Branxton.

In February 2013 Hunter Water completed installation of solar panels on Hunter Water's head office. The 72kW solar panels system will contribute about 100-megawatt hours of renewable energy each year for use within the building. Updating the head office data centre, which accounts for half of the buildings electricity consumption, Hunter Water has seen a significant decrease in energy used in the building.

Hunter Water planted 300,000 trees and shrubs at Grahamstown Dam, Chichester Dam and Irrawang to offset more than 80% of the 68,000 tonnes of carbon emissions likely to be produced by the recycled water plants over a 20 year period.

Hunter Water installed its first cogeneration facility at the Cessnock Wastewater Treatment Works in June 2013. The biogas produced by the digester is ignited within the cogeneration facility and the energy generated is used to generate electricity. The heat generated from the process is also used to heat the digester and in turn reduces treatment energy costs. The facility will reduce carbon emissions by 170 tonnes and reduce energy costs by \$30,000 each year.

Delivery of the First Recycled Water to The Vintage

Supply of recycled water from Branxton Wastewater Treatment Works (WWTW) to The Vintage Golf Course commenced for irrigation purposes in October 2012.

The scheme delivers up to 300 million litres of recycled water from the upgraded Branxton WWTW to The Vintage for use on its greens and fairways.

The pipeline assures a supply of water for The Vintage even during drier times when local waterways can otherwise run low. It also delivered environmental benefits by reducing the amount of water extracted from local waterways for irrigation, as well as the volume of treated wastewater discharged into nearby waterways from the Branxton plant.

The timely progress of this project was a demonstration of Hunter Water's commitment to providing a safe, reliable water service for customers, while reducing extraction from local waterways for irrigation purposes. The project saves up to 410 million litres of water each year, by providing recycled water to The Vintage, Branxton Golf Club and adjacent farmer.

This venture was the first initiative announced as part of the Lower Hunter Recycled Water Initiative. This recycled water pipeline was funded through Hunter Water and the Australian Government's Water for the Future initiative through the National Urban Water and Desalination Plan.

Assisting Customers with Water Efficient Washing Machines

In April 2013, the Hunter Region No Interest Loans Scheme was re-launched to assist low income customers to purchase water and energy efficient washing machines. The scheme provides small, no interest loans to low income households for the purchase of essential household goods. A 4 or 5 star water and energy efficient washing machine can save up to \$100 per year in operating costs compared with an inefficient (1 or 2 stars) machine.

Upgrading High Voltage Assets

In December 2012, Hunter Water commenced a \$50.5 million two-year program to upgrade existing high voltage assets associated with water and wastewater infrastructure. The assets to be upgraded include power poles, power cables and transformers, which are critical for ensuring the safe and reliable transport and treatment of water and wastewater for Hunter Water customers. The upgrade will also enable Hunter Water to introduce energy-efficient solutions and improve the operation of existing equipment, which will provide environmental benefits.

This project also demonstrates safety improvements for employees working on these assets.

Strategic Plan

During 2012-13, Hunter Water commenced a new process to assist and strengthen the development of the organisation's Strategic Plan. Directors, the Executive Management Team and employees have assisted in the development of the new Plan. The 2013-14 Strategic Plan sets out the organisation's objectives and financial commitment over a ten year horizon. The Plan provides guidance to Hunter Water's employees and shareholders on those initiatives and areas of the business which will drive strategic performance. Further work will be undertaken during 2013-14 to further define multi-year objectives. The work undertaken has significantly improved upon the historical approach to strategic planning.

Business Drivers

During 2012-13 Hunter Water has developed effective responses to a number of business drivers, as outlined in the Statement of Corporate Intent.

The drivers were as follows:

Safety

Hunter Water requires further efforts to better manage safety.

Water Sustainability

Hunter Water's ability to supply potable water may be threatened by a severe multi-year drought.

Affordability & Cost Structure

Demand for capital expenditure and increased operating expenditure may put upward pressure on customer pricing. Hunter Water needs to operate more efficiently.

Capital Structure

Hunter Water's investment grade credit rating may be lost should its financial metrics worsen.

Community Trust

Trust in Hunter Water has been unfavourably impacted by the Tillegra Dam debate.

Business Improvements

There are opportunities to improve outcomes by developing a genuine continuous improvement culture.

Information Technology

Hunter Water requires information technology upgrades to manage identified risk.

Culture

Implementing and sustaining a balanced customer driven commercial culture provides opportunities to improve performance.

Focus

Hunter Water will gain efficiencies by focusing on meeting community, environmental and operational regulatory requirements.

1. Safety

2012-13 Objectives

- A strong safety culture.
- Best practice safety program.
- Demonstrate a reduction in injuries.

There have been no lost-time injuries to Hunter Water employees for 27 months. This is the first time Hunter Water has achieved this result and is a credit to the safety culture in the workplace.

Hunter Water is continuing to improve contract management systems and processes to facilitate improvements in contractor safety.

Hunter Water places great importance on mental health and is currently developing a plan that continues to support access to employee assistance programs.

2. Water Sustainability

2012-13 Objectives

- An affordable and acceptable supply risk profile over the life of the Lower Hunter Water Plan.
- Wide community support for the plan.
- Maximise community value by planning an efficient water supply.

Updated modelling of how much water we need (demand) and how much water we have available (supply) indicates that the Lower Hunter storages can currently supply an average of 75 billion litres of water each year, which is enough to cater for growth for at least the next 20 years. However, while the Lower Hunter has enough water to meet the average needs of our growing region in the short to medium term, planning needs to occur for periods of drought. The primary focus of the Lower Hunter Water Plan will therefore be to improve drought security.

Since December 2012, the Metropolitan Water Directorate has been engaging with the Lower Hunter community and stakeholders, both online and through workshops. Twenty short listed options recommended for detailed evaluation and public discussions were released in April 2013 for community feedback. These options will be developed into potential portfolios using multi criteria decision analysis taking into account their cost, social, environmental, and risk/resilience factors.

3. Affordability

2012-13 Objective

- Reduce the impact on future prices by implementing an efficient capital program.

Over recent years, Hunter Water has undertaken considerable investment in capital infrastructure in order to meet customer growth demands, comply with regulatory obligations in relation to wastewater treatment operations and to improve water security for the region. The capacity provided by this investment has allowed Hunter Water to reduce the level of capital expenditure over the next four years to focus on providing water, wastewater and stormwater services to a level that complies with safety, environmental and customer obligations. Hunter Water will continue to focus on developing and delivering the projects in this program to deliver value for money for the community.

4. Cost Structure

2012-13 Objective

- Reduce the impact on future prices with efficient operational costs.

During 2012-13 Hunter Water's operating costs were \$133.77 million. One of the key areas in which savings were achieved was electricity, where costs were minimised through a combination of energy efficiency initiatives and also through reduced pricing as a result of the retail electricity supply contract being re-tendered.

Hunter Water continues to be one of the lowest cost water utilities in Australia as evidenced in the National Water Commission Annual Report for 2011-12 where Hunter Water was ranked the second lowest of 11 utilities in terms of operating costs per property served. The efficiency of Hunter Water's operating expenditure was further validated during the Price Determination process whereby IPART adopted proportionate regulation in the price determination which they commented they were able to do where a business makes "...price proposals based on efficient operating and capital expenditures supported by their customers".

5. Capital Structure

2012-13 Objective

- Reduce the impact of future prices by minimising the cost of interest.

To ensure the ongoing financial sustainability of the organisation, Hunter Water aims to maintain an investment-grade credit rating and is therefore closely monitoring debt levels and the costs associated with servicing this debt. After taking into account customer affordability and financial sustainability, Hunter Water's price submission to IPART for the 2013-17 period incorporated forecast capital expenditure of \$350 million. This level of capital investment will ensure service provision to the community and minimises increases in the level of debt required.

During 2012-13, approximately 20% of Hunter Water's debt portfolio was refinanced to take advantage of low market interest rates and the average interest yield (excluding the government guarantee fee) on the debt portfolio has reduced to 5.0% (a decrease of 0.7% on 2011-12).

New Credit Management and Account Assistance policies have been implemented into business processes. Data cleansing of customer information within the billing system has commenced. The focus is on improving the billing system credit paths and business processes which align to the goals of debt prevention and supporting customers experiencing hardship and making these processes more efficient.

6. Community Trust

2012-13 Objectives

- Comprehensive community engagement.
- Community endorsement of major capital projects.
- Increased community confidence in Hunter Water.

Hunter Water's Community Consultative Forum met three times during 2012-13 to provide advice on customer and consumer interests in relation to Hunter Water's Customer Contract and the operational requirements of the Operating Licence. The Forum is an advisory body made up of key community representatives from across the Lower Hunter, representing various stakeholder groups such as Hunter Region Botanic Gardens, No Tillegra Dam Group, Hunter Business Chamber and the Catchment Management Authority. At each meeting the Metropolitan Water Directorate attended and discussed the development of the Lower Hunter Water Plan.

A land use and management plan is being developed for Hunter Water's landholdings in the Tillegra area. Local stakeholders, including Dungog Shire Council, the community and government authorities, are being consulted to ensure a comprehensive approach to engagement is taken throughout the development of the plan. The plan will be completed in October 2013.

7. Business Improvement

2012-13 Objectives

- A continuous improvement culture.
- Efficient systems and processes.
- Reduce the impact on future prices by achieving operational cost efficiencies through continuous improvements.

Hunter Water is undertaking third party certification to nominated Australian and International standards for its workplace health and safety system, quality management and environmental management systems. Work has been progressing in developing documentation for Hunter Water's upgraded Work Health and Safety Management System and the implementation will commence in August 2013. The certification of the Work Health and Safety Management System to AS/NZS 4801 is due to be completed by December 2013.

8. Information Technology

2012-13 Objectives

- Information technology systems that adequately support business needs.
- Reduce the impact on future prices with efficient information technology costs.

Hunter Water completed a technical upgrade of the meter reading system. Planning for the new pricing structure that occurred during 2012-13, as determined by IPART for commencement from 1 July 2013, was successfully implemented. The Geospatial Information System (GIS) was upgraded and Hunter Water is in the process of upgrading its Enterprise Resource Planning (ERP) system from Ellipse version 5 to version 8. This system is used for asset management, human resources, finance and supply chain management.

To support a sustainable computing environment for the overall business, a technical upgrade of the electronic document management system was completed. Hunter Water successfully performed disaster recovery testing for its critical business systems in March 2013. Hunter Water is continually undertaking an ongoing infrastructure refresh to migrate away from and then decommission unsupported technologies.

Modern information systems provide access to relevant management information which assists the quality of management timing and decision making, resulting in operating efficiencies.

9. Culture

2012-13 Objectives

- A culture of achieving business objectives at all levels of the organisation.
- Consistently rated as an employer of choice.
- Consistently outperform water industry benchmarks.

Hunter Water is undertaking a complete internal review of the human resources management systems to ensure alignment between organisational needs and the human resources function. A new performance management system has been successfully introduced with a simplified ratings system. This has driven employee participation rates from 60% to 100% compliance in performance reviews during 2012-13. Work is progressing in developing a more structured and formal remuneration and benefits system to enable greater reward and recognition of employees and their performance.

Hunter Water is continuing to review and develop a base lined training platform to meet business training needs and institute a targeted recruitment and selection system aligned to corporate objectives.

10. Focus

2012-13 Objectives

- Improved service levels.
- An acceptable risk profile over the life of the plan.
- Reduce the impact on future prices with efficient operational costs.
- Community support for Hunter Water's activities.

Hunter Water has service offerings to meet the needs of key customer segments. Continual improvements are made to customer service with the assistance of survey information. Training was implemented with a focus on the service delivery experience. As a result of the training the ability to undertake first call resolution has improved.

Hunter Water provides dedicated account managers to assist customers in a variety of ways. These include financial hardship, major customer support and customer service resolution. During 2012-13, a restructure of the Customer Services division was carried out to draw together the different teams who interact with developers under a dedicated senior manager. The group achieved strong performance against a suite of key performance indicators that were designed to ensure that Hunter Water was able to respond with timely and accurate information to this key customer group. A total of 1,599 development assessments were approved with 97% completed within the 30 day target. The team achieved this result with the assistance of a revised electronic tool for creating notice letters.

Financial Statements

Company Particulars

Directors

Mr T Lawler, Chairman

Mr K Wood, Managing Director

Mr J Eather, Deputy Chairman

Ms B Crossley

Prof M Gleeson (from 1 January 2013)

Ms S Ivens

Ms C Cifuentes (to 31 May 2013)

Mr P Dalglish (from 2 July 2013)

Mr RA Chappel (to 31 December 2012)

Company Secretary

Mr S Phillips

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 the Parent Entity and Controlled Entity for the year ended 30 June 2013.

Directors

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

| | | | |
|------|----|-----------|-----------------------|
| Mr | T | Lawler | Chairman |
| Mr | K | Wood | Managing Director |
| Mr | J | Eather | Deputy Chairman |
| Ms | B | Crossley | |
| Ms | S | Ivens | |
| Mr | R | Chappel | (to 31 December 2012) |
| Ms | C | Cifuentes | (to 31 May 2013) |
| Prof | M | Gleeson | (from 1 January 2013) |
| Mr | P | Dalglish | (from 2 July 2013) |
| Mr | RA | Chappel | (to 31 December 2012) |

Information on Directors

T LAWLER - BCom, FCA, FAICD, FAIM

Mr Lawler was appointed as Chairman of Hunter Water Corporation in January 2012 and was also Chairman of Hunter Water Australia Pty Limited (Hunter Water Corporation's Controlled Entity) until 25 July 2013. Mr Lawler is Chairman of Lawler Chartered Accountants and Lawler Partners Pty Limited, a national award winning accounting and business advisory firm. He is also Chair of Life Without Barriers Limited.

Mr Lawler is a Director of Ampcontrol Pty Ltd, Powerdown Australia Pty Ltd, Peoplefusion Pty Ltd and is an advisory board member of Urban Purveyor Group Pty Limited. He has previously been the Chairman of National Rail Corporation Limited, Newcastle Knights Ltd and a Director of Newcastle Port Corporation.

K WOOD - BEng, DipEng, MBA, FIEAust, CPEng, FAIM

Mr Wood was appointed as Managing Director of Hunter Water Corporation in November 2011 and was also a Director of Hunter Water Australia Pty Limited until 25 July 2013. He was previously the CEO of Queensland's Allconnex Water, which he helped establish. He has extensive utility experience as a CEO, having led a number of electricity and water utilities throughout Australia.

Mr Wood was the inaugural CEO of City West Water and then went on to head the Victorian electricity transmission business, GPU PowerNet. His other CEO roles have included Northern Territory Power and Water Corporation, and Queensland power generator Stanwell Corporation. His experience includes past private sector leadership roles in the telecommunications industry, firstly as Managing Director of GEC Plessey Telecommunications and later with publicly listed company, DataFast.

Mr Wood has also had extensive experience as a company director, including several industry association directorships. He has prior senior management experience with the Australian operations of both Hewlett Packard and Bell South. He commenced his working career as an engineer with Victoria's State Electricity Commission.

JR EATHER - BCom (Newcastle), CPA, FCIM, MAICD

Mr Eather was appointed as a Director on 1 January 2008 and is also a Director of Hunter Water Australia Pty Ltd. 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 currently a Director of The Heal for Life Foundation, a healing centre for survivors of child abuse and a Director of the Newcastle Permanent Building Society. Mr Eather has previously been Chairman of The University of Newcastle Foundation.

B CROSSLEY - BNatRes(Hons), MEIA, MAICD

Ms Crossley was appointed as a Director on 1 February 2004. Ms Crossley is a Director of Umwelt (Australia) Pty Limited, a locally based environmental consultancy firm, with over 100 professionals providing services across Australia from offices in Newcastle, Canberra and Perth.

Ms Crossley is a former Chairperson of Hunter Environment Institute. She has extensive knowledge of relevant environmental issues, and has managed numerous project approvals and environmental programs for major industry and infrastructure. Ms Crossley has a strong business and marketing focus.

S IVENS - BA, DipEd, MBA, LLB, FAICD

Ms Ivens was appointed as Director on 1 April 2012. She has made a strong contribution to the Hunter business community, particularly through roles in the health industry, including Managing Director of Toronto Private and Maitland Private Hospitals.

Ms Ivens has a high level of experience in the planning, development and management of successful businesses, as well as corporate governance and involvement with various Boards and Committees. She is currently a member of the Regional Development Australia Hunter Committee and was the first woman to receive the prestigious Hunter Business person of the Year award in 2006.

C CIFUENTES - BEc (Sydney), LLB (UTS) (Hons)

Ms Cifuentes was appointed as a Director on 1 February 2011 and retired on 31 May 2013. She is a public policy and investment markets professional, with over 25 years experience in economics, policy and finance. She was formerly a Board Member of the Australian Energy Regulator, a Trustee Director of First State Super, an Independent Member of Perpetual Multi Manager Investment Committee, a Member of the Australian Institute of Superannuation Trustees Governance Committee and a former Director of NSW Treasury Corporation (the State's central borrowing authority).

Ms Cifuentes has extensive experience as a non-executive director with a strong background in corporate governance; strategic and budget planning; audit and risk management and compliance. Ms Cifuentes has spent many years in the public sector formulating and implementing government policy across a range of areas including regulated utilities, superannuation, corporations law and finance.

PROF M GLEESON - BSc, PhD, FAICD

Professor Gleeson was appointed as a Director on 1 January 2013. Professor Gleeson is a health, education, science and medical research professional, with 35 years experience and is currently a Director of the Hunter Valley Research Foundation, the Central Coast Local Health District Board, the Special Olympics Asia Pacific Games Trust, a Trustee Director of Nationwide Superannuation Fund and a member of the National Health and Medical Research Council Principal Advisory Committee on Preventative & Community Health.

Professor Gleeson has extensive experience as a non-executive director with a strong background in corporate governance, strategic planning, capital developments, risk management and compliance.

P DALGLISH - BSc, P.DMktgMgmt

Mr Dalglish was appointed as a Director on 2 July 2013 and a Director of Hunter Water Australia Pty Limited on 25 July 2013. Mr Dalglish is a water industry specialist with over 35 years' experience in all facets of the industry including management of large-scale wastewater treatment operations and infrastructure projects, corporate planning and system performance review.

Mr Dalglish is currently a Director of Chester Consulting Pty Ltd and has held senior management positions with Sydney Water Corporation and URS Australia Pty Ltd where he has worked on strategic projects across Australia and in New Zealand, The Philippines, Iraq and Vietnam.

RA CHAPPEL - BE (Civil), Dip T & RP, Hon FIE Aust, FTSE

Mr Chappel was appointed as a Director on 1 February 2004 and ceased his Directorship on 31 December 2012. He was also a Director of Hunter Water Australia Pty Limited.

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

Meeting of Directors

| | Board Meetings | | Committee Meetings | | | | | | | |
|-------------|----------------|----|--------------------|---|----------------------|---|---|---|---------------|---|
| | A | B | Audit & Risk | | Corporate Governance | | Community, Environment & Sustainability | | Capital Works | |
| | A | B | A | B | A | B | A | B | A | B |
| T Lawler | 10 | 11 | 4 | 5 | 3 | 4 | * | * | 2 | 2 |
| K Wood | 11 | 11 | * | * | 4 | 4 | 3 | 3 | 2 | 2 |
| B Crossley | 10 | 11 | 3 | 5 | 4 | 4 | 3 | 3 | 2 | 2 |
| RA Chappel | 4 | 5 | * | * | * | * | * | * | 1 | 1 |
| J Eather | 11 | 11 | 5 | 5 | 4 | 4 | 1 | 3 | 2 | 2 |
| C Cifuentes | 7 | 10 | 3 | 4 | 2 | 4 | 3 | 3 | 1 | 2 |
| S Ivens | 10 | 11 | * | * | - | - | 3 | 3 | * | * |
| M Gleeson | 5 | 6 | 1 | 1 | * | * | 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 before income tax for the year ended 30 June 2013 was \$32.00m compared with \$47.59m for the previous year. An annual dividend of \$15.60m has been declared for the year ended 30 June 2013.

Review of Operations

The terminology used in reporting the results is as follows:

- The Group, ie. Hunter Water Corporation and Hunter Water Australia Pty Limited are referred to as the Economic Entity
- The Parent or Hunter Water Corporation is referred to as the Parent Entity
- The Subsidiary, Hunter Water Australia Pty Limited is referred to as the Controlled Entity

The financial year profit result is unfavourable to budget by \$11.26m on primarily due to a revaluation decrement of \$29.26m processed against land and buildings partially offset by additional developer asset contributions and lower depreciation and income tax expenses.

Subsequent Events

There were no matters or circumstances that have arisen since the end of the 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 Company Secretary of the Parent Entity and its Controlled Entity.

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 2013.

Audit and Risk Committee

Hunter Water Corporation has an Audit and Risk Committee, which meets five times per year and at reporting date, was comprised of:

Mr J Eather Director – Committee Chairman
Mr T Lawler Director – Chairman
Ms B Crossley Director
Prof M Gleeson Director (appointed 30 May 2013)

The committee's main objectives are to:

- Review the integrity and quality of the financial information to be provided to the shareholders and the public
- Review the systems and processes that management has in place to identify and manage areas of significant risk, including financial risk
- Review the effectiveness of both the internal audit function and the Parent Entity's external auditors
- Oversee the Parent Entity's fraud and corruption control policies and plans

Corporate Governance Committee

The Corporate Governance Committee has been established to ensure that the system of corporate governance within Hunter Water Corporation provides an effective and ethical framework within which the Board and Management address their respective responsibilities. The Committee advises the Board on remuneration policy in accordance with the NSW Treasury Commercial Policy Framework: Guidelines for Boards of Government Businesses and all matters concerning the evaluation of Board performance including the composition of the Board and the skills required of individual Directors.

The committee's main objectives are to:

- Review the development and implementation of principles, policies and practices of Corporate Governance and make recommendations to the Board in relation to these matters, as appropriate
- Advise the Board regarding the effectiveness of the Board's composition in allowing it to discharge its responsibilities
- Provide advice on appropriately managing pay and performance of staff

The Membership of the Committee at reporting date is as follows:

Mr T Lawler Chairman – Committee Chairman
Mr J Eather Director
Ms B Crossley Director
Ms S Ivens Director (appointed 30 May 2013)
Mr K Wood Managing Director

Directors' Benefits

During or since the end of the year 30 June 2013 no Director of the Economic Entity has received or become entitled to receive a benefit, other than those disclosed at Note 28 – Related Party Disclosures of the financial statements, by reason of a contract entered into by the Parent Entity or the Controlled Entity 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

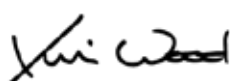
The Parent Entity has a Code of Conduct that must be adhered to by all employees. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia.

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 Parent Entity materially complied with all requirements in respect to these licences and associated legislation.



T Lawler
Chairman



K Wood
Managing Director

Newcastle, 29 August 2013

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Hunter Water Corporation

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of Hunter Water Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2013, the income statement, the statement of comprehensive income, statement of changes in equity and statement cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the entity it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation and the consolidated entity as at 30 June 2013, and of their financial performance and their cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

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

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *State Owned Corporations Act 1989* and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial statements that give a true and fair view 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 Corporation's internal control. 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 statements.

I believe 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 Corporation
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- 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 roles by the possibility of losing clients or income.



James Sugumar
Director, Financial Audit Services

2 September 2013
SYDNEY

Income Statement for the Year Ended 30 June 2013

Start of Audited Financial Statements

| | Notes | Economic Entity | | Parent Entity | |
|---|-------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Revenue from Continuing Operations | | | | | |
| Services | 2 | 318,160 | 288,013 | 301,269 | 275,147 |
| Other income | 2 | 350 | 439 | 5,863 | 4,102 |
| Expenses | | | | | |
| Operational costs | 3 | (133,765) | (119,927) | (122,521) | (114,101) |
| Depreciation and amortisation | 4 | (43,932) | (52,372) | (42,938) | (51,606) |
| Finance costs | 4 | (73,568) | (66,230) | (73,732) | (66,447) |
| Superannuation expense | 4 | (1,047) | (1,893) | (163) | (963) |
| Revaluation decrement | 4 | (29,260) | - | (29,260) | - |
| Other | | (4,936) | (438) | (4,928) | (438) |
| Profit Before Income Tax | | 32,002 | 47,592 | 33,590 | 45,694 |
| Income tax expense | 5(a) | (9,425) | (14,280) | (8,230) | (12,541) |
| Profit for the Period | | 22,577 | 33,312 | 25,360 | 33,153 |
| Profit is attributable to: | | | | | |
| Owners of Hunter Water Corporation | | 22,577 | 33,312 | 25,360 | 33,153 |
| | | 22,577 | 33,312 | 25,360 | 33,153 |

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 31 to 66.

Statement of Comprehensive Income for the Year Ended 30 June 2013

| | Notes | Economic Entity | | Parent Entity | |
|--|-------|------------------|------------------|------------------|------------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Profit for the Period | | 22,577 | 33,312 | 25,360 | 33,153 |
| Other Comprehensive Income | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| Net increase/(decrease) in property plant and equipment revaluation reserve | | (384,527) | (661,946) | (384,527) | (661,946) |
| Income tax relating to net (increase)/decrease in property plant and equipment revaluation reserve | 5(c) | 115,823 | 198,583 | 115,823 | 198,583 |
| Actuarial gains/(losses) on defined benefits fund | 24(f) | 22,443 | (56,727) | 19,780 | (50,381) |
| Income tax relating to actuarial (gains)/losses on defined benefits fund | 5(c) | (6,733) | 16,938 | (5,934) | 15,053 |
| Other comprehensive income for the period, net of tax | | (252,994) | (503,152) | (254,858) | (498,690) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | (230,417) | (469,840) | (229,498) | (465,537) |
| Total comprehensive income for the year is attributable to: | | | | | |
| Owners of Hunter Water Corporation | | (230,417) | (469,840) | (229,498) | (465,537) |
| | | (230,417) | (469,840) | (229,498) | (465,537) |

The above consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 31 to 66.

Statement of Financial Position as at 30 June 2013

| | Notes | Economic Entity | | Parent Entity | |
|--------------------------------------|-------|------------------|------------------|------------------|------------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current Assets | | | | | |
| Cash and cash equivalents | 7 | 31,645 | 10,724 | 29,043 | 3,377 |
| Trade and other receivables | 8 | 45,673 | 42,188 | 45,472 | 43,763 |
| Inventories | 10 | 2,669 | 2,504 | 2,669 | 2,504 |
| Assets held for sale | 11 | 5,517 | 13,360 | 5,517 | 13,360 |
| Total Current Assets | | 85,504 | 68,776 | 82,701 | 63,004 |
| Non-current assets | | | | | |
| Other financial assets | 9 | - | - | 900 | 900 |
| Property, plant & equipment | 12 | 2,579,937 | 2,888,977 | 2,588,190 | 2,895,480 |
| Intangible assets | 13 | 19,355 | 21,918 | 19,096 | 21,605 |
| Total Non-Current Assets | | 2,599,292 | 2,910,895 | 2,608,186 | 2,917,985 |
| TOTAL ASSETS | | 2,684,796 | 2,979,671 | 2,690,887 | 2,980,989 |
| Current Liabilities | | | | | |
| Trade and other payables | 14 | 81,797 | 53,694 | 83,937 | 57,327 |
| Current tax liabilities | 15 | 9,019 | 4,800 | 9,019 | 4,800 |
| Borrowings | 16 | 1,377 | 75,072 | 9,011 | 75,072 |
| Provisions | 17 | 40,787 | 43,676 | 36,884 | 40,262 |
| Total Current Liabilities | | 132,980 | 177,242 | 138,851 | 177,461 |
| Non-Current Liabilities | | | | | |
| Borrowings | 16 | 984,720 | 843,296 | 984,720 | 848,296 |
| Provisions | 17 | 79,661 | 104,341 | 71,967 | 93,807 |
| Deferred tax liabilities | 18 | 172,519 | 293,859 | 177,088 | 298,067 |
| Total Non-Current Liabilities | | 1,236,900 | 1,241,496 | 1,233,775 | 1,240,170 |
| TOTAL LIABILITIES | | 1,369,880 | 1,418,738 | 1,372,626 | 1,417,631 |
| NET ASSETS | | 1,314,916 | 1,560,933 | 1,318,261 | 1,563,358 |
| Equity | | | | | |
| Contributed equity | 19 | 100,000 | 100,000 | 100,000 | 100,000 |
| Reserves | 20(a) | 557,709 | 827,859 | 557,709 | 827,859 |
| Retained profits | 20(b) | 657,207 | 633,074 | 660,552 | 635,499 |
| TOTAL EQUITY | | 1,314,916 | 1,560,933 | 1,318,261 | 1,563,358 |

The above consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 31 to 66.

Statement of Changes in Equity for the Year Ended 30 June 2013

| Economic Entity | Notes | Contributed Equity \$'000 | Reserves \$'000 | Retained Profits \$'000 | Total Equity \$'000 |
|---|-------|------------------------------|--------------------|----------------------------|------------------------|
| Balance at 1 July 2012 | | 100,000 | 827,859 | 633,074 | 1,560,933 |
| Profit for the period | | - | - | 22,577 | 22,577 |
| Transfer from revaluation reserve to retained earnings | 20(b) | - | (1,446) | 1,446 | - |
| Other comprehensive income | | - | (268,704) | 15,710 | (252,994) |
| Total comprehensive income for the period | | - | (270,150) | 39,733 | (230,417) |
| Transaction with owners in their capacity as owners: | | | | | |
| Dividends provided for | 6 | - | - | (15,600) | (15,600) |
| Balance at 30 June 2013 | | 100,000 | 557,709 | 657,207 | 1,314,916 |
| Balance at 1 July 2011 | | 100,000 | 1,279,649 | 671,944 | 2,051,594 |
| Transfer from revaluation reserve to retained earnings | | - | 11,573 | (11,573) | - |
| Restated total equity at the beginning of the financial year | | 100,000 | 1,291,222 | 660,371 | 2,051,593 |
| Profit for the period | | - | - | 33,312 | 33,312 |
| Other comprehensive income | | - | (463,363) | (39,789) | (503,152) |
| Total comprehensive income for the period | | - | (463,363) | (6,477) | (469,840) |
| Transaction with owners in their capacity as owners: | | | | | |
| Dividends provided for | 6 | - | - | (20,820) | (20,820) |
| Balance at 30 June 2012 | | 100,000 | 827,859 | 633,074 | 1,560,933 |
| Parent Entity | Notes | Contributed Equity \$'000 | Reserves \$'000 | Retained Profits \$'000 | Total Equity \$'000 |
| Balance at 1 July 2012 | | 100,000 | 827,859 | 635,499 | 1,563,358 |
| Profit for the period | | - | - | 25,360 | 25,360 |
| Transfer from revaluation reserve to retained earnings | 20(b) | - | (1,446) | 1,446 | - |
| Other comprehensive income | | - | (268,704) | 13,846 | (254,858) |
| Total comprehensive income for the period | | - | (270,150) | 40,652 | (229,498) |
| Transaction with owners in their capacity as owners: | | | | | |
| Dividends provided for | 6 | - | - | (15,600) | (15,600) |
| Balance at 30 June 2013 | | 100,000 | 557,709 | 660,552 | 1,318,261 |
| Balance at 1 July 2011 | | 100,000 | 1,279,649 | 670,067 | 2,049,716 |
| Transfer from revaluation reserve to retained earnings | | - | 11,573 | (11,573) | - |
| Restated total equity at the beginning of the financial year | | 100,000 | 1,291,222 | 658,494 | 2,049,716 |
| Profit for the period | | - | - | 33,153 | 33,153 |
| Other comprehensive income | | - | (463,363) | (35,328) | (498,691) |
| Total comprehensive income for the period | | - | (463,363) | (2,175) | (465,538) |
| Transaction with owners in their capacity as owners: | | | | | |
| Dividends provided for | 6 | - | - | (20,820) | (20,820) |
| Balance at 30 June 2012 | | 100,000 | 827,859 | 635,499 | 1,563,358 |

The above consolidated Statement of Changes In Equity should be read in conjunction with the accompanying notes on pages 31 to 66.

Statement of Cash Flows for the Year Ended 30 June 2013

| | Notes | Economic Entity | | Parent Entity | |
|---|-------|------------------|------------------|------------------|------------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Cash Flows from Operating Activities | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 310,521 | 270,825 | 295,722 | 260,220 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (142,425) | (145,938) | (133,512) | (141,074) |
| | | 168,096 | 124,887 | 162,210 | 119,146 |
| Dividends received | | - | - | 6,893 | 3,558 |
| Interest received | | 340 | 440 | 268 | 207 |
| Proceeds from environmental levy and developers | | 8,999 | 8,387 | 8,999 | 8,387 |
| Borrowing costs | | (70,876) | (56,559) | (70,919) | (56,781) |
| Income taxes paid | | (15,655) | (12,900) | (13,260) | (11,285) |
| Net cash inflow from operating activities | 21 | 90,904 | 64,255 | 94,191 | 63,232 |
| Cash Flows From Investing Activities | | | | | |
| Purchases of property, plant and equipment | | (114,246) | (140,920) | (115,309) | (142,171) |
| Proceeds from sales of property, plant and equipment | | 363 | 600 | 363 | 600 |
| Net cash (outflow) from investing activities | | (113,883) | (140,320) | (114,946) | (141,571) |
| Cash flows from financing activities | | | | | |
| Proceeds from borrowings | | 249,904 | 106,869 | 253,905 | 106,869 |
| Repayment of borrowings | | (185,163) | (10,300) | (186,664) | (10,300) |
| Dividends paid | 6 | (20,820) | (16,600) | (20,820) | (16,600) |
| Net cash inflow from financing activities | | 43,921 | 79,969 | 46,421 | 79,969 |
| Net increase / (decrease) in cash and cash equivalents | | 20,942 | 3,904 | 25,666 | 1,630 |
| Cash and cash equivalents at beginning of the year | | 10,724 | 6,822 | 3,377 | 1,747 |
| Effects of exchange rate changes on cash and cash equivalents | | (21) | (2) | - | - |
| Cash and cash equivalents at end of the year | 7(a) | 31,645 | 10,724 | 29,043 | 3,377 |

The above consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 31 to 66.

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 statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for Hunter Water Corporation as the parent entity and the Economic Entity consisting of Hunter Water Corporation and its wholly-owned subsidiary (the Controlled Entity).

The Economic Entity's and Parent Entity's financial statements for the year ended 30 June 2013 were authorised for issue in accordance with a resolution of the Board on 29 August 2013.

a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with and are compliant with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB), mandates issued by NSW Treasury and other mandatory and statutory reporting requirements, including NSW Treasury Circulars adopted in the Economic Entity's Statement of Corporate Intent, Part 3 of the Public Finance and Audit Act 1983 and the associated requirements of the Public Finance and Audit Regulation 2010. The Directors have determined that the Corporation is a for-profit entity for financial reporting purposes. In preparing the financial statements, the accounting policies described below are based on the requirements applicable to for-profit entities in these mandatory and statutory requirements.

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

Historical cost convention

The financial statements have been prepared on the historical cost basis, except for the following material items in the Statement of Financial Position:

- Certain classes of property, plant and equipment and intangibles are measured at the lower of fair value and recoverable amount
- Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell
- Defined benefit superannuation liabilities are stated at the present value of accrued benefit obligation less fair value of the fund assets
- Employee benefit provisions are stated at the present value of the future obligation for the relevant liabilities concerned

Rounding to the nearest \$000

The amounts contained in this report have been rounded off to the nearest thousand dollar.

Currency of amounts in report

The amounts contained in this report are in Australian Dollars unless otherwise stated.

b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of the Parent Entity (Hunter Water Corporation) and the wholly-owned Controlled Entity (Hunter Water Australia Pty Limited) as at 30 June 2013 and the results of the Parent Entity and Controlled Entity 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 Entity so that the Controlled Entity operated with the Parent Entity to achieve its objectives. The Controlled Entity is detailed in note 31 to the accounts.

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

c) Revenue recognition

Revenue is recognised when the entity has passed on control of the good or provision of the service, where it is probable that the economic benefits will flow to the 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).

Revenue is recognised in respect of these services on an accrual basis as the services are provided. Estimated water usage recorded in unread meters is brought to account at 30 June. The estimate is derived by calculating revenue based on water supply that has left water sources (using system flow data), less a component for non-revenue generating supply.

(ii) External sales

External sales are raised by the Controlled Entity through the provision of services.

(iii) Contributions for capital works

Contributions from developers can be in the form of both monetary and non-monetary assets. In accordance with Australian Accounting Interpretation 18, where physical asset contributions are received in return for connection to a service delivery network, contributions are recognised as revenue and assets at their assessed fair value upon connection.

Cash contributions received from developers are recognised as revenue upon connection of services. Environmental levy receipts are considered revenue in nature and are shown at their cash value.

(iv) Property sales

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

(v) Investment income

Represents earnings on surplus cash invested in the Economic Entity's bank accounts and other deposits with financial institutions.

Interest revenue is recognised as the interest accrues using the effective interest method.

(vi) Dividends

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

(vii) Government grants

Government grants relating to assets are recognised as deferred income with the income presented in profit or loss on a systematic basis over the useful life of the asset.

d) Income tax

The Parent and Controlled Entity 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 Acts of 1936 and 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 notional tax rate enacted at the reporting date 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 in other comprehensive income or directly in equity, are similarly recognised in other comprehensive income or 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 and tax sharing 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 and tax sharing agreements are disclosed in note 5.

e) Cash and cash equivalents

For the purpose of the presentation of the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

f) Trade receivables

Trade receivables are recognised at original invoice amount less allowance for impairment. Recognition of original invoice amount is adopted as this is not materially different to amortised cost, given the short-term nature of receivables.

Trade debtors for service availability and usage charges receivable are required to be settled within 21 days. Other trade debtors receivable are generally required to be settled within 30 days.

Collectability of receivables is reviewed on an ongoing basis and debts which are known to be uncollectible are written off. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due. All customer debts, other than those provided for, are considered collectable.

Any non-current receivables are measured at discounted amortised cost.

g) Inventories

Inventories are valued at the lower of cost and net realisable value using the weighted average basis of valuation for the purposes of determining cost. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

h) Assets held for sale

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

It is anticipated that the carrying amounts of such assets will be recovered principally through sale transactions. It is considered probable that a sale will occur.

No impairment is processed against assets classified as held for sale.

i) Property, plant and equipment

Acquisitions and Capitalisation

All items of property, plant and equipment are recognised initially at the cost of acquisition. Subsequent to initial recognition, certain classes of assets are revalued in accordance with the Parent Entity's revaluation policies (see Valuation below).

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 greater than \$500 individually and having a minimum expected operational life of one year are capitalised.

The Parent Entity recognises the entire infrastructure system as one asset, comprising the entire water network regardless of the type of water that the network is managing at the various stages of its cycle.

In respect of system assets constructed by the Economic Entity for its own use, cost includes:

- costs associated with the detailed design of the asset
- materials used in construction
- direct labour and an appropriate proportion of overhead costs
- contractors' services
- major inspection costs
- an estimate where relevant of the costs to dismantle, decommission and remove the assets and restore the site on which it is located

System assets are capitalised as completed assets when each facility, or operating unit within a facility, becomes operational and available for use.

In line with AASB 123 Borrowing Costs, the entity capitalises borrowing costs which are directly attributable to the acquisition or construction of a qualifying asset. The interest rate which has been used to capitalise borrowing costs is currently 6.83% (2012: 8.16%).

Valuation

The Parent Entity has valued its non current assets in accordance with AASB 116 Property, plant & equipment and NSW Treasury's accounting policy TPP07-1 "Valuation of Physical Non-Current Assets at Fair Value". Land and buildings are valued at fair value whilst the system asset is valued at gross replacement cost using the modern engineering equivalent replacement asset methodology (MEERA). Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at reporting date.

The Parent Entity's policy is to revalue assets, except land and buildings, over a five year cycle by selecting assets according to a predetermined schedule of five asset sub groups. Other than the asset sub 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 12(d)).

When revaluing system assets at MEERA the gross amount and the related accumulated depreciation are separately restated. When valuing land and buildings at fair value, any balances of accumulated depreciation at the revaluation date in respect of those assets are credited to the asset accounts to which they relate. The net asset accounts are then increased or decreased by the revaluation increments or decrements.

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.

Land and buildings owned by the Parent Entity are valued by registered valuers every three years. Land, upon which the Parent Entity's system assets are located, is valued at its value in use by an independent expert valuer, which is considered to be the highest and best use. The written down value of all other property, plant and equipment is considered a surrogate for their fair value.

For each asset subject to valuation, revaluation increments are credited to the asset revaluation reserve within the Statement of Comprehensive Income. Where a revaluation decrement or impairment loss reverse a revaluation increment previously credited to the asset revaluation reserve, the revaluation decrement or impairment loss is debited to that reserve. In other cases the decrement or impairment loss is recognised in the Income Statement.

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. Land is not a depreciable asset.

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 estimated useful lives for each class of assets are stated below. These lives have been updated so as to reflect the composition of the asset base at balance date.

| Class of Fixed Asset | Useful Life (yrs) |
|------------------------------|----------------------|
| System Assets | |
| Sewer | |
| - Sewermains | 80-120 |
| - Sewer Pump Stations | 10-100 |
| - Wastewater Treatment Works | 10-100 |
| Water | |
| - Watermains | 80-150 |
| - Water Chlorinators | 10-50 |
| - Water Pump Stations | 10-100 |
| - Water Resources | 10-50 |
| - Water Treatment Works | 10-80 |
| - Meters | 15 |
| Stormwater | 100-150 |
| Recycled Water | 80-150 |
| General Support | |
| Fleet | 3-10 |
| General equipment | 3-15 |
| Buildings | 25-100 |

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 whereby research findings are applied to the development of substantially new or improved products or processes (for example, relating to the design of new improved systems) are capitalised when:

- it is probable that the project will result in future economic benefits,
- the project is technically or commercially feasible,
- its costs can be measured reliably, and
- there are sufficient resources to complete development

If development costs are capitalised they are recorded as intangible assets and amortised from the point at which benefits are recognised on a straight-line basis over their 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 are not amortised. Software is also classified as an intangible asset and is amortised (generally over five years).

Intangible assets are initially recognised at cost. After initial recognition they are carried at cost less any accumulated amortisation.

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). The Directors have determined there is one cash generating unit for the purposes of impairment assessment. Intangibles are not considered part of the system assets for the purpose of impairment testing and are separately assessed for impairment indicators.

Impairment losses are recognised as an expense in the Income Statement unless an asset has been previously revalued through the asset revaluation reserve. In this case the impairment loss is recognised as a reversal to the extent previous revaluation surpluses exist with any excess recognised in the Income Statement.

l) 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 over the term of the lease. Lease incentives received are recognised as an integral part of the total lease, over the term of the lease.

m) Trade and other payables

These amounts represent liabilities for goods and services provided to the entity 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 effects of discounting would not be material for these liabilities.

Trade accounts payable are normally settled according to terms (usually within 30 days).

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 to actively manage the Parent Entity's debt portfolio.

Borrowings are measured initially at cost, being the fair value of consideration received less any transaction costs associated with the borrowing. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method. Borrowings are classified as current when they are due to be settled within 12 months from reporting date.

Borrowing costs are capitalised when they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the asset. Otherwise, borrowing costs are expensed in the period in which they are incurred.

o) Employee benefits

Short-term obligations

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

Liabilities for salaries and wages (including non-monetary benefits), annual leave and unpaid sick leave that are due to be settled within 12 months after the end of the period in which the employees render the service are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within twelve months is measured at present value in accordance with AASB 119 Employee Benefits. Market yields on government bonds are used to discount long-term annual leave.

The provision for sick leave represents 50% of the value of untaken leave accrued by wages employees prior to 15 February 1993.

The outstanding amounts of payroll tax, workers compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

Other long-term employee benefit obligations

(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. Non current expected future payments are discounted using the applicable Commonwealth Government bond rate.

(iii) Retirement benefit obligations

Employees of the entities within the Economic Entity are members of either defined benefit superannuation funds or defined contribution superannuation funds.

Defined contribution superannuation schemes

The Economic Entity contributes to the defined contribution superannuation schemes. Contributions to these schemes are recognised in the profit or loss as incurred. The liability recognised at the reporting date represents the contributions to be paid in the following month that relate to the period up to reporting date.

Defined benefit superannuation schemes

The defined superannuation funds provide defined lump sum benefits based on years of service and final average salary. The Economic Entity contributes to three defined benefit superannuation schemes in the NSW public sector Pooled Fund. These are: State Superannuation Scheme (SSS), State Authorities Superannuation Scheme (SASS) and State Authorities Non-contributory Superannuation Scheme (SANCS).

The Economic Entity's net obligation in respect of these schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior reporting periods. That benefit is discounted to determine its present value and the fair value of any scheme assets is deducted.

The discount rate is the yield at the reporting date on Government bonds that have maturity dates approximating to the terms of the Economic Entity's obligations. Calculations are performed by the Pooled Fund's actuary using the projected unit credit method and they are advised to individual agencies for recognition and disclosure purposes in their financial statements.

Where the present value of the defined benefit obligation in respect of a scheme exceeds the fair value of the scheme's assets, a liability for the difference is recognised in the Statement of Financial Position. Where the fair value of a scheme's assets exceeds the present value of the scheme's defined benefit obligation, an asset is recognised in the statements of financial position.

Any superannuation asset recognised is limited to the total of any unrecognised past service cost and the present value of any economic benefits that may be available in the form of refunds from the schemes or reductions in future contributions to the schemes, as advised by the Pooled Funds actuary.

Australian Accounting Standard AASB 119 'Employee Benefits' does not specify whether an entity shall distinguish current and non-current portions of assets and liabilities arising from post-employment benefits because at times the distinctions may be arbitrary. Based on this, the Economic Entity discloses defined benefit superannuation liabilities or assets as non-current as this best reflects when the Economic Entity expects to settle (realise) the liabilities (assets).

Actuarial gains or losses are recognised in other comprehensive income (directly through retained earnings) in the reporting period in which they occur.

p) Other provisions

Other provisions exist when: the entity has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

q) 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.

r) Goods and Services Tax (GST)

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 Statement of Financial Position 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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST of cash flows from investing and financing activities that are recoverable from the Australian Tax Office are classified as cash flows from operating activities.

Commitments are disclosed inclusive of GST where applicable.

s) 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.

t) Australian accounting standards and interpretations issued but not yet operative

Certain new accounting standards and interpretations applicable to the Economic Entity and Parent Entity have been published that are not mandatory for 30 June 2013 reporting periods. NSW Treasury have mandated that the Economic Entity and Parent Entity may not early adopt any of these new standards and interpretations. The Economic Entity and Parent Entity assessment of the impact of these new standards and interpretations which may impact the Economic Entity and Parent Entity are set out below:

(i) AASB 9 - Financial Instruments (effective from 1 January 2015)

The standard replaces the multiple classification and measurement models in AASB 139 Financial Instruments: Recognition and Measurement with a single model that has only two classifications: amortised cost and fair value. There is no anticipated impact on the Economic Entity as all financial instruments are already recognised at amortised cost or fair value.

(ii) AASB 1053 - Application of tiers of Australian accounting standards and AASB 2010-2 - Amendments to Australian accounting standards arising from reduced disclosure requirements (effective from 1 July 2013)

On 30 June 2010 the AASB released a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting Entity in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

The Economic Entity is a government owned corporation and it is likely that NSW Treasury will mandate adoption of tier 1 reporting. As a consequence, it is anticipated that the two standards will have no impact on the financial statements of the Economic Entity.

(iii) AASB 10, AASB 11 and AASB 12, revised AASB 127 and AASB 128 - Consolidations, joint arrangements and associated disclosures (effective from 1 January 2013)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127. There are no changes to the core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity. AASB 10 does however introduce a single definition of control that focuses on the need to have power, rights or exposure to variable returns and the ability to exercise its power to affect those returns before control is present.

It is expected that the existing relationship between the parent and controlled entity will continue to meet the definition of control and that no changes to the consolidation process will occur.

(iv) AASB 13 – Fair value measurement (effective 1 January 2013)

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. No changes have been made as to when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when required/permitted.

It is expected that, in relation to developer contributions, the 'income approach' as prescribed within AASB 13 will be adopted with regard to initial measurement / revenue recognition.

(v) Revised AASB 119 - Employee benefits (effective 1 January 2013)

Removal of the corridor method of accounting for defined benefit plans means that all actuarial gains and losses are to be recognised immediately in other comprehensive income. Immediate recognition in the profit or loss is no longer permitted. There is no expected impact on the Economic Entity given the corridor method was previously not adopted.

(vi) AASB 2012-5 Amendments arising from the 2009-0211 annual improvements project (effective 1 January 2013)

The annual improvements project makes minor but necessary annual amendments to Australian Accounting Standards. Amendments this year affect AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134. The amendments are applicable for annual periods beginning after 1 January 2013 and as such will have no impact for the period ended 30 June 2013.

u) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Economic Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of assets

In accordance with the requirements of AASB136 Impairment of Assets and NSW Treasury Policy TPP07-1 Valuation of Physical Non-current Assets at Fair Value, 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) pricing methodology. The expected net cash flows have been discounted to their present value using a market determined risk adjusted real discount rate.

Significant factors influencing the assessment of recoverable amount include the following:

i) Due to the long life of the Parent Entity's infrastructure assets, the calculation of the recoverable amount, which is carried out using a 74 year financial model, is sensitive to variations in key assumptions. Significant assumptions underpinning the modelling process include assumptions regarding the 2013-17 price path which is subject to the outcome of IPART's independent reviews and subsequent determination of prices.

The major assumptions underlying the impairment calculation for the current reporting period are:

- Time period (the weighted average remaining life of the asset base) 74 years (2012: 75 years).
- Real discount rate (before tax) - 4.8% (2012: 6.2%).
- Opening written down value of Property, Plant and Equipment.

Estimates of future revenues have been based on the final 2013 IPART determination which is applicable up to 30 June 2017 and expected water consumption. Beyond 2017 a level of pricing support has been assumed to ensure the current asset base is maintained with an acceptable weighted average cost of capital return of 4.6% (calculated using IPART post tax WACC methodology). In the absence of approved future price increases after 1 July 2017, estimates of future cash inflows have been based on a building block model approach as utilised by IPART (excluding capital expenditure). This bases prices on full cost recovery on estimated operating expenditure relating to infrastructure assets. Existing and new asset lives are 70 and 100 years respectively for the purpose of determining regulated cash inflows.

Estimates of future expenditure have been based on the final 2013-14 operating expenditure budget with some anticipated cost increases factored in for future years in line with the Economic Entity's Statement of Corporate Intent.

As outcomes from the Parent Entity's model are sensitive to variations in the forecast expenditure and expected rate of return on these, impairment outcomes can vary. Overall a conservative approach has been taken to minimise the risk of material differences attributable to the uncertainty in future periods.

ii) A pre-tax weighted average cost of capital (WACC) of 4.8% (2012: 6.2%) has been used as the discount rate. While varying assumptions could be made as to the value of specific WACC inputs, the Economic Entity considers parameters used in the WACC recently calculated by IPART for the Final Price Determination to be most appropriate.

iii) There is not an open market for the sale of infrastructure assets owned by the Parent Entity.

It is not envisaged that there will be significant variation in the assumptions noted above.

Actuarial assumptions - Defined benefit superannuation

The following information details the actuarial assumptions used in calculating the entity's liability in regards to its defined benefits superannuation funds.

i) Valuation Method

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 final obligation.

ii) Economic Assumptions

| | 2013 | 2012 |
|--|-------------|-------------|
| Salary increase rate (excluding promotional increases) | 2.25% | 2.50% |
| Rate of CPI increase | 2.50% | 2.50% |
| Expected rate of return on assets | 8.60% | 8.60% |
| Discount rate | 3.80% | 3.06% |

iii) Demographic Assumptions

The demographic assumptions at 30 June 2013 are those that were used in the 2012 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Note 2. Revenue

| | Economic Entity | | Parent Entity | |
|----------------------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Services | | | | |
| Tariff - service charges | 135,505 | 125,895 | 135,505 | 125,895 |
| Tariff - usage charges | 123,789 | 97,302 | 123,789 | 97,302 |
| Environmental charge | 6,133 | 5,875 | 6,133 | 5,875 |
| Other regulated income | 6,220 | 5,390 | 6,220 | 5,390 |
| | 271,647 | 234,462 | 271,647 | 234,462 |
| External sales | 16,559 | 13,240 | 255 | 48 |
| | 16,559 | 13,240 | 255 | 48 |
| Developer contributions – cash | 2,143 | 2,512 | 2,143 | 2,512 |
| Developer contributions – assets | 21,051 | 28,615 | 21,051 | 28,615 |
| | 23,194 | 31,127 | 23,194 | 31,127 |
| Corporate services | - | 30 | - | 354 |
| Other | 6,760 | 9,154 | 6,173 | 9,156 |
| | 6,760 | 9,184 | 6,173 | 9,510 |
| | 318,160 | 288,013 | 301,269 | 275,147 |
| Other Income | | | | |
| Interest income | 371 | 441 | 299 | 209 |
| Dividends | - | - | 5,564 | 3,893 |
| Foreign exchange gain/(loss) | (21) | (2) | - | - |
| | 350 | 439 | 5,863 | 4,102 |
| | 318,510 | 288,452 | 307,132 | 279,249 |

Note 3. Operational Costs

| | Economic Entity | | Parent Entity | |
|---------------------------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Employee-related costs | 58,528 | 54,828 | 40,133 | 36,771 |
| Other maintenance expenses | 25,206 | 24,264 | 25,515 | 24,791 |
| Materials | 7,507 | 4,893 | 3,180 | 2,762 |
| Energy | 14,776 | 12,666 | 14,392 | 12,302 |
| Plant & vehicles | 1,385 | 1,503 | 721 | 583 |
| Contracts, property & other | 11,357 | 11,320 | 38,324 | 36,479 |
| Cost of external sales | 15,006 | 10,453 | 255 | 413 |
| | 133,765 | 119,927 | 122,521 | 114,101 |
| Maintenance expense | | | | |
| Maintenance-related employee expenses | 14,958 | 13,992 | 14,958 | 13,989 |
| Other maintenance expenses | 25,206 | 24,264 | 25,515 | 24,791 |
| | 40,164 | 38,256 | 40,473 | 38,780 |

Note 4. Profit Before Income Tax

| | Notes | Economic Entity | | Parent Entity | |
|---|--------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Profit before income tax includes the following specific net gains and expenses: | | | | | |
| Revaluation decrement* | | 29,260 | - | 29,260 | - |
| Net (gain)/loss on disposal of: | | | | | |
| Property, plant and equipment | | 4,936 | 438 | 4,928 | 438 |
| Foreign exchange (gain)/loss | 2 | 21 | 2 | - | - |
| | | 4,957 | 440 | 4,928 | 438 |
| Changes in restoration provision | | 262 | (3) | - | (3) |
| Depreciation and Amortisation | | | | | |
| Amortisation | 13 (b) | 4,097 | 3,297 | 3,972 | 3,198 |
| Depreciation | 12 (c) | 39,835 | 49,075 | 38,966 | 48,408 |
| Total depreciation and amortisation expense | | 43,932 | 52,372 | 42,938 | 51,606 |
| Other charges against assets | | | | | |
| Bad and doubtful debts - trade debtors | | 120 | (4) | 120 | 10 |
| | | 120 | (4) | 120 | 10 |
| Finance Costs | | | | | |
| Amortisation of discount/(premium) on loans | | (527) | 423 | (527) | 423 |
| Long term borrowings - interest | | 51,442 | 50,529 | 51,442 | 50,529 |
| Short term borrowings - interest | | 72 | 62 | 236 | 279 |
| Net (Gain) / Loss on borrowings refinanced | | 3,265 | 62 | 3,265 | 62 |
| Other interest expense | | 2,627 | 848 | 2,627 | 848 |
| Government Guarantee Fee | | 18,604 | 16,415 | 18,604 | 16,415 |
| Capitalised finance costs | | (1,915) | (2,109) | (1,915) | (2,109) |
| | | 73,568 | 66,230 | 73,732 | 66,447 |
| Rental expense relating to operating leases | | | | | |
| Minimum lease payments | | 3,742 | 3,484 | 2,008 | 1,825 |
| Superannuation Expense/(Revenue): | | | | | |
| Superannuation revenue - defined benefits funds | | (2,498) | (1,523) | (2,065) | (1,197) |
| Superannuation expense - contributions | | 3,545 | 3,416 | 2,228 | 2,160 |
| | | 1,047 | 1,893 | 163 | 963 |

* During the year ended 30 June 2013 Land & Buildings were revalued with a number of individual assets revalued to below their initial capitalised cost, giving rise to a revaluation decrement through profit and loss. Of the total revaluation decrement, \$28.5m relates to Land and Buildings at Tillegra.

Note 5. Income Tax

| | Notes | Economic Entity | | Parent Entity | |
|---|-------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (a) Income Tax Expense | | | | | |
| Current tax | | 19,908 | 15,578 | 19,318 | 13,959 |
| Deferred tax | | (10,310) | 118 | (10,916) | 36 |
| Under/(over) provided in prior years | | (172) | (1,416) | (172) | (1,454) |
| | | 9,425 | 14,280 | 8,230 | 12,541 |
| Deferred income tax (revenue)/expense included in income tax expense comprises: | | | | | |
| (Decrease)/increase in deferred tax liabilities | | (13,242) | (1,325) | (13,552) | (1,352) |
| (Decrease)/increase in deferred tax assets | | 1,485 | 1,443 | 2,519 | 1,388 |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | | | | |
| Profit before income tax expense | | 32,002 | 47,592 | 33,590 | 45,694 |
| Subtract inter-company dividend income | | - | - | (5,564) | (3,893) |
| Profit before income tax excluding dividend | | 32,002 | 47,592 | 28,026 | 41,801 |
| Tax at Australian rate of 30% (2012 - 30%) | | 9,600 | 14,278 | 8,408 | 12,540 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | | |
| Entertainment non-deductible expenses | | 5 | 18 | 4 | 16 |
| Non-deductible expenses | | 21 | 14 | 20 | 14 |
| Australian owned R&D concession claim | | (72) | (40) | (72) | (40) |
| | | 9,554 | 14,270 | 8,359 | 12,530 |
| Under/(over) provision in prior years | | (129) | 10 | (129) | 10 |
| | | 9,425 | 14,280 | 8,230 | 12,540 |
| (c) Tax expense/(income) relating to items of comprehensive income | | | | | |
| Net increase/(decrease) in property plant and equipment revaluation reserve | 20(a) | 115,823 | 198,583 | 115,823 | 198,583 |
| Actuarial gains/(losses) on defined benefits fund | | (6,733) | 16,938 | (5,934) | 15,053 |
| | | 109,090 | 215,521 | 109,889 | 213,636 |

(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(d). 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 Australia 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. 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 6. Dividends Paid or Provided For

| | Notes | Economic Entity | | Parent Entity | |
|--|-------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Opening Balance | | 20,820 | 16,600 | 20,820 | 16,600 |
| Add dividend declared at 15.6 cents per share (2012: 20.8 cents per share) | | 15,600 | 20,820 | 15,600 | 20,820 |
| Less dividend paid at 20.8 cents per share (2012: 16.6 cents per share) | | (20,820) | (16,600) | (20,820) | (16,600) |
| | | 15,600 | 20,820 | 15,600 | 20,820 |

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

Note 7. Cash and Cash Equivalents

| | Notes | Economic Entity | | Parent Entity | |
|--------------------------|-------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Cash at bank and on hand | | 14,382 | 4,359 | 11,780 | 3,377 |
| Deposits at call | | 17,263 | 6,365 | 17,263 | - |
| | | 31,645 | 10,724 | 29,043 | 3,377 |

Deposits at call are bearing interest rates between 2.70% and 4.08% (2012: 3.5% and 4.7%)

Details regarding market risk, liquidity risk and credit risk from financial instruments are disclosed in Note 33.

(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 Statement of Cash Flows as follows:

| | | | | |
|--------------------------------------|--------|--------|--------|-------|
| Balances as above | 31,645 | 10,724 | 29,043 | 3,377 |
| Balances per Statement of Cash Flows | 31,645 | 10,724 | 29,043 | 3,377 |

Note 8. Trade and Other Receivables

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Trade debtors | 43,727 | 40,084 | 42,276 | 38,461 |
| Allowance for Impairment | (396) | (276) | (396) | (276) |
| | 43,331 | 39,808 | 41,880 | 38,185 |
| Prepayments | 1,479 | 2,103 | 1,028 | 1,686 |
| Work In Progress | 863 | 277 | - | - |
| Dividend receivable | - | - | 2,564 | 3,893 |
| | 45,673 | 42,188 | 45,472 | 43,763 |
| (a) Movement in the allowance for impairment | | | | |
| Balance at beginning of year | 276 | 280 | 276 | 266 |
| Amounts written off during the year | (168) | (23) | (168) | (23) |
| Amounts recovered during the year | - | (24) | - | (9) |
| Increase/(decrease) in allowance recognised in Income Statement | 288 | 43 | 288 | 42 |
| Balance at end of year | 396 | 276 | 396 | 276 |

Details regarding market risk, liquidity risk and credit risk, including financial assets that are either past due or impaired, are disclosed in Note 33.

Note 9. Other Financial Assets

| | Notes | Economic Entity | | Parent Entity | |
|---------------------------------------|-------|-----------------|----------------|----------------|----------------|
| | | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Non-current | | | | | |
| Shares in controlled entity - at cost | | - | - | 900 | 900 |
| | | - | - | 900 | 900 |

Details regarding market risk, liquidity risk and credit risk from financial instruments are disclosed in Note 33.

Note 10. Inventories

| | Economic Entity | | Parent Entity | |
|---------------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Consumable stores at cost | 2,669 | 2,504 | 2,669 | 2,504 |
| | 2,669 | 2,504 | 2,669 | 2,504 |

Note 11. Assets Held for Sale

| | Economic Entity | | Parent Entity | |
|----------------------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Land and buildings held for sale | 5,517 | 13,360 | 5,517 | 13,360 |
| | 5,517 | 13,360 | 5,517 | 13,360 |

The land and buildings held for sale at 30 June 2013 relate to three Tillegra properties approved by the Board of Directors for sale. They are expected to be settled via sales transactions within 12 months of reporting date.

Note 12. Property, Plant & Equipment

(a) Property, Plant & Equipment - comprise the following all at Directors' valuation

| | System Assets \$'000 | General Support \$'000 | Land \$'000 | Buildings \$'000 | Work In Progress \$'000 | Total \$'000 |
|---|----------------------------|------------------------------|----------------|---------------------|-------------------------------|------------------|
| Economic Entity | | | | | | |
| At 1 July 2011 - fair value | | | | | | |
| Gross carrying amount | 3,842,961 | 22,682 | 154,416 | 63,797 | 311,072 | 4,394,928 |
| Accumulated depreciation and impairment | (870,316) | (13,124) | - | (37,023) | - | (920,463) |
| Net carrying amount | 2,972,645 | 9,558 | 154,416 | 26,774 | 311,072 | 3,474,465 |
| At 30 June 2012 - fair value | | | | | | |
| Gross carrying amount | 3,306,221 | 22,112 | 145,451 | 63,160 | 180,877 | 3,717,821 |
| Accumulated depreciation and impairment | (777,845) | (13,577) | - | (37,422) | - | (828,844) |
| Net carrying amount | 2,528,376 | 8,535 | 145,451 | 25,738 | 180,877 | 2,888,977 |
| At 1 July 2012 - fair value | | | | | | |
| Gross carrying amount | 3,306,221 | 22,112 | 145,451 | 63,160 | 180,877 | 3,717,821 |
| Accumulated depreciation and impairment | (777,845) | (13,577) | - | (37,422) | - | (828,844) |
| Net carrying amount | 2,528,376 | 8,535 | 145,451 | 25,738 | 180,877 | 2,888,977 |
| At 30 June 2013 - fair value | | | | | | |
| Gross carrying amount | 3,239,222 | 24,166 | 121,906 | 68,386 | 238,724 | 3,692,404 |
| Accumulated depreciation and impairment | (1,055,210) | (13,867) | - | (43,390) | - | (1,112,467) |
| Net carrying amount | 2,184,012 | 10,299 | 121,906 | 24,996 | 238,724 | 2,579,937 |
| Parent Entity | | | | | | |
| At 1 July 2011 - fair value | | | | | | |
| Gross carrying amount | 3,842,961 | 15,723 | 154,416 | 63,797 | 319,429 | 4,396,326 |
| Accumulated depreciation and impairment | (870,316) | (10,061) | - | (37,023) | - | (917,400) |
| Net carrying amount | 2,972,645 | 5,662 | 154,416 | 26,774 | 319,429 | 3,478,926 |
| At 30 June 2012 - fair value | | | | | | |
| Gross carrying amount | 3,306,221 | 14,499 | 145,451 | 63,160 | 191,387 | 3,720,718 |
| Accumulated depreciation and impairment | (777,845) | (9,971) | - | (37,422) | - | (825,238) |
| Net carrying amount | 2,528,376 | 4,528 | 145,451 | 25,738 | 191,387 | 2,895,480 |
| At 1 July 2012 - fair value | | | | | | |
| Gross carrying amount | 3,306,221 | 14,499 | 145,451 | 63,160 | 191,387 | 3,720,718 |
| Accumulated depreciation and impairment | (777,845) | (9,971) | - | (37,422) | - | (825,238) |
| Net carrying amount | 2,528,376 | 4,528 | 145,451 | 25,738 | 191,387 | 2,895,480 |
| At 30 June 2013 - fair value | | | | | | |
| Gross carrying amount | 3,239,222 | 16,192 | 121,906 | 68,386 | 250,494 | 3,696,200 |
| Accumulated depreciation and impairment | (1,055,210) | (9,409) | - | (43,390) | - | (1,108,009) |
| Net carrying amount | 2,184,012 | 6,782 | 121,906 | 24,996 | 250,494 | 2,588,190 |

(b) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the previous financial year (excluding work in progress) are set out below:

| | System Assets \$'000 | General Support \$'000 | Land \$'000 | Buildings \$'000 | Total \$'000 |
|---|-------------------------------------|---------------------------------------|------------------------|-----------------------------|-------------------------|
| Economic Entity 30 June 2012 | | | | | |
| Net carrying amount 1 July 2011 | 2,972,645 | 9,558 | 154,416 | 26,774 | 3,163,393 |
| Additions | 266,756 | 1,289 | 1,886 | 62 | 269,993 |
| Disposals | (6,241) | (4) | (474) | (86) | (6,806) |
| Transfers between classes | (1,378) | 46 | (11,878) | (23) | (13,233) |
| Revaluation: increments/(decrements) | 270,203 | 33 | 1,501 | - | 271,737 |
| Impairment | (927,901) | - | - | (9) | (927,910) |
| Depreciation expense | (45,708) | (2,387) | - | (980) | (49,075) |
| Net carrying amount 30 June 2012 | 2,528,376 | 8,535 | 145,451 | 25,738 | 2,708,100 |
| Parent Entity 30 June 2012 | | | | | |
| Net carrying amount 1 July 2011 | 2,972,645 | 5,662 | 154,416 | 26,774 | 3,159,497 |
| Additions | 266,756 | 511 | 1,886 | 62 | 269,215 |
| Disposals | (6,241) | (4) | (474) | (86) | (6,805) |
| Transfers between classes | (1,378) | 46 | (11,878) | (23) | (13,233) |
| Revaluation: increments/(decrements) | 270,203 | 33 | 1,501 | - | 271,737 |
| Impairment | (927,901) | - | - | (9) | (927,910) |
| Depreciation expense | (45,708) | (1,720) | - | (980) | (48,408) |
| Net carrying Amount 30 June 2012 | 2,528,376 | 4,528 | 145,451 | 25,738 | 2,704,093 |

(c) Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year (excluding work in progress) are set out below:

| | System Assets \$'000 | General Support \$'000 | Land \$'000 | Buildings \$'000 | Total \$'000 |
|---|-------------------------------------|---------------------------------------|------------------------|-----------------------------|-------------------------|
| Economic Entity 30 June 2013 | | | | | |
| Net carrying amount 1 July 2012 | 2,528,376 | 8,535 | 145,451 | 25,738 | 2,708,100 |
| Additions | 76,569 | 4,751 | 953 | 3 | 82,276 |
| Disposals | (1,097) | (59) | (315) | (15) | (1,485) |
| Transfers between classes | - | - | 7,870 | (27) | 7,843 |
| Revaluation: increments/(decrements) | 319,974 | - | (32,053) | 271 | 288,193 |
| Impairment | (703,878) | - | - | - | (703,878) |
| Depreciation expense | (35,932) | (2,929) | - | (974) | (39,835) |
| Net carrying amount 30 June 2013 | 2,184,012 | 10,299 | 121,906 | 24,996 | 2,341,213 |
| Parent Entity 30 June 2013 | | | | | |
| Net carrying amount 1 July 2012 | 2,528,376 | 4,528 | 145,451 | 25,738 | 2,704,093 |
| Additions | 76,569 | 4,363 | 953 | 3 | 81,888 |
| Disposals | (1,097) | (50) | (315) | (15) | (1,476) |
| Transfers between classes | - | - | 7,870 | (27) | 7,843 |
| Revaluation: increments/(decrements) | 319,974 | - | (32,053) | 271 | 288,193 |
| Impairment | (703,878) | - | - | - | (703,878) |
| Depreciation expense | (35,932) | (2,060) | - | (974) | (38,966) |
| Net carrying amount 30 June 2013 | 2,184,012 | 6,782 | 121,906 | 24,996 | 2,337,696 |

(d) Valuation notes

The valuation of system 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 2012-13 indicated that the net present value of future revenues did not support accounting book values of the asset base. As a result of the impairment test outcome, an impairment of \$704m was processed in 2012-13.

In 2012-13 the water network assets and land & buildings were expertly revalued and the remainder of the property, plant & equipment asset base (excluding land, buildings and some general support assets) were indexed by the Australian Bureau of Statistics Construction CPI (0.1%).

Note 13. Intangible Assets

| | Easements \$'000 | Software External \$'000 | Software Internal \$'000 | Other \$'000 | Work In Progress \$'000 | Total \$'000 |
|-------------------------------|---------------------|--------------------------------|--------------------------------|-----------------|-------------------------------|-----------------|
| Economic Entity | | | | | | |
| At 1 July 2011 - cost | | | | | | |
| Gross carrying amount | 1,319 | 34,336 | 1,338 | 989 | - | 37,982 |
| Accumulated amortisation | (54) | (29,168) | (780) | (788) | - | (30,790) |
| Net carrying amount | 1,265 | 5,168 | 558 | 201 | - | 7,192 |
| At 30 June 2012 - cost | | | | | | |
| Gross carrying amount | 1,507 | 38,003 | 1,346 | 1,409 | 13,718 | 55,983 |
| Accumulated amortisation | (54) | (31,941) | (1,024) | (1,046) | - | (34,065) |
| Net carrying amount | 1,453 | 6,062 | 322 | 363 | 13,718 | 21,918 |
| At 1 July 2012 - cost | | | | | | |
| Gross carrying amount | 1,507 | 38,003 | 1,346 | 1,409 | 13,718 | 55,983 |
| Accumulated amortisation | (54) | (31,941) | (1,024) | (1,046) | - | (34,065) |
| Net carrying amount | 1,453 | 6,062 | 322 | 363 | 13,718 | 21,918 |
| At 30 June 2013 - cost | | | | | | |
| Gross carrying amount | 1,548 | 41,093 | 1,346 | 4,378 | 9,157 | 57,522 |
| Accumulated amortisation | (54) | (34,958) | (1,209) | (1,945) | - | (38,166) |
| Net carrying amount | 1,494 | 6,135 | 137 | 2,433 | 9,157 | 19,355 |
| Parent Entity | | | | | | |
| At 1 July 2011 - cost | | | | | | |
| Gross carrying amount | 1,319 | 33,635 | 1,338 | 887 | - | 37,179 |
| Accumulated amortisation | (54) | (28,661) | (780) | (779) | - | (30,274) |
| Net carrying amount | 1,265 | 4,974 | 558 | 108 | - | 6,905 |
| At 30 June 2012 - cost | | | | | | |
| Gross carrying amount | 1,507 | 37,199 | 1,346 | 1,307 | 13,718 | 55,077 |
| Accumulated amortisation | (54) | (31,361) | (1,024) | (1,033) | - | (33,471) |
| Net carrying amount | 1,453 | 5,838 | 322 | 274 | 13,718 | 21,605 |
| At 1 July 2012 - cost | | | | | | |
| Gross carrying amount | 1,507 | 37,199 | 1,346 | 1,307 | 13,718 | 55,077 |
| Accumulated amortisation | (54) | (31,361) | (1,024) | (1,033) | - | (33,471) |
| Net carrying amount | 1,453 | 5,838 | 322 | 274 | 13,718 | 21,605 |
| At 30 June 2013 - cost | | | | | | |
| Gross carrying amount | 1,548 | 40,218 | 1,346 | 4,270 | 9,157 | 56,539 |
| Accumulated amortisation | (54) | (34,258) | (1,209) | (1,922) | - | (37,443) |
| Net carrying amount | 1,494 | 5,960 | 137 | 2,348 | 9,157 | 19,096 |

(a) Reconciliations

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

| | Easements | Software | Software | Other | Total |
|---|------------------|-----------------|-----------------|---------------|---------------|
| | \$'000 | External | Internal | \$'000 | \$'000 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Economic Entity 2012 | | | | | |
| Net carrying amount 1 July 2011 | 1,265 | 5,168 | 558 | 201 | 7,192 |
| Additions | 188 | 3,689 | 8 | 420 | 4,305 |
| Amortisation expense | - | (2,795) | (244) | (258) | (3,297) |
| Net carrying amount 30 June 2012 | 1,453 | 6,062 | 322 | 363 | 8,201 |
| Parent Entity 2012 | | | | | |
| | Easements | Software | Software | Other | Total |
| | \$'000 | External | Internal | \$'000 | \$'000 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Net carrying amount 1 July 2011 | 1,265 | 4,974 | 558 | 108 | 6,905 |
| Additions | 188 | 3,564 | 8 | 421 | 4,181 |
| Amortisation expense | - | (2,700) | (244) | (254) | (3,198) |
| Net carrying amount 30 June 2012 | 1,453 | 5,838 | 322 | 274 | 7,887 |

(b) Reconciliations

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

| | Easements | Software | Software | Other | Total |
|---|------------------|-----------------|-----------------|---------------|---------------|
| | \$'000 | External | Internal | \$'000 | \$'000 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Economic Entity 2013 | | | | | |
| Net carrying amount 1 July 2012 | 1,453 | 6,062 | 322 | 363 | 8,200 |
| Additions | 41 | 3,444 | - | 2,963 | 6,448 |
| Disposals | - | (352) | - | - | (352) |
| Amortisation expense | - | (3,019) | (185) | (893) | (4,097) |
| Net carrying amount 30 June 2013 | 1,494 | 6,135 | 137 | 2,433 | 10,199 |
| Parent Entity 2013 | | | | | |
| | Easements | Software | Software | Other | Total |
| | \$'000 | External | Internal | \$'000 | \$'000 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Net carrying amount 1 July 2012 | 1,453 | 5,838 | 322 | 274 | 7,887 |
| Additions | 41 | 3,372 | - | 2,963 | 6,375 |
| Disposals | - | (352) | - | - | (352) |
| Amortisation expense | - | (2,898) | (185) | (889) | (3,972) |
| Net carrying amount 30 June 2013 | 1,494 | 5,960 | 137 | 2,348 | 9,938 |

Note 14. Trade and Other Payables

| | Economic Entity | | Parent Entity | |
|--------------------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Trade creditors | 3,568 | 3,669 | 3,634 | 5,266 |
| Deposits received for services | 1,915 | 1,988 | 1,915 | 1,988 |
| Accrued expenses | 76,314 | 48,037 | 78,387 | 50,073 |
| | 81,797 | 53,694 | 83,937 | 57,327 |

Details regarding market risk, liquidity risk and credit risk from financial instruments are disclosed in Note 33.

Note 15. Current Tax Liabilities

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Provision for Income Tax Payable | | | | |
| Opening Balance | 4,800 | 3,536 | 4,800 | 3,597 |
| Under/(over) provision for income tax in prior year | 6 | (1,415) | (38) | (1,454) |
| Amount paid relating to prior year | (4,807) | (2,122) | (4,763) | (2,143) |
| Amount payable for current year | 19,908 | 15,578 | 18,279 | 14,174 |
| Amount paid relating to current year | (10,888) | (10,777) | (9,259) | (9,374) |
| | 9,019 | 4,800 | 9,019 | 4,800 |

Note 16. Borrowings

| | Economic Entity | | Parent Entity | |
|-------------------|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Intercompany Loan | - | - | 7,634 | 5,000 |
| Other loans | 986,097 | 918,368 | 986,097 | 918,368 |
| | 986,097 | 918,368 | 993,731 | 923,368 |
| Represented By: | | | | |
| Current | 1,377 | 75,072 | 9,011 | 75,072 |
| Non-current | 984,720 | 843,296 | 984,720 | 848,296 |
| | 986,097 | 918,368 | 993,731 | 923,368 |

The Parent Entity has an overdraft facility with NSW TCorp which has a limit of \$30m (2012:\$10m).

The Economic Entity has a contingent loan facility with Commonwealth Bank of Australia \$0.1m which was not drawn down at 30 June 2013, a credit card facility with Commonwealth Bank of Australia \$0.2m which was not drawn down at 30 June 2013 and a purchase card facility with National Bank of Australia of \$0.860m which was not drawn down at 30 June 2013.

The borrowings are classified as non-trading liabilities and are unsecured. The fair value of loans are disclosed in Note 33.

The Treasurer approved funding of up to \$1,040m with NSW TCorp for the 2013 year (2012: \$925m), of which \$986m was used at 30 June 2013 (\$918m at 30 June 2012).

The Minister has approved an intercompany loan for \$10m of which \$7.6m was used at 30 June 2013.

Details regarding market risk, liquidity risk and credit risk from financial instruments are disclosed in Note 33.

Note 17. Provisions

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Current | | | | |
| Dividends | 15,600 | 20,820 | 15,600 | 20,820 |
| Restoration | 435 | 435 | 435 | 435 |
| Rectification | 1,847 | 875 | 1,847 | 875 |
| Employee benefits - Short Term | 6,478 | 6,354 | 4,861 | 4,818 |
| Employee benefits - Long Term* | 16,427 | 15,193 | 14,141 | 13,314 |
| | 40,787 | 43,676 | 36,884 | 40,262 |
| Non Current | | | | |
| Restoration | 402 | 140 | 140 | 140 |
| Employee benefits | 79,259 | 104,201 | 71,827 | 93,667 |
| | 79,661 | 104,341 | 71,967 | 93,807 |
| *Employee benefits expected to be settled after 12 months | 8,997 | 8,817 | 7,285 | 7,338 |
| Movements in Dividend Provision 2013 | | | | |
| Carrying amount 1 July 2012 | 20,820 | | 20,820 | |
| Less: dividend paid | (20,820) | | (20,820) | |
| Add: dividend declared | 15,600 | | 15,600 | |
| Carrying amount at 30 June 2013 | 15,600 | | 15,600 | |
| Movements in Restoration Provision 2013 | | | | |
| Carrying amount 1 July 2012 | 575 | | 575 | |
| (Over)/under provision adjustment 2013 | 262 | | - | |
| Carrying amount at 30 June 2013 | 837 | | 575 | |
| Movements in Rectification Provision 2013 | | | | |
| Carrying amount 1 July 2012 | 875 | | 875 | |
| (Payments)/Receipts | 1,000 | | 1,000 | |
| (Over)/under provision adjustment 2013 | (28) | | (28) | |
| Carrying amount at 30 June 2013 | 1,847 | | 1,847 | |

Note 18. Deferred Tax Liabilities

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Amounts recognised in profit or loss | | | | |
| Tax bases without an asset carrying amount | (10) | (9) | (10) | (9) |
| Stock On Hand | 801 | 751 | 801 | 751 |
| Accruals | 4,962 | 4,409 | 5,147 | 4,639 |
| Borrowing costs | 1,141 | - | 1,141 | - |
| Provisions | (10,010) | (11,293) | (8,821) | (10,689) |
| Inventories | - | 83 | - | - |
| Prepayments | 290 | 301 | 271 | 283 |
| Land held for sale | - | 38 | - | 38 |
| Property, plant and equipment | (34,647) | (19,605) | (34,209) | (19,711) |
| | (37,472) | (25,325) | (35,680) | (24,698) |
| Amounts recognised in the Statement of Comprehensive Income | | | | |
| Superannuation actuarial gains/(losses) | (23,492) | (30,225) | (20,710) | (26,644) |
| Revaluation of property, plant and equipment | 233,483 | 349,409 | 233,479 | 349,409 |
| | 209,991 | 319,184 | 212,769 | 322,765 |
| Total | 172,519 | 293,859 | 177,088 | 298,067 |
| Movements: | | | | |
| Opening balance at beginning of year | 293,859 | 509,266 | 298,067 | 511,651 |
| Credited/(charged) to the Income Statement | (12,190) | (1,569) | (11,136) | (1,261) |
| Credited/(charged) to the Statement of Comprehensive Income | (109,195) | (215,521) | (109,889) | (213,636) |
| Add under provision for deferred tax in prior year | 46 | 1,683 | 46 | 1,313 |
| Closing balance at end of year | 172,519 | 293,859 | 177,088 | 298,067 |

Note 19. Contributed Equity

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Issued and paid up capital: 100,000,003 ordinary shares each fully paid | 100,000 | 100,000 | 100,000 | 100,000 |
| | 100,000 | 100,000 | 100,000 | 100,000 |

Hunter Water Corporation's two shareholders at 30 June 2013 were:

The Premier of NSW, Minister for Western Sydney; and The Treasurer.

Each shareholder holds their shares non-beneficially on behalf of the NSW Government. The shares entitle the NSW Government to a dividend from Hunter Water Corporation, the amount of which is determined as part of the annual process of negotiating and agreeing the entity's Statement of Corporate Intent with the shareholders.

Note 20. Reserves and Retained Profits

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (a) Reserves | | | | |
| Asset revaluation | 557,709 | 827,859 | 557,709 | 827,859 |
| | 557,709 | 827,859 | 557,709 | 827,859 |
| 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. | | | | |
| Movement in reserves | | | | |
| Revaluation surplus - property, plant and equipment | | | | |
| Balance at beginning of year | 827,859 | 1,291,222 | 827,859 | 1,291,222 |
| Fixed asset increments/(decrements) from revaluations | | | | |
| System assets | 319,974 | 270,203 | 319,974 | 270,203 |
| General support | - | 33 | - | 33 |
| Buildings | 568 | - | 568 | - |
| Land | (1,191) | 1,501 | (1,191) | 1,501 |
| | 319,352 | 271,737 | 319,352 | 271,737 |
| Fixed asset decrements from impairment | | | | |
| System assets | (703,878) | (927,901) | (703,878) | (927,901) |
| General support | - | - | - | - |
| Buildings | - | (9) | - | (9) |
| | (703,878) | (927,910) | (703,878) | (927,910) |
| Tax effect - deferred tax liability on revaluation reserve | 115,823 | 198,583 | 115,823 | 198,583 |
| Write-back of written down value of decommissioned assets | (1,446) | (5,773) | (1,446) | (5,773) |
| | 557,709 | 827,859 | 557,709 | 827,859 |
| (b) Retained Profits | | | | |
| Balance 1 July | 633,074 | 660,370 | 635,499 | 658,494 |
| Net profit for the period | 22,577 | 33,312 | 25,360 | 33,153 |
| Transfer from revaluation reserve to retained earnings | 1,446 | - | 1,446 | - |
| Net income/(loss) recognised direct in equity | 15,711 | (39,788) | 13,848 | (35,328) |
| Dividends | (15,600) | (20,820) | (15,600) | (20,820) |
| Balance 30 June | 657,207 | 633,074 | 660,552 | 635,499 |

Note 21. Statement of Cash Flows

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Reconciliation of profit after income tax to the net cash flows from operating activities | | | | |
| Net profit for the year from continuing operations | 22,577 | 33,312 | 25,360 | 33,153 |
| Net superannuation (income)/expense | (2,498) | (1,523) | (2,065) | (1,197) |
| Depreciation and amortisation | 43,932 | 52,372 | 42,938 | 51,606 |
| Revaluation decrement | 29,260 | - | 29,260 | - |
| (Profit)/loss on sale of non-current assets | 4,936 | 438 | 4,928 | 438 |
| Capital asset (non-cash) contributions | (21,051) | (28,615) | (21,051) | (28,615) |
| Net exchange differences | 21 | 2 | - | - |
| Change in operating assets and liabilities: | | | | |
| (Increase)/decrease in trade debtors | (3,523) | 3,713 | (3,695) | 3,038 |
| (Increase)/decrease in inventories | (165) | (340) | (165) | (340) |
| (Increase)/decrease in other operating assets | 3,016 | 5,659 | 173 | 5,653 |
| (Increase)/decrease in work in progress | (586) | (30) | - | - |
| Increase/(decrease) in trade creditors | 22,579 | (5,365) | 22,560 | (4,793) |
| Increase/(decrease) in other operating liabilities | 5,524 | 5,211 | 4,050 | 5,206 |
| Increase/(decrease) in provision for income taxes payable | 4,219 | 1,264 | 4,219 | 1,203 |
| Increase/(decrease) in net deferred tax liabilities (recognised on the Income Statement) | 12,147 | 114 | 10,982 | 52 |
| (Increase)/decrease in capitalised borrowing costs | (1,915) | (2,109) | 1,915 | (2,109) |
| Increase/(decrease) in other provisions | (27,569) | 152 | (25,218) | (63) |
| Net cash inflow from operating activities | 90,904 | 64,255 | 94,191 | 63,232 |

Note 22. Contractual Commitments

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (a) Capital Commitments | | | | |
| Aggregate capital expenditure contracted for at balance date but not recognised as liabilities: | | | | |
| Payable within one year | 66,983 | 53,904 | 68,289 | 56,972 |
| Payable later than one year but not later than five years | 15,845 | 40,379 | 15,934 | 41,442 |
| Payable later than five years | - | - | - | - |
| | 82,828 | 94,283 | 84,223 | 98,414 |

Note 23. Lease Expenditure Commitments

| | Economic Entity | | Parent Entity | |
|---|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Operating lease commitments in relation to operating leases not provided for and payable: | | | | |
| Within one year | 4,429 | 3,568 | 2,674 | 1,925 |
| Later than one year but not later than five years | 10,763 | 5,865 | 6,219 | 2,343 |
| Later than five years | 477 | 2,577 | 83 | 83 |
| | 15,669 | 12,010 | 8,976 | 4,351 |
| Representing: | | | | |
| Cancellable operating leases | 9,763 | 4,831 | 8,706 | 3,932 |
| Non-cancellable operating leases | 5,906 | 7,179 | 270 | 419 |
| | 15,669 | 12,010 | 8,976 | 4,351 |

The Economic Entity has a cancellable operating lease for fleet vehicles that commenced in June 2007. This operating lease may be terminated by the Economic Entity or the Lessor at any time by giving one month's notice in writing. If terminated by the Economic Entity penalties will apply.

There are two significant non-cancellable operating leases of the Economic Entity for the lease of general office premises and a laboratory. The general office space lease commits the Controlled Entity 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. A 5 year option to renew laboratory space was taken on 1 July 2009. There is no option to sub-let under the current lease of the laboratory.

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 24. Superannuation

(a) Superannuation plan

All employees are entitled to benefits on retirement, disability or death. The defined benefit superannuation plans are administered by Pillar Administration and provide defined benefits based on years of membership and final average salary. All funds are invested at arm's length through independent fund managers. Employees contribute to the plans at various percentages of their wages and salaries. The Parent and Controlled Entity also contribute to the plans.

The Parent and Controlled Entity contribute to three defined superannuation schemes in the NSW public sector Pooled Fund, which holds in trust the investments of these schemes. These schemes are:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non-contributory Superannuation Scheme (SANCS).

All defined benefit funds are closed to new members. Superannuation benefits for new entrants are now provided through First State Super (FSS) or the employee's choice of fund, which are accumulation type schemes. The Economic Entity has made full provision for these commitments.

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

| | Economic Entity | | Parent Entity | |
|---|-----------------|---------------|---------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| (b) Reconciliation of the present value of the defined benefit obligation | \$'000 | \$'000 | \$'000 | \$'000 |
| Present Value of partly funded defined benefit obligations at the beginning of the year | 205,266 | 158,909 | 182,371 | 141,399 |
| Current service cost | 1,803 | 1,535 | 1,614 | 1,386 |
| Interest cost | 6,137 | 8,158 | 5,447 | 7,250 |
| Contributions paid by fund participants | 941 | 1,009 | 841 | 879 |
| Actuarial (gains)/losses | (14,150) | 47,796 | (12,699) | 42,627 |
| Benefits paid | (7,640) | (12,141) | (6,899) | (11,170) |
| Present value of partly funded defined benefit obligations at the end of the year | 192,357 | 205,266 | 170,676 | 182,371 |
| (c) Reconciliation of the fair value of fund assets | | | | |
| Fair value of Fund assets at the beginning of the year | 101,932 | 110,778 | 89,169 | 97,381 |
| Expected return on fund assets | 8,446 | 9,233 | 7,369 | 8,097 |
| Actuarial gains/(losses) | 8,294 | (8,931) | 7,081 | (7,754) |
| Employer contributions | 1,992 | 1,984 | 1,757 | 1,736 |
| Contributions paid by fund participants | 941 | 1,009 | 842 | 879 |
| Benefits paid | (7,640) | (12,141) | (6,899) | (11,170) |
| Fair value of Fund assets at the end of the year | 113,965 | 101,932 | 99,319 | 89,169 |
| (d) Reconciliation of the assets and liabilities recognised in the Statement of Financial Position | | | | |
| Present value of partly funded defined benefit obligations at end of year | 192,357 | 205,266 | 170,676 | 182,371 |
| Fair value of fund assets at end of year | (113,965) | (101,932) | (99,319) | (89,169) |
| Subtotal | 78,392 | 103,334 | 71,356 | 93,202 |
| Net Liability/(Asset) recognised in Statement of Financial Position at end of year | 78,392 | 103,334 | 71,356 | 93,202 |
| (e) Expense/(income) recognised in Income Statement | | | | |
| Current service cost | 1,803 | 1,536 | 1,614 | 1,386 |
| Interest cost | 6,137 | 8,158 | 5,447 | 7,250 |
| Expected return on fund assets (net of expenses) | (8,446) | (9,234) | (7,369) | (8,098) |
| Expense/(Income) recognised | (506) | 460 | (307) | 538 |
| (f) Amounts recognised in the Statement of Comprehensive Income | | | | |
| Actuarial losses/(gains) recognised in year | (22,443) | 56,727 | (19,780) | 50,381 |
| Expense/(Income) recognised | (22,443) | 56,727 | (19,780) | 50,381 |
| Cumulative amount recognised in other comprehensive income | | | | |
| Cumulative Expense/(Income) recognised | 63,069 | 85,512 | 57,467 | 77,247 |

(g) Historical information

Economic Entity

| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
|---|---------------|---------------|---------------|---------------|---------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| SASS | | | | | |
| Present value of defined benefit obligation | 46,729 | 45,691 | 41,510 | 40,008 | 36,881 |
| Fair value of Fund assets | (28,280) | (24,573) | (27,852) | (27,158) | (25,850) |
| (Surplus)/Deficit in Fund | 18,449 | 21,117 | 13,658 | 12,850 | 11,031 |
| Experience adjustments - Fund liabilities | 454 | 5,673 | 914 | 2,315 | 694 |
| Experience adjustments - Fund assets | (2,322) | 2,039 | 349 | (212) | 4,365 |
| SANCS | 2013 | 2012 | 2011 | 2010 | 2009 |
| Present value of defined benefit obligation | 6,604 | 7,275 | 6,866 | 6,687 | 6,394 |
| Fair value of Fund assets | (2,004) | (2,072) | (2,878) | (2,775) | (2,925) |
| (Surplus)/Deficit in Fund | 4,600 | 5,203 | 3,988 | 3,912 | 3,469 |
| Experience adjustments - Fund liabilities | (508) | 864 | 12 | 391 | 379 |
| Experience adjustments - Fund assets | (145) | 245 | 2 | (17) | 644 |
| SSS | 2013 | 2012 | 2011 | 2010 | 2009 |
| Present value of defined benefit obligation | 139,024 | 152,301 | 110,532 | 111,055 | 103,946 |
| Fair value of Fund assets | (83,681) | (75,287) | (80,048) | (76,990) | (74,032) |
| (Surplus)/Deficit in Fund | 55,343 | 77,014 | 30,484 | 34,065 | 29,914 |
| Experience adjustments - Fund liabilities | (14,096) | 41,259 | (2,088) | 4,667 | 14,940 |
| Experience adjustments - Fund assets | (5,827) | 6,647 | (361) | 260 | 16,640 |

(h) Fund Assets

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

| | 2013 | 2012 |
|--------------------------------------|-------------|-------------|
| Australian equities | 30.4% | 28.0% |
| Overseas equities | 26.1% | 23.7% |
| Australian fixed interest securities | 6.9% | 4.9% |
| Overseas fixed interest securities | 2.2% | 2.4% |
| Property | 8.3% | 8.6% |
| Cash | 13.1% | 19.5% |
| Other | 13.0% | 12.9% |

(i) Fair value of fund assets

All Fund assets are invested by SAS Trustee Corporation at arm's length through independent fund managers.

(j) Expected rate of return on assets

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 used for each class are net of investment tax and investment fees.

(k) Actual return on fund assets

| | \$'000 | \$'000 | \$'000 |
|-------------------------------------|----------|----------|--------|
| | SASS | SANCS | SSS |
| Actual return on fund assets – 2013 | 4,173 | 306 | 12,480 |
| Actual return on fund assets – 2012 | (38,194) | (16,549) | 61,031 |

(l) Expected contributions

| | \$'000 | \$'000 | \$'000 |
|---------------------------------|--------|--------|--------|
| | SASS | SANCS | SSS |
| Expected employer contributions | 956 | 293 | 702 |

Contribution rates are set after discussions between the employer, SAS Trustee Corporation and NSW Treasury

(m) 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 2012.

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 payment 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 Entity) | 1.60X (multiple of member contributions) |
| State Superannuation Scheme (Controlled Entity) | 1.60X (multiple of member contributions) |
| State Authorities Superannuation Scheme | 1.90X (multiple of member contributions) |
| State Authorities Non-Contributory Superannuation Scheme | 2.50% (% of member salary) |

The economic assumptions used by the actuary to make the funding recommendation were:

Expected rate of return on fund assets backing current pension liabilities of 8.3% pa (2012: 8.3% pa)

Expected rate of return on fund assets backing other liabilities of 7.3% pa (2012: 7.3% pa)

Expected salary increase rate of 2.7% pa (2012: 4.0% pa) for 6 years then 4% per annum

Expected rate of CPI increase of 2.5% pa (2012: 2.5% pa).

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 2013), and a deficit of \$12.54m was reported for the Economic Entity.

Economic Entity

| | 2013 \$'000 SASS | 2013 \$'000 SANCS | 2013 \$'000 SSS |
|---------------------------------|------------------------|-------------------------|-----------------------|
| Accrued benefits | 38,059 | 5,455 | 82,991 |
| Net market value of Fund assets | (28,280) | (2,004) | (83,682) |
| Net (surplus)/deficit | 9,779 | 3,451 | (691) |
| Accrued benefits | 36,593 | 6,065 | 81,657 |
| Net market value of Fund assets | (24,573) | (2,072) | (75,287) |
| Net (surplus)/deficit | 12,020 | 3,993 | 6,370 |

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.

Note 25. Consultancies

The total amount paid or payable to consultants engaged by the Parent Entity during the reporting period was \$3.30m (2012: \$11.38m).

Note 26. Contingent Liabilities

The Economic or Parent Entity do not have any contingent liabilities

No significant claims for damages are being negotiated (2012: nil). This does not include matters covered by insurance.

Note 27. Auditors' Remuneration

| | Economic Entity | | Parent Entity | |
|--|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Audit Office of New South Wales | | | | |
| Audit review of financial statements | 259 | 249 | 220 | 214 |
| Other audit fees | - | 4 | - | 4 |
| | 259 | 253 | 220 | 218 |

Note 28. 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 (2012: 100%). 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.

This subsidiary was incorporated in Australia.

| Entity | Economic Entity | | Parent Entity | | |
|--|----------------------------|----------------|----------------|----------------|--------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 | |
| (b) The following related party transactions occurred during the financial year | | | | | |
| Transactions with Controlled Entities | | | | | |
| Sales | | | | | |
| - Contracts (Insurance etc) | HWA | - | - | 241 | 220 |
| - Consultancy Services | HWA | - | - | 15 | 140 |
| Total sales | | - | - | 256 | 360 |
| Purchases | | | | | |
| Purchases - Consultancy services & contracts | HWA | - | - | 21,781 | 24,029 |
| Interest Paid | HWA | - | - | 164 | 217 |
| Dividend Received | HWA | - | - | 3,000 | 3,558 |
| Outstanding balances with Controlled Entities | | | | | |
| Receivables (excl GST) | | | | | |
| - Sales and purchases | HWA | - | - | - | 1 |
| - Tax funding agreements | HWA | - | - | - | 766 |
| - Dividend receivable | HWA | - | - | 2,564 | 3,893 |
| Total receivables | | - | - | 2,564 | 4,660 |
| Payables (excl GST) | | | | | |
| - Sales and purchases | HWA | - | - | 2,124 | 3,421 |
| - Tax funding agreements | HWA | - | - | 2,941 | 3,685 |
| - Inter-company loan | HWA | - | - | 7,634 | 5,000 |
| - Interest Accrued on Intercompany Loan | HWA | - | - | - | 15 |
| Total payables | | - | - | 12,699 | 12,121 |
| Other Transaction with Related Parties | | | | | |
| Purchases | | | | | |
| Consulting Services | Umwelt (Australia) Pty Ltd | - | 2 | - | 2 |
| | AMPControl SWG Pty Ltd | 183 | - | 183 | - |
| | Lawler Partners Pty Ltd | 15 | 5 | 15 | 5 |
| Recruitment Services | Peoplefusion Pty Ltd | 29 | 45 | 26 | 22 |

| | Entity | Economic Entity | | Parent Entity | |
|--|---|-----------------|--------|---------------|--------|
| | | 2013 | 2012 | 2013 | 2012 |
| | | \$'000 | \$'000 | \$'000 | \$'000 |
| Membership & Subscription Fees of Industry Association | Water Services Association of Australia | 204 | 150 | 203 | 138 |
| | EWON | - | 59 | - | 59 |
| Sponsorships | University of Newcastle | - | 208 | - | 194 |
| | Dial B4 You Dig | 62 | - | 62 | - |
| | Hunter Wetlands Centre | 18 | - | 18 | - |
| | Hunter Valley Research Foundation | 39 | 32 | 39 | 32 |
| Purchases of Air Conditioning Maintenance Services | Church Air Conditioning | - | 22 | - | 22 |
| Self Managed Super Fund | Onesm Pty Ltd | 17 | - | 17 | - |
| Entertainment | Newcastle Club | 2 | - | 2 | - |
| Sales | | | | | |
| University courses | University of Newcastle | - | 10 | - | - |
| Consulting Services | Hunter Development Corporation | - | 35 | - | - |
| | WSAA | 29 | 28 | - | - |
| Outstanding balances with Related Parties | | | | | |
| Receivables | Hunter Development Corporation | - | 11 | - | - |
| Payables | AMPControl SWG Pty Ltd | 55 | - | 60 | - |
| | Dial B4 You Dig | 5 | - | 6 | - |
| | Lawler Partners Pty Ltd | 1 | - | 1 | - |
| | Onesm Pty Ltd | 2 | - | 2 | - |
| | Hunter Wetlands Centre | 2 | - | 2 | - |

The Economic and Parent Entity also transacted with NSW Treasury Corporation and First State Superannuation under normal commercial terms.

Sales were made to Directors and the Controlled Entity under normal commercial terms and conditions no more favourable than those available to other parties and in accordance with the principles of good governance.

The intercompany loan payable to the Controlled Entity has a term of 5 years, interest is payable at an interest rate equivalent to that paid by the NSW Treasury Corporation 11AM Facility.

Other transactions with key management personnel related parties for goods or services provided to Hunter Water Corporation are on normal commercial terms and conditions.

(c) Key Management Personnel

Disclosures relating to key management personnel are set out in note 30.

Note 29. 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 30. Key Management Personnel Disclosures

(a) Directors and any director related Entities

The Directors of Hunter Water Corporation during the financial year and up to the date of this report were:

| | |
|-------------------|-----------------------|
| Mr T Lawler | Chairman |
| Mr K Wood | Managing Director |
| Mr J Eather | Deputy Chairman |
| Ms B Crossley | |
| Mr R Chappel | (to 31 December 2012) |
| Ms C Cifuentes | (to 31 May 2013) |
| Ms S Ivens | |
| Prof M Gleeson | (from 1 January 2013) |
| Mr Peter Dalglish | (from 2 July 2013) |

(b) Other Key Management Personnel

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

| | | |
|------------------|--------------------------|---|
| Stephen Phillips | Hunter Water Corporation | Chief Shared Services Officer |
| Dean Taylor | Hunter Water Corporation | Chief Customer Service Officer |
| Chris Turnbull | Hunter Water Corporation | Chief Operating Officer (to 11 December 2012) |
| Darren Cleary | Hunter Water Corporation | Chief Operating Officer (from 12 December 2012) |
| Joanne Martin | Hunter Water Corporation | Chief Information Officer |
| Fiona Cushing | Hunter Water Corporation | Chief Finance Officer |
| Jeremy Bath | Hunter Water Corporation | Manager Government and Media Relations (from 21 January 2013) |
| Jim Keary | Hunter Water Australia | General Manager |

| | Economic Entity | | Parent Entity | |
|--|-----------------|----------------|----------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| (c) Key Management Personnel Compensation | | | | |
| Short term employee benefits | 3,012 | 2,937 | 2,706 | 2,668 |
| Long term employee benefits | 26 | 795 | 15 | 785 |
| Post employment benefits | 518 | 1,069 | 492 | 1,019 |
| | 3,556 | 4,801 | 3,213 | 4,472 |

Note 31. Controlled Entities

Parent Entity:

Hunter Water Corporation

Controlled Entities

| | Equity Holding | |
|--|----------------|------|
| | 2013 | 2012 |
| Hunter Water Australia Pty Limited (incorporated in Australia) | 100% | 100% |

Note 32. 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 33. Financial Instruments

The Economic Entity is exposed to different types of risk as a result of the financial instruments (financial assets and liabilities) that it holds. These risks are managed through Board-approved policies and procedures (as outlined below), review of monthly reports from NSW Treasury Corporation (NSW TCorp), regular internal audits, setting of benchmarks to facilitate performance evaluation and other internal reporting and control mechanisms.

Treasury operations are not one of the core functions of the Economic Entity and due to the high level of expertise required to effectively manage financial liabilities, the Economic Entity contracts the services of an external specialist (currently NSW TCorp) to actively manage the debt portfolio. The current management agreement with NSW TCorp commenced on 1 December 2010, prior to that date NSW TCorp held only an advisory role.

An analysis of the various risks is outlined below:

a) Market risk

(i) Interest rate risk

Interest rate risk 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. The Economic Entity's debt portfolio is all held at fixed interest rates, with the exception of a small amount of CPI linked debt. The \$30m overdraft facility held with NSW TCorp has a floating rate.

The current neutral benchmarks for each type of debt that the Economic Entity holds are shown below:

| Type of debt | Actual | Benchmark | Allowable Range |
|--|--------|-----------------|-----------------|
| Pre 1st December 2010 Fixed rate debt | 4.88 | Eroding to zero | Eroding to zero |
| Post 1st December 2010 Fixed rate debt | 5.13 | 6.25 | 3.75 to 8.75 |
| CPI Linked debt | 9.48 | 12.80 | 8.80 to 16.80 |
| Floating | 0 | 0.25 | 0.25 to 0.75 |

The weighted average interest rates are shown below:

Economic Entity

| 2013 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Fixed Interest Rate \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|------------------------------|--|----------------------------------|-------------------------------|--------------------------------|-----------------|
| Financial assets | | | | | |
| Cash & cash equivalents | 3.03% | 21,636 | 10,000 | 10 | 31,645 |
| Trade & other receivables | 9.50% | - | 10,392 | 35,281 | 45,673 |
| Other financial assets | n/a | - | - | - | - |
| | | 21,636 | 20,392 | 35,291 | 77,318 |
| Financial liabilities | | | | | |
| Borrowings | 5.01% | 138,464 | 847,633 | - | 986,097 |
| Trade & other payables | n/a | - | - | 81,797 | 81,797 |
| | | 138,464 | 847,633 | 81,797 | 1,067,894 |

The comparative information with regard to the 2012 year is as follows:

| 2012 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Fixed Interest \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|------------------------------|---|--|-----------------------------|--------------------------------------|-----------------|
| Financial assets | | | | | |
| Cash & cash equivalents | 3.98% | 10,714 | - | 10 | 10,724 |
| Trade & other receivables | 10.75% | - | 14,271 | 27,917 | 42,188 |
| Other financial assets | n/a | - | - | - | - |
| | | 10,714 | 14,271 | 27,927 | 52,912 |
| Financial liabilities | | | | | |
| Borrowings | 5.73% | 28,284 | 890,084 | - | 918,368 |
| Trade & other payables | n/a | - | - | 53,694 | 53,694 |
| | | 28,284 | 890,084 | 53,694 | 972,062 |

Parent Entity

| 2013 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Fixed Interest \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|------------------------------|---|--|-----------------------------|--------------------------------------|-----------------|
| Financial assets | | | | | |
| Cash & cash equivalents | 3.06% | 19,035 | 10,000 | 8 | 29,043 |
| Trade & other receivables | 9.50% | - | 10,392 | 35,080 | 45,472 |
| Other financial assets | n/a | - | - | 900 | 900 |
| | | 19,035 | 20,392 | 35,988 | 75,415 |
| Financial liabilities | | | | | |
| Borrowings | 4.99% | 138,464 | 855,267 | - | 993,731 |
| Trade & other payables | n/a | - | - | 83,937 | 83,937 |
| | | 138,464 | 855,267 | 83,937 | 1,077,668 |

The comparative information with regard to the 2012 year is as follows:

| 2012 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Rate \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|------------------------------|---|--|----------------|--------------------------------------|-----------------|
| Financial assets | | | | | |
| Cash & cash equivalents | 3.65% | 3,369 | - | 8 | 3,377 |
| Trade & other receivables | 10.75% | - | 14,271 | 29,492 | 43,763 |
| Other financial assets | n/a | - | - | 900 | 900 |
| | | 3,369 | 14,271 | 30,400 | 48,040 |
| Financial liabilities | | | | | |
| Borrowings | 5.71% | 28,284 | 895,084 | - | 923,368 |
| Trade & other payables | n/a | - | - | 57,327 | 57,327 |
| | | 28,284 | 895,084 | 57,327 | 980,695 |

Sensitivity analysis

The table below shows the effect on profit and equity after tax if interest rates at balance date had been 100 basis points higher or lower than current levels, with all other variables held constant.

| | Increase/(decrease) to post-tax profit | | Increase/(decrease) to equity | |
|---|--|----------------|-------------------------------|----------------|
| | 2013 \$'000 | 2012 \$'000 | 2013 \$'000 | 2012 \$'000 |
| Economic Entity | | | | |
| If Interest rates are 100 basis points higher | (388) | 229 | (388) | 229 |
| If Interest rates are 100 basis points lower | 388 | (229) | 388 | (229) |
| Parent Entity | | | | |
| If Interest rates are 100 basis points higher | (489) | 105 | (489) | 105 |
| If Interest rates are 100 basis points lower | 489 | (105) | 489 | (105) |

(ii) Foreign exchange risk

The objective of managing foreign exchange rate risk is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates. The Economic Entity manages these risks by actively monitoring and forecasting cash flows to report on performance and foreign currency exposure. Where exposure is determined to be significant, the Economic Entity will hedge the risk by the use of a variety of different methods such as forward exchange contracts and forward rate options.

The Controlled Entity, Hunter Water Australia Pty Limited, provides consultancy services to customers in the United States and Papua New Guinea, and as such, its exposure to foreign exchange risk at reporting date is as follows (all amounts are shown in notional Australian dollars) :

| | 2013 | | 2012 | |
|-------------------|---------------|---------------|---------------|---------------|
| | USD \$'000 | PNG \$'000 | USD \$'000 | PNG \$'000 |
| Trade Receivables | - | 43 | - | - |
| Bank | -* | 58 | - | - |
| | - | 101 | - | - |

* Less than \$10

(b) Liquidity risk

Effective liquidity risk management involves ensuring that the Economic Entity has sufficient funds and cash flows to meet its obligations and commitments at any point in time. The Economic Entity's liquidity is controlled through the preparation of detailed cash flows at both an Economic Entity and Parent Entity level that must incorporate future projections for a period of at least 10 years.

As part of its neural benchmark debt portfolios the Economic Entity has also established the specific target for when total debt exceeds more than \$50m, that no more than 20% of the total face value debt (based on the portfolio in the year of maturity) is to mature in any 12 month period. When preparing the Statement of Corporate Intent, the Economic Entity must also submit to its Board for endorsement the proposed financial accommodation that will be required for the coming year (this is then required to be approved by the Treasurer of NSW).

In order to further manage liquidity risk, the Parent Entity has a \$30m overdraft facility with NSW TCorp which is used to meet short-term cash flow requirements as deemed by management. Any surplus funds are invested in an at call deposit ("11am") account, also held with NSW TCorp.

The controlled entity, Hunter Water Australia Pty Limited, also has a bank overdraft facility of \$0.2m with the Commonwealth Bank for short-term cash management purposes.

The liabilities are recognised for amounts due to be paid in the future for goods and services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received.

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

Economic Entity

| | Carrying Amount | Total Contractual Cash flows | Maturity Dates Within | | | |
|------------------------|------------------|------------------------------|-----------------------|----------------|----------------|----------------|
| | | | 1 Year | 1-2 Years | 2-5 Years | Over 5 Years |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2013 | | | | | | |
| Trade & other payables | 81,797 | 81,797 | 81,797 | - | - | - |
| Borrowings | 986,097 | 1,279,790 | 32,954 | 137,829 | 365,566 | 743,442 |
| Total | 1,067,894 | 1,361,587 | 114,751 | 137,829 | 365,566 | 743,442 |
| 2012 | | | | | | |
| Trade & other payables | 53,694 | 53,694 | 53,694 | - | - | - |
| Borrowings | 918,368 | 1,216,021 | 113,248 | 96,494 | 410,492 | 595,787 |
| Total | 972,062 | 1,269,715 | 166,942 | 96,494 | 410,492 | 595,787 |
| Parent Entity | | | | | | |
| 2013 | | | | | | |
| Trade & other payables | 83,937 | 83,937 | 83,937 | - | - | - |
| Borrowings | 993,731 | 1,287,425 | 32,954 | 137,829 | 365,566 | 751,076 |
| Total | 1,077,668 | 1,371,362 | 116,891 | 137,829 | 365,566 | 751,076 |
| 2012 | | | | | | |
| Trade & other payables | 57,327 | 57,327 | 57,327 | - | - | - |
| Borrowings | 923,368 | 1,221,021 | 113,248 | 96,494 | 410,492 | 600,787 |
| Total | 980,695 | 1,278,348 | 170,575 | 96,494 | 410,492 | 600,787 |

(c) Credit risk

Credit risk refers to the risk that indebted counterparties will default on their contractual obligations, resulting in financial loss to the Economic Entity. Exposures to credit risk exist in respect of financial assets such as trade and other receivables, cash and cash equivalents and investments in marketable securities.

In respect of trade and other receivables, the Economic Entity monitors balances outstanding on an ongoing basis and has policies in place for the recovery and write-off of amounts outstanding. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of Financial Position. All long term investments are held as government bonds with any of the appropriately rated (A+ or better) State Governments, and short-term investments are held in a NSW Treasury (TCorp) at call deposit account or bank term deposit. The Economic Entity limits its exposure to credit risk by only investing cash and cash equivalents in liquid securities with reputable financial organisations, namely NSW TCorp and other financial institutions. The Economic Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into.

The only financial assets that are past due or impaired are sales of goods and services in the receivables category of the Statement of Financial Position.

| | Economic Entity | | | Parent Entity | | |
|---------------------|--------------------|--|---------------------|--------------------|--|---------------------|
| | Total ¹ | Past due but not impaired ¹ | Considered Impaired | Total ¹ | Past due but not impaired ¹ | Considered Impaired |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 30- 90 days overdue | 11,163 | 11,163 | - | 10,956 | 10,956 | - |
| > 90 days overdue | 4,643 | 4,248 | 396 | 4,566 | 4,171 | 396 |

¹ The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the total will not reconcile to the receivables total recognised in the Statement of Financial Position.

(d) Fair values

The Economic Entity's investments available for sale are measured at fair value through market valuation. Fixed interest-bearing liabilities are classified as held to maturity and measured at amortised cost using the effective interest rate method. All other financial assets and liabilities included in the Statement of Financial Position are carried at amounts that approximate net fair value except for shares in subsidiaries which are held at historical cost.

There were no financial instruments that were carried in the Statement of Financial Position at fair value determined by any of the three valuation methods defined below:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2)
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

End of Audited Financial Statements

Directors' Declaration

In accordance with a resolution of the Directors of the Parent Entity, Clause 11 of the Public Finance and Audit Regulation 2010, 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 19 to 66) exhibit a true and fair view of the financial position of Hunter Water Corporation and its Controlled Entity as at 30 June 2013, and transactions for the year then ended.

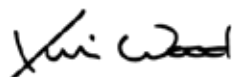
2) The accompanying consolidated financial statements have been prepared in accordance with the Public Finance and Audit Act 1983, the State Owned Corporation's Act 1989, Public Finance and Audit Regulation 2010, applicable Accounting Standards and other mandatory professional reporting requirements and Treasurer's directions.

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



T Lawler
Chairman



K Wood
Managing Director

Dated: 29 August 2013,
Newcastle

Statistical Information

Statistical Information is Unaudited

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6.1 Directors and Committees

6.1.1 Board of Directors

Hunter Water Corporation's Board of Directors is comprised of nine members, including the Managing Director, appointed by the voting shareholders, currently the NSW Treasurer and the NSW Premier. Hunter Water's constitution requires that, on an annual basis, two of the Directors, with the exception of the Managing Director, shall retire from office and be eligible for reappointment.

For details on Directors refer to the Directors' Report in the financial statements (page 20).

6.1.2 Committees and Memberships

| Committee & Membership | Corporate Support & Contact | Meeting Frequency | Major Areas Coverage |
|--|-----------------------------|--|--|
| Audit and Risk J Eather (Chair) T Lawler B Crossley C Cifuentes (to 31 May 2013) ¹ M Gleeson (appointed 30 May 2013) ² | A Fullick | Five 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 information technology. |
| Corporate Governance T Lawler (Chair) J Eather C Cifuentes (to 31 May 2013) B Crossley K Wood S Ivens (appointed 30 May 2013) | S Phillips | Four meetings per year and as required | To ensure effective corporate governance within Hunter Water and to advise the Board on remuneration policy and matters concerning Board evaluation and composition |
| Community and Environment B Crossley (Chair) J Eather C Cifuentes (to 31 May 2013) K Wood S Ivens M Gleeson (appointed 31 January 2013) ³ | D Taylor | Three meetings per year | To ensure the Hunter Water continues to maintain a pro-active and strategic approach in relation to sustainable use of resources and delivery of services. |
| Capital Works RA Chappel (Chair) (to 31 December 2012) J Eather K Wood (A/Chair) (from 31 January 2013) C Cifuentes (to 31 May 2013) B Crossley | D Cleary | Three meetings per year | To assist the Board by providing strategic overview of the Capital Works and Research and Development programs. |

¹ C Cifuentes resigned from the Board.

² M Gleeson was appointed to the Audit & Risk committee to replace C Cifuentes as the Corporate Governance Committee meeting at 30 May 2013.

³ M Gleeson appointed Community & Environment Committee at the Corporate Governance Committee meeting held 31 January 2013.

6.1.3 Attendance of Directors at Hunter Water Corporation Committee Meetings

| | Board Meetings | | Committee Meetings | | | | | | | |
|-------------|----------------|----|--------------------|---|----------------------|---|---|---|---------------|---|
| | A | B | Audit & Risk | | Corporate Governance | | Community, Environment & Sustainability | | Capital Works | |
| | A | B | A | B | A | B | A | B | A | B |
| T Lawler | 10 | 11 | 4 | 5 | 3 | 4 | * | * | 2 | 2 |
| K Wood | 11 | 11 | * | * | 4 | 4 | 3 | 3 | 2 | 2 |
| B Crossley | 10 | 11 | 3 | 5 | 4 | 4 | 3 | 3 | 2 | 2 |
| RA Chappel | 4 | 5 | * | * | * | * | * | * | 1 | 1 |
| J Eather | 11 | 11 | 5 | 5 | 4 | 4 | 1 | 3 | 2 | 2 |
| C Cifuentes | 7 | 10 | 3 | 4 | 2 | 4 | 3 | 3 | 1 | 2 |
| S Ivens | 10 | 11 | * | * | - | - | 3 | 3 | * | * |
| M Gleeson | 5 | 6 | 1 | 1 | * | * | 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

6.1.4 Community Consultative Forum Membership and Attendance

The Community Consultative Forum is an advisory body formed by key community representatives from throughout the Lower Hunter, providing guidance on customer and consumer interest in relation to Hunter Water's activities and operational performance requirements.

During 2012-13 membership and attendance at the Community Consultative Forum was as follows:

| Representative | Attendance at Meetings Held | | |
|--|-----------------------------|-----------------|-------------|
| | 25 September 2012 | 29 January 2013 | 28 May 2013 |
| Mr K Wood | • | • | • |
| Mr W Lennox | • | • | • |
| Ms B Smoothy | • | • | |
| Ms C Pasenow | • | • | • |
| Cr H Johnston | • | • | • |
| Cr M Campbell | • | | |
| Mr J Pauling | • | | |
| Ms I Berthold | • | • | • |
| Mr K McDonald | • | • | • |
| Ms C Gillard | • | • | • |
| Cr D Compton | | • | • |
| Ms L Bowden | • | • | • |
| Mr R Banyard | • | • | • |
| Cr G Dingle | | | • |
| Cr K Paxinos | | • | • |
| Mr J Hopson | • | | |
| Mr O Nicholson (representing Williams River Water Users' Association in place of Mr J Hopson) | | • | • |

• = Attended

6.2 Employees

6.2.1 Executive Positions at 30 June 2013 (Paid at Equivalent of SES Level 1 or Above)

| Position | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---------------------------------|---------|---------|---------|---------|---------|
| Managing Director | 1 | 1 | 1 | 1 | 1 |
| Senior Executives | 7 | 7 | 7 | 5 | 5 |
| Number of roles filled by women | 2 | 2 | 2 | 2 | 2 |

All executive employees 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.

6.2.2 Performance Statement

| Name | Position and Level | Total Remuneration package | Performance pay | Period in Position | Results |
|----------|--------------------|----------------------------|-----------------|----------------------|---|
| Kim Wood | Managing Director | \$437,291 | \$34,400* | 14/11/2011 - ongoing | Kim achieved financial, business and regulatory outcomes as required by his performance agreement |

* Relates to 2011-12 financial year.

6.2.3 Workforce Profile

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|------------------------|------------|------------|------------|------------|------------|
| Males | 318 | 315 | 325 | 326 | 329 |
| Females | 137 | 148 | 156 | 157 | 148 |
| TOTAL | 455 | 463 | 481 | 483 | 477 |
| Permanent | 354 | 350 | 383 | 383 | 403 |
| Temporary | 48 | 56 | 47 | 32 | 15 |
| Part-time | 51 | 57 | 51 | 68 | 59 |
| TOTAL | 455 | 463 | 481 | 483 | 477 |
| Redundancies | 10 | 3 | 1 | 7 | 7 |
| Recruitment | 54 | 25 | 57 | 74 | 52 |
| Unplanned absences (%) | 2.04 | 2.57 | 1.98 | 2.28 | 2.40 |

6.2.4 Human Resource Policies and Practices

| | | |
|---|--|--|
| Induction Policy | Contractor Guidelines | Parental Leave Policy |
| Training & Development Policy | Corporate Uniform Policy | Personal/Carer's Leave Policy |
| Education Assistance Policy | Damage to or Loss of Personal Effects Policy | Recruitment & Selection Policy |
| Fitness for Work Policy | Disciplinary Guidelines | Redundancy & Redeployment Policy |
| Leave Without Pay Policy | Employee Referral Program Policy | Smoking Policy |
| Annual Leave Policy | Equal Employment Opportunity Policy | Social Distancing Policy |
| APESMA Agreement 2012 | Extended Leave Guidelines | Special Leave Policy |
| Attendance & Absenteeism Policy | Fair Treatment Policy & Procedure | Trade Union Training Attendance Policy |
| Bullying & Harassment Prevention Policy | Hunter Water Corporation Employees Enterprise Agreement 2012 | Travel Policy |
| Code of Conduct | Long Service Leave Policy | Working from Home Policy |
| Compassionate Leave Policy | | |

6.2.5 Trends in the Representation of Equal Employment Opportunity (EEO) Groups¹

EEO Target Groups

| | % of Total Staff ² | | | | | | | |
|--|-------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Benchmark or Target | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| | % | % | % | % | % | % | % | % |
| Women | 50.0 | 28.0 | 30.0 | 30.0 | 32.0 | 32.8 | 34.0 | 33.0 |
| Aboriginal people and Torres Strait Islanders | 2.6 | 0.9 | 0.7 | 0.7 | 0.6 | 0.7 | 0.6 | 0.8 |
| People whose first language was not English | 19.0 | 5.0 | 5.0 | 4.8 | 5.2 | 5.3 | 5.0 | 4.9 |
| People with a disability | NA | 4.8 | 4.8 | 4.0 | 3.0 | 2.4 | 1.8 | 1.7 |
| People with a disability requiring work-related adjustment | 1.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 0.4 | 0.4 |

6.2.6 Trends in the Distribution of EEO Groups¹

Distribution Index^{2,3}

| | Distribution Index ^{2,3} | | | | | | | |
|--|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|
| | Benchmark or Target | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
| | % | % | % | % | % | % | % | % |
| Women | 100 | 89.0 | 90.0 | 90.0 | 91.0 | 89.0 | 86.0 | 88.0 |
| Aboriginal people and Torres Strait Islanders | 100 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| People whose first language was not English | 100 | N/A | N/A | N/A | N/A | 102.0 | 109.0 | 102.0 |
| People with a disability | 100 | 104.0 | 104.0 | 104.0 | 104.0 | 103.0 | 103.0 | 100.0 |
| People with a disability requiring work-related adjustment | 100 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

* Notes the data from employees with a physical disability, Aboriginal background and people whose first language was not English, is collected on a voluntary basis. Employees can elect to withdraw this information from their employment profile.

¹ Staff numbers are as at 30 June 2013.

² Excludes casual employees.

³ A Distribution index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other employees. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other employees. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is calculated in accordance with methodologies provided by the Office of the Director of Equal Opportunity in public employment. "N/A" applies where there are less than 20 staff in a particular EEO group.

6.2.7 Multicultural Policies & Services Program

In the areas of service recruitment, selection, promotion, transfer, training and development and conditions of service, merit based principles apply. Hunter Water continue to seek ongoing applications from people from culturally and linguistically diverse backgrounds.

Equal Employment Opportunity Statement

Hunter Water is committed to affirmative action. In doing so, Hunter Water aims to eliminate and ensure the absence of discrimination in employment on the grounds of race, sex, marital status, physical impairment, intellectual impairment, sexual preference, age and carers responsibilities; and aims to promote equal employment opportunity for all employees, including members of minority and disadvantaged groups.

EEO & Multicultural Policies & Services Analysis

Hunter Water values and recognises the importance of equality of opportunity in the workplace and the role effective diversity management can play in terms of ensuring the appropriate organisational response to the increasingly diverse needs of our workforce, community and wider marketplace. Hunter Water recognises the benefits to ensuring everyone has “a fair go” and having a diverse and multi-skilled workforce as a growing competitive advantage in terms of meeting community needs, customer service and satisfaction. Hunter Water identifies current and future workforce needs in an increasingly diverse community and marketplace. Hunter Water provides and will continue to assess both short and long term business needs from both a workforce and community perspective and ensures the recruitment program provides pathways for people from culturally and linguistically diverse backgrounds.

Women

In the past 12 months Hunter Water recognises and appreciates the importance of increasing female participation in the workforce which traditionally has been focused on engineering and field maintenance areas which have not historically had high female participation rates. Over 40% of Hunter Water’s Board Directors are now women and four in ten of Hunter Water’s senior managers are women. Hunter Water champions equal opportunity through a merit based recruitment processes.

Aboriginal People and Torres Strait Islanders

Hunter Water continues to encourage people of an Aboriginal and Torres Strait Islander background to apply for roles at Hunter Water and receive support in their application.

People whose First Language is not English

Hunter Water operates in an increasingly diverse community and market. It implements procedures that emphasis the importance of having a culturally and linguistically diverse workforce to meet and exceed customer service standards and promote diversity management. Non English speaking background employees constitute around 5% of the workforce and Hunter Water continues to encourage people from all backgrounds to apply for jobs and career opportunities with the organisation.

People with a Disability

Hunter Water continues to encourage people with a disability to apply for roles and receive support in their application.

People with a Disability Requiring Work-Related Adjustment

Hunter Water maintains a safe and healthy workplace. All employees including those with a disability will have a workplace adjustments where possible.

Translation Service

Hunter Water has a translator service in place for customers where English is not their first language. This service provides assistance in transacting with Hunter Water. Hunter Water continues to improve the collection of information about the diversity of its customers. The information will provide Hunter Water with a better understanding of the customers, including cultural and linguistic diversity. This information will be used to inform future multicultural service programs.

Financial Assistance Services

Hunter Water has financial assistance programs: Centrepay, Hunter Region No Interest Loan Scheme (HRNILS) and the Payment Assistance Scheme that are available to all customers who may be having trouble paying their bill.

6.2.8 Employee Safety Performance

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | Change % |
|---------------------------------|---------|---------|---------|---------|---------|---------|----------|
| Lost time injury frequency rate | 2.47 | 1.1 | 9.3 | 3.85 | 0 | 0 | 0 |
| Total hours lost | 2,204 | 2,044 | 5,436 | 2,802 | 1,189 | 1,149 | -3 |
| Lost time injuries | 2 | 1 | 9 | 4 | 0 | 0 | 0 |
| Minor injuries | 68 | 24 | 17 | 18 | 14 | 10 | -40 |
| Prosecutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

6.2.9 Overseas Travel Commenced During 2012-13

| Name | Destination City, Country | Departure Date | Duration | Reason for travel |
|-------------|---------------------------|------------------|----------|-------------------|
| Dean Taylor | Lae, Papua New Guinea | 29 April 2013 | 13 days | Consultancy* |
| Dean Taylor | Suva, Fiji | 16 February 2013 | 5 days | Consultancy* |

*Expenses paid by the Asia Development Bank.

6.3 Customer and Service Performance

6.3.1 Customer Base

| Customer | Number of Properties 2012-13 | Income Raised 2012-13 \$m Actual |
|-------------------|------------------------------|-------------------------------------|
| Residential | 178,804 | 171.24 |
| Multi-Residential | 39,494 ¹ | 24.98 |
| Commercial | 9,425 | 31.29 |
| Industrial | 1078 | 15.67 |
| Bulk Supply | 2 | 0.06 |
| Other | 4,161 ² | 16.01 |
| TOTAL | 232,964 | 259.25 |

¹ Includes total number of individual flats.

² Includes some Hunter Water properties from which no revenue is raised.

6.3.2 Rainfall Received (Millimetres) - 12 Months Ending 19 April 2013

| Year | Newcastle | Grahamstown | Chichester |
|--------------------------|--------------|--------------|--------------|
| 2002-03 | 788 | 837 | 1,032 |
| 2003-04 | 999 | 819 | 1,244 |
| 2004-05 | 910 | 1,242 | 1,299 |
| 2005-06 | 695 | 835 | 1,016 |
| 2006-07 | 1,081 | 1,011 | 1,128 |
| 2007-08 | 1,567 | 1,585 | 1,656 |
| 2008-09 | 1,041 | 1,431 | 1,619 |
| 2009-10 | 797 | 796 | 1,185 |
| 2010-11 | 1,022 | 1,001 | 1,225 |
| 2011-12 | 1,091 | 1,423 | 1,735 |
| 2012-13 | 959 | 1,085 | 1,343 |
| LONG TERM AVERAGE | 1,120 | 1,045 | 1,271 |
| YEARS OF RECORD | 148 | 46 | 86 |

6.3.3 Water Supplied (Megalitres) - 12 Months Ending 19 April 2013

| Source | 2010 | 2011 | 2012 | 2013 |
|---------------------|---------------------------|---------------------------|---------------|---------------------------|
| Chichester | 27,462 | 25,277 | 22,113 | 23,996 ¹ |
| Tomago | 4,262 | 0 | 0 | 0 |
| Grahamstown | 35,971 | 40,398 | 38,921 | 42,094 |
| Total Major Sources | 67,695 | 65,675 | 61,035 | 66,060 |
| Anna Bay | 2,148 | 1,572 | 1,444 | 1,793 |
| Lemon Tree Passage | 707 | 761 | 714 | 768 |
| TOTAL | 70,550¹ | 68,008¹ | 63,193 | 68,622¹ |

¹ Anna Bay figures include water supplied from the Glovers Hill and the Anna Bay Water Treatment Plants. Total includes losses from Dungog Water Treatment Plant. The 2011, 2012 and 2013 values for Grahamstown include process water used at Grahamstown Water Treatment Plant.

6.3.4 Water Consumption (Megalitres) - 12 Months Ending 19 April 2013

| | 2010 ML | 2010 % | 2011* ML | 2011 % | 2012* ML | 2012 % | 2013* ML | 2013 % |
|------------------------------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|
| Domestic | 38,463 | 55 | 37,087 | 55 | 34,911 | 55 | 38,370 | 56 |
| Non-Domestic | 21,081 | 30 | 21,068 | 31 | 19,225 | 30 | 21,026 | 31 |
| Bulk Supply | 2,316 | 3 | 315 | 0 | 11 | 0 | 29 | 0 |
| TOTAL CONSUMPTION | 61,860 | 88 | 58,470 | 86 | 54,147 | 86 | 59,424 | 87 |
| Authorised (HWC own use) | 1,156 | 2 | 2,226 | 3 | 2,058 | 3 | 2,004 | 3 |
| Apparent Losses | 1,283 | 2 | 1,255 | 2 | 1,168 | 2 | 1,281 | 2 |
| Real Losses | 6,250 | 9 | 6,058 | 9 | 5,820 | 9 | 5,912 | 9 |
| Gross Non-Revenue Generating | 8,689 | 12 | 9,539 | 14 | 9,046 | 14 | 9,198 | 13 |
| TOTAL SUPPLY | 70,549 | | 68,009 | | 63,193 | | 68,622 | |

*Note the 2011, 2012 and 2013 values include process water used at Grahamstown Water Treatment Plant.

6.3.5 Water System Incidents

| Incident / Solution | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Poor pressure | 185 | 127 | 87 | 144 | 132 | 115 | 56 | 90 |
| Pump problem | 2 | 2 | 1 | 2 | 5 | 4 | 5 | 1 |
| Seepage | 143 | 244 | 260 | 243 | 152 | 201 | 332 | 249 |
| Main flush | 1,330 | 831 | 638 | 733 | 692 | 690 | 692 | 788 |
| Main repair | 2,030 | 1,733 | 1,422 | 1,590 | 1,553 | 1,534 | 1,246 | 1,539 |
| Hydrant defect | 1,156 | 826 | 811 | 765 | 901 | 745 | 716 | 744 |
| Valve defect | 377 | 283 | 244 | 250 | 264 | 249 | 231 | 212 |
| Repair pathcock / maincock | 2,941 | 2,909 | 2,845 | 2,794 | 3,008 | 2,875 | 2,711 | 2,680 |
| Meter defect | 237 | 221 | 280 | 358 | 458 | 525 | 518 | 599 |
| Service defect repaired by HWC's Operations staff | 1,658 | 1,470 | 1,406 | 1,695 | 1,769 | 1,664 | 1,507 | 1,682 |
| Service defect repaired by private plumber | 553 | 560 | 551 | 633 | 735 | 640 | 727 | 631 |
| Complaint unconfirmed | 318 | 300 | 262 | 275 | 314 | 430 | 408 | 324 |
| Other | 2,209 | 1,907 | 1,493 | 1,520 | 1,572 | 1,667 | 1,536 | 1,473 |
| Tap rewashers | 89 | 103 | 89 | 92 | 96 | 69 | 85 | 50 |
| Trunkmain repairs | 3,936 | 3,242 | 2,927 | 3,812 | 3,597 | 3,012 | 2,725 | 2,500 |
| TOTAL | 17,164 | 14,758 | 13,136 | 14,906 | 15,248 | 14,420 | 13,495 | 13,562 |

6.3.6 Water Transport System Reliability

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|-------------------|-------------------|-------------------|-------------------|-----------------|-------------------|-------------------|---------------------|
| Main breaks per 100km main - Trunkmains included in length of mains | 44.6 ¹ | 37.4 ¹ | 30.3 ¹ | 32.6 ¹ | 32 ¹ | 31.2 ¹ | 25.2 ¹ | 66.8 ^{1,2} |
| Discoloured water complaints per 1000 properties connected (tenancy) | 4.6 | 3.4 | 2.2 | 2.7 | 3.3 | 1.9 | 2.1 | 3.0 |

¹ Water breaks includes 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 the main down (as in WSAA and IPART definitions) as these repairs could not be identified in the current system, depending on job call off.

² 2012-13 result now includes breaks in water services due to a change in the WSAA definition.

6.3.7 Performance Against IPART Guidelines

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|---------|---------|---------|---------|---------|
| i1 - Number of properties affected by unplanned water interruptions > 1 hr & < 5 hrs | 42,671 | 43,705 | 42,332 | 34,993 | 35,870 |
| i2 - Number of properties affected by 3 or more planned or unplanned water interruptions | 4,301 | 2,737 | 3,624 | 3,177 | 1,834 |
| i3 - Number of water events affecting > 250 properties for > 5 hours | - | - | 5 | 4 | 3 |
| i4 - Number of residential properties affected by planned water interruptions between 5am and 11pm | 11,680 | 12,980 | 16,844 | 17,152 | 11,760 |
| i5 - Number of properties with occasional or recurrent but not permanent pressure failure | 1,182 | 1,182 | 1,860 | 698 | 1,473 |
| i6 - Priority 1 sewer overflows responded to annually | 580 | 892 | 1,138 | 904 | 764 |
| i7 - Priority 2 sewer overflows responded to annually | 2,660 | 3,186 | 3,195 | 2,473 | 2,475 |
| i8 - Residential properties with sewer spills not contained in 1 hour | 2,364 | 2,503 | 2,807 | 2,334 | 2,036 |

6.3.8 Wastewater System Incidents

| Incident / Solution | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Chokage cleared - main | 2,529 | 2,806 | 2,200 | 1,948 | 2,745 | 2,773 | 2,116 | 1,938 |
| Chokage cleared - branch | 2,672 | 2,603 | 2,155 | 1,923 | 2,131 | 2,665 | 1,969 | 1,837 |
| Private plumbers job ¹ | 548 | 610 | 547 | 471 | 541 | 547 | 536 | 431 |
| House drains cleared | 4 | 4 | 2 | 0 | 1 | 0 | 3 | 4 |
| Storm overflow | 96 | 897 | 394 | 179 | 50 | 232 | 310 | 386 |
| Gravity sewer break | 23 | 29 | 43 | 36 | 19 | 25 | 28 | 35 |
| Rising main break | 40 | 29 | 42 | 33 | 27 | 32 | 37 | 39 |
| Pump station malfunction | 7 | 22 | 13 | 12 | 20 | 13 | 16 | 12 |
| Vacuum sewer jobs | 160 | 145 | 78 | 38 | 26 | 63 | 58 | 40 |
| Pump effluent line | 4 | 5 | 8 | 9 | 3 | 5 | 8 | 4 |
| No work required | 169 | 218 | 163 | 140 | 120 | 135 | 122 | 88 |
| Complaint unconfirmed | 211 | 178 | 163 | 172 | 191 | 212 | 276 | 208 |
| Charge job ² | 1 | 1 | 0 | 5 | 1 | 2 | 0 | 1 |
| Other | 1,093 | 1,524 | 1,182 | 852 | 742 | 853 | 838 | 784 |
| TOTAL | 7,557 | 9,071 | 6,990 | 5,818 | 7,217 | 7,557 | 6,317 | 5,807 |

¹ Problem in customer's private drains or fittings.

² Completed by Corporation and customer billed.

6.3.9 Wastewater Transport System Reliability

| | Number of Main Breaks and Chokes | Length of Sewermain (km) | Ratio of Main Breaks/Chokes per 100km of Main |
|--------------|----------------------------------|--------------------------|---|
| TOTAL | 2,051 | 4,852 | 42.3 |

| | Number of Property Breaks and Chokes | Number of Wastewater Properties | Ratio of Property Breaks and Chokes per 1000 Properties |
|--------------|--------------------------------------|---------------------------------|---|
| TOTAL | 1,908 | 221,434 | 8.6 |

6.3.10 General Statistics

| Water | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|----------|----------|----------|----------|----------|---------|---------|
| Population in area ^{1,2} | 517,273 | 522,415 | 527,557 | 533,874 | 560,603 | 567,526 | 561,549 |
| Population supplied with water ¹ | 505,712 | 510,703 | 515,695 | 521,736 | 539,364 | 539,909 | 545,256 |
| Properties where water is available ³ | 224,442 | 228,312 | 231,266 | 233,509 | 236,369 | 237,164 | 239,036 |
| Properties connected to water (metered) ³ | 216,189 | 220,597 | 222,454 | 224,845 | 227,695 | 230,140 | 232,964 |
| Capacity of major sources (ML) | 288,000 | 288,000 | 288,000 | 288,000 | 288,000 | 288,000 | 288,000 |
| Total supply from sources (ML) ⁴ | 74,757 | 67,244 | 67,181 | 70,609 | 67,100 | 62,275 | 68,622 |
| Average day net supply (ML) ⁴ | 204.80 | 183.70 | 184.10 | 193.40 | 183.80 | 170.20 | 188.00 |
| Maximum day net supply (ML) ⁴ | 322.90 | 279.30 | 308.50 | 337.20 | 317.40 | 240.80 | 313.90 |
| Maximum week net supply (ML/day) ⁴ | 296.00 | 237.50 | 284.40 | 273.40 | 298.30 | 212.20 | 273.30 |
| Minimum day net supply (ML) ⁴ | 145.90 | 113.00 | 121.20 | 105.60 | 120.40 | 136.20 | 138.50 |
| Average consumption per residential tenement (kL/annum) | 194.60 | 177.40 | 179.60 | 183.80 | 174.80 | 162.90 | 175.80 |
| 5 year rolling average consumption ⁵ | 205.10 | 196.20 | 190.60 | 188.00 | 182.00 | 176.40 | 175.40 |
| Watermains laid during year (km) | 56.80 | 82.70 | 157.3 | 73.9 | 58.03 | 58.28 | 48.64 |
| Watermains abandoned during year (km) | 32.20 | 25.30 | 33.00 | 32.40 | 21.24 | 24.00 | 8.00 |
| Watermain length revisions during the year (km) | 65.40 | -2.60 | 5.20 | 6.80 | 2.62 | -0.90 | -150 |
| Total watermains in service (km) | 4,637.70 | 4,692.54 | 4,821.96 | 4,856.64 | 4,898.05 | 4930 | 4820 |
| Length of watermain per connected property (m) | 21.50 | 21.20 | 21.68 | 21.60 | 21.51 | 21.42 | 20.69 |
| Water supplied free of charge: charitable, public & miscellaneous purposes (kL) | 444,828 | 398,089 | 483,778 | 379,740 | 423,194 | 415,704 | 449,055 |
| Water supplied free of charge (\$) | 604,966 | 564,825 | 614,398 | 647,830 | 723,662 | 789,838 | 934,034 |

| Wastewater | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Population supplied with water & sewer ¹ | 486,310 | 491,136 | 495,963 | 501,000 | 519,858 | 516,726 | 523,211 |
| Properties where sewer is available | 214,430 | 217,065 | 219,764 | 221,726 | 224,986 | 227,690 | 229,938 |
| Properties connected to sewer ³ | 205,034 | 208,662 | 211,015 | 213,023 | 215,748 | 218,459 | 221,434 |
| Sewermains laid during the year (km) | 57.40 | 39.70 | 74.90 | 50.00 | 68.23 | 65.06 | 68.31 |
| Sewermains abandoned during the year (km) | 10.90 | 7.70 | 4.80 | 10.00 | 0.43 | 3.52 | 1.34 |
| Total sewermains in service (km) | 4,523.40 | 4,555.60 | 4625.6 | 4667 | 4,729.97 | 4,792 | 4,852 |
| Length of sewermain per liable property (m) | 22 | 21.80 | 21.90 | 21.90 | 21.02 | 21.04 | 21.10 |
| Sewer service supplied free of charge (\$) | 75,983 | 106,424 | 109,535 | 114,700 | 107,775 | 109,205 | 127,229 |

| Drainage | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Properties liable ³ | 65,958 | 66,476 | 66,969 | 67,404 | 67,938 | 68,387 | 68,848 |

| Dissection of Population - June 2013 ¹ | | 2012-13 | |
|--|---------------------------|---------------------|---------------------|
| Region | Population in Area | Served Water | Served Sewer |
| Newcastle | 158,170 | 158,170 | 157,443 |
| Lake Macquarie | 198,767 | 197,847 | 191,404 |
| Maitland | 73,448 | 72,341 | 70,057 |
| Cessnock | 54,047 | 47,862 | 43,525 |
| Port Stephens | 68,434 | 65,356 | 59,746 |
| Dungog | 8,683 | 3,427 | 942 |
| SUB TOTAL | 561,549 | 545,003 | 523,117 |
| Singleton (Part Branxton) | - | 168 | 94 |
| Great Lakes (East Karuah/ Alicetown) | - | 85 | - |
| TOTAL | 561,549 | 545,256 | 523,211 |

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Ratio of properties connected to water & sewer, and water only | 96.90% | 96.90% | 96.70% | 96.40% | 95.70% | 96.00% |

¹ Population figures from 2011-12 have used revised Estimated Resident Population (ERP) from the Australian Bureau of Statistics based on the 2011 Census.

² Population in area for 2012-13 includes population in Dungog Local Government Area.

³ Property numbers have been revised: includes Hunter Water properties.

⁴ Supply & consumption figures are based on water year, i.e. 12 months ending 19 April.

⁵ Target is to not exceed 215kL/annum, based on 5-year rolling average.

⁶ 2012-13 - Length of mains adjusted with new GIS data. Total length dropped compared to previous years due to better data.

| Financial | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 |
|--|------------|------------|------------|------------|------------|------------|
| | \$m | \$m | \$m | \$m | \$m | \$m |
| Total Tariff Revenue (includes service & usage charges & other regulated income) | 162.53 | 174.56 | 217.57 | 222.33 | 228.58 | 265.51 |
| Capital Indebtedness - external | 414.60 | 522.00 | 662.65 | 815.75 | 918.37 | 986.10 |
| Staffing | | | | | | |
| Salaried | 295 | 300 | 296 | 332 | 318 | 314 |
| Wages | 108 | 101 | 100 | 97 | 99 | 93 |
| Engineers | 50 | 54 | 67 | 52 | 65 | 70 |
| TOTAL | 453 | 455 | 463 | 481 | 482 | 477 |

6.3.11 Waste Statement

Hunter Water has undertaken three initiatives during 2012-13 to implement the State Government's Waste Reduction and Purchasing Policy. This has included waste management audits and development of new waste guidelines for operational employees. Resource recovery has been undertaken at Grahamstown Water Treatment Plant with recovered resources being reused by a licensed contractor rather than sending the material to landfill. Overall 87% of solid waste was recycled or reused.

6.3.12 Consumer Response

The number of complaints received by Hunter Water decreased by 4% compared to 2011-12. The number of complaints has fallen steadily since 2009-10. The table on page 80 provides a summary of the complaint volumes against each category.

Water Quality Contacts

Water quality contacts are complaints relating to issues with the quality of water received such as colour, taste and odour. Escalated water quality complaints are those which require further investigation to resolve the issue by Hunter Water's Customer Care and Complaints Team.

Hunter Water has a regular flushing program in place as part of routine maintenance of mains throughout Hunter Water's system to minimise dirty water complaints.

Of the total 684 contacts and escalated complaints, 68% related to dirty water, whilst 17% were taste and odour related.

Water Service Contacts

Water Service issues are complaints related to the continuity or pressure of water service to a property. Water pressure issues are recognised where a customer is receiving less than 20m pressure, or where a customer starts to receive lower pressure than normally experienced. Water continuity issues are experienced by customers when there is a failure of a water main or a water pump station (WPS).

During 2012-13 customers experienced a hot and dry period during the month of January which contributed to the increase in water pressure complaints compared to 2011-12 which was a milder summer with fewer low water pressure occurrences in the system.

Sewer Service Contacts

Overall, complaints related to sewerage service (overflow and odour complaints) have decreased in comparison to 2011-12 by 28. The volumes of complaints are 27% below the long term average which has been a favourable result over the past five years.

The main driver behind the decrease in complaints is attributed to the seasonal weather variations experienced during 2012-13.

Drainage Contacts

Hunter Water is responsible for approximately 95 kilometres of stormwater carrier system in its area of operations. Over 80% of this system is within the Newcastle Local Government Area.

The decrease in the number of complaints can be attributed to the increased scheduled maintenance program implemented in 2011-12 which repaired or removed debris from stormwater assets.

Billing Contacts

There has been a 5% increase in billing complaints per 1,000 properties recorded in 2012-13. This is above the previous four year average. The categories that saw an increase in 2012-13 were disputed consumption complaints, credit arrangements and restrictions.

Hunter Water experienced higher disputed consumption between January to June 2013 by comparison to the first half of the year. As was the case in previous years, usage increases in summer which in turn increases the bill. However, the increase experienced in 2012-13 summer was typically greater than previous years due to less rainfall and hotter conditions. This is compounded by the timing of the bill post-Christmas period when payment for gifts purchased on credit card fall due.

During 2012-13 Hunter Water has introduced a new Account Assistance policy and updated its payment assistance scheme to support household customers in hardship. There has also been an increased focus on credit management actions throughout 2012-13 which has resulted in an increase in restriction action and debt recovery/legal escalation. As a result of the increased credit activity there has been an increase in complaints in these categories.

The Operating Licence requires Hunter Water to be a member of an industry-based dispute resolution scheme. Compliance is achieved through the membership established in 2002 with the dispute resolution scheme operated by the Energy and Water Ombudsman of NSW (EWON).

The scheme provides the customer access to an external dispute resolution body, which offers an independent review of complaints. Hunter Water remains committed to the internal complaints management process and considers the services provided by EWON as part of that process. This extra service provides support to those customers who may not be satisfied with the solution offered by Hunter Water. The details reported included all finalised EWON contacts in relation to Hunter Water issues.

There has been a slight increase in complaints escalated to EWON from 2011/12. Since 2008/09 complaints escalated to EWON has increased by 34%.

This is a reflection of changing consumer behaviour experienced by other service providers whereby customers are escalating matters earlier for external dispute resolution. Hunter Water has responded by ensuring a customer focused complaint resolution process is in place, including a defined structure of roles and responsibilities within the Hunter Water Customer Care and Complaints Team, processes and procedures are in place to ensure effective communication to resolve issues to the satisfaction of all parties.

Total Number of Complaints

Table 1 - Total Number of Complaints (excluding EWON) 2008-09 to 2012-13

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Water & Sewer Complaints | 1604 | 1784 | 1690 | 1650 | 1621 |
| Per 1000 Properties | 7.3 | 8.1 | 7.4 | 7.3 | 7.0 |

Table 2 - Main Features of Complaints by Category - 2008-09 to 2012-13

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|---------------------|---------|---------|---------|---------|---------|
| Water Quality | 720 | 775 | 636 | 660 | 684 |
| Per 1000 Properties | 3.2 | 3.6 | 2.8 | 2.9 | 2.9 |
| Water Services | 49 | 63 | 60 | 39 | 54 |
| Per 1000 Properties | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 |
| Sewer Services | 485 | 459 | 483 | 481 | 344 |
| Per 1000 Properties | 2.3 | 2.2 | 2.3 | 2.2 | 1.6 |
| Drainage | 24 | 22 | 21 | 18 | 16 |
| Per 1000 Properties | 0.11 | 0.10 | 0.09 | 0.08 | 0.08 |
| Billing | 340 | 502 | 490 | 477 | 523 |
| Per 1000 Properties | 1.5 | 2.3 | 2.2 | 2.1 | 2.2 |

Table 3 - EWON Complaints - 2008-09 to 2012-13

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
|------|---------|---------|---------|---------|---------|
| EWON | 85 | 71 | 104 | 123 | 126 |

6.4 Financial

6.4.1 Information on the Statement of Financial Position of the Economic Entity

1 Receivables

Receivables are shown as a current asset on the Statement of Financial Position and total \$45.673m.

| | Jun 13 \$m | Jun 12 \$m |
|-----------------------------------|---------------|---------------|
| Tariff income – billed | 13.89 | 17.07 |
| Tariff income – unbilled | 17.23 | 16.17 |
| Sundry debtors | 8.73 | 3.09 |
| Net GST receivable from ATO | 2.57 | 2.73 |
| Community service obligations | 1.22 | 0.84 |
| Prepayments | 1.48 | 2.10 |
| Miscellaneous debtors | 0.95 | 0.46 |
| TOTAL | 46.07 | 42.46 |
| Less provision for doubtful debts | 0.40 | 0.27 |
| TOTAL | 45.67 | 42.19 |

Information regarding the major categories follows:

- A Tariff Income – unbilled – This item is an estimate of water and sewer usage charges 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 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 2013 (inclusive of accruals) and included in receivables was \$2.57 million.
- 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 Finance and Services. The Parent Entity's CSO claims for 2012-13 were for tariff rebates given to pensioners and exempt properties, for example churches. The 2012-13 claim and cash received were as follows:

| | Prior Year Outstanding \$m | Amount Claimed \$m | Cash Received \$m | Outstanding (Prepayment) \$m |
|-------------------|----------------------------------|--------------------------|-------------------------|------------------------------------|
| Pensioner rebate | 0.42 | 11.65 | 11.10 | 0.98 |
| Exempt properties | - | 1.99 | 1.74 | 0.24 |
| TOTAL | 0.42 | 13.64 | 12.84 | 1.22 |

The amount owing of \$1.22 million represents the June 2013 claims unpaid at year end of \$0.795 million and an outstanding June 2012 claim of \$0.42 million.

2 Investments

The Economic Entity's investment powers are as set out in Part 2 of the *Public Authorities (Financial Arrangements) Act 1987*.

A profile of the Portfolio is as follows:

| | Jun 13 | Jun 12 |
|--|--------------|--------------|
| | \$m | \$m |
| Cash at bank | 14.38 | 4.36 |
| Term deposits | 10.000 | - |
| T-Corp deposits | 7.26 | 6.36 |
| TOTAL | 31.64 | 10.72 |
| Interest earned | 0.37 | 0.44 |
| Average interest (on average monthly investment balance) | 3.03% | 3.98% |
| Benchmark | 3.69% | 4.90% |

All investments noted above are classified as current on the Statement of Financial Position.

The benchmark ratio is the T-Corp Hourglass Facility.

3 Fixed Assets - Property Plant & Equipment

| | Jun 13 | Jun 12 |
|------------------------------------|-----------------|-----------------|
| | \$m | \$m |
| Opening written down book value | 2,708.10 | 3,163.39 |
| Less - Depreciation charge | (39.84) | (49.08) |
| Less - Disposals | (1.49) | (6.81) |
| Add - Additions | 61.23 | 241.38 |
| Add - Externally funded assets | 21.05 | 28.62 |
| Add - Transfers between classes | 7.85 | (13.23) |
| Revaluation - Increment | 288.19 | 271.74 |
| (Impairment) / Impairment reversal | (703.88) | (927.91) |
| TOTAL | 2,341.21 | 2,708.10 |

The total assets of \$2,341 million represent a decrease of \$367 million from the June 2012 balance.

4 Intangible Assets

| | Jun 13 | Jun 12 |
|---------------------------------|--------------|-------------|
| | \$m | \$m |
| Opening written down book value | 8.20 | 7.19 |
| Less - Amortisation charge | (4.10) | (3.30) |
| Less - Disposals | (0.35) | - |
| Add - Additions | 6.45 | 4.31 |
| TOTAL | 10.20 | 8.20 |

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

5 Borrowings

The Economic Entity contracts the services of an external specialist (currently NSW TCorp) to actively manage the debt portfolio. The current management agreement with NSW TCorp commenced on 1 December 2010, prior to that date NSW TCorp held only an advisory role. During 2012-13 the current capital value of the Parent Entity's financial liability portfolio increased by \$67.7 million.

The Economic Entity's financial liability portfolio includes loans taken up at premiums and discounts. These arise because loans are issued at a premium or discount to their face value in order to reflect the current market value.

The average interest yield cost of debt held at 30 June 2013 was 4.99%. A profile of the Economic Entity's Financial Liability Portfolio is as follows:

| | Jun 13 \$m | Jun 12 \$m |
|--|---------------|---------------|
| Number of loans | 35 | 29 |
| Face value | 976.39 | 917.17 |
| Net premium / discount on loans | 9.71 | 1.20 |
| Current capital value | 986.10 | 918.37 |
| Market capital value | 1,041.73 | 1,007.59 |
| Come and Go facility | - | - |
| Interest bearing liabilities included in the Statement of Financial Position are: | | |
| Current | 1.38 | 75.07 |
| Non Current | 984.72 | 843.30 |
| TOTAL | 986.10 | 918.37 |
| Debt Maturity Profile | | |
| Come and Go Facility | - | - |
| Within 1 year | 1.38 | 75.07 |
| Between 1-5 years | 338.92 | 347.04 |
| Over 5 years | 645.80 | 496.26 |
| TOTAL | 986.10 | 918.37 |

6 Employee Provisions

At 30 June 2013 the liability for Employee Provisions totalled \$102.16 million representing a \$23.58 million decrease during the year and comprised as follows:

| | Jun 13 \$m | Jun 12 \$m |
|--|---------------|---------------|
| Long service leave | 17.29 | 16.060 |
| Defined-benefit superannuation | 78.39 | 103.33 |
| Accrued sick / annual leave/ public holidays | 6.48 | 6.36 |
| TOTAL | 102.16 | 125.75 |
| These liabilities are split on the Statement of Financial Position into: | | |
| | Jun 13 \$m | Jun 12 \$m |
| Current | 22.90 | 21.55 |
| Non current | 79.60 | 104.20 |
| TOTAL | 102.16 | 125.75 |

At 30 June 2013 the Economic Entity's superannuation portfolio was under-funded in total by \$78.39 million. At 30 June 2012 the portfolio was under-funded by \$103.33 million. The decrease in the net liability is driven by a combination of a decrease in the assessed accrued liability and an increase in the estimated reserve account balance predominantly resulting from movements in the ten year Government bond rate and share market performance

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*.

7 Breakdown of Landholdings 30 June 2013

| Code Description | Number of Properties | Value \$m |
|---|----------------------|---------------|
| 1 Land fully utilised as an integral part of the Parent Entity's system | 394 | 41.96 |
| 2 Land partly used with the unused residue required for future integral needs | 20 | 20.65 |
| 3 Land not currently used but fully required for future integral needs | 6 | 2.00 |
| 4 Land being partly used, the residue having potential for alternative use | 25 | 3.00 |
| 5 Land with significant potential for alternative use | 58 | 58.83 |
| 6 Land not currently used but potentially required for future integral needs | 5 | 0.96 |
| TOTAL | 508 | 127.40 |

As at 30 June 2013, the Parent Entity held properties to the value of \$5.52 million that were classified as "Held for Sale" and disclosed in note 11 of the financial statements.

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 as at 31 December 2012.

Land holdings in all Codes have been re-valued in accordance with Treasury Guidelines TPP 07-1 March 2012- being *Fair Value of Specialised Physical Assets*.

8 Property Disposals

There was one parcel of land disposed of during the financial year. Total proceeds of \$0.319 million were received at settlement. These 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 disposals of the land can be obtained under the *Government Information (Public Access) Act 2009*.

9 Material Capital Expenditure Contracts as at 30 June 2013 (GST- Exclusive)

(Contracted for at balance date but not provided for)

| Contract Number | Contract Description | Committed Amount \$m |
|-----------------|---|----------------------|
| CG370001 | Treatment Alliance - Upgrade of 13 wastewater treatment plants | 39.65 |
| CP306006 | Design, development and construction of high voltage upgrade projects (package 1) | 23.72 |
| CP306006 | Design, development and construction of high voltage upgrade projects (package 2 d&c) | 8.16 |
| CP312203 | Concept and detail design of the Williamstown wastewater transfer scheme | 5.31 |
| CS0044 | Rehabilitation of sewermain by lining within Hunter Water Corporation area | 1.76 |
| CP306006 | Project management services for upgrade of Hunter Water high voltage assets | 1.21 |
| CG360503 | Watermain replacements | 0.55 |
| CP320604 | Tree planting for carbon offsets | 0.43 |
| CP306455 | Design, construct and commission Nelson Bay water treatment plant switchboard | 0.21 |
| | Other commitments less than \$0.200 million | 1.83 |
| TOTAL | | 82.83 |

6.4.2 Operating Program

Economic Entity

A summary of actual and budgeted results for 2012-13 and comparisons with 2011-12 results and budget is as follows:

| | Actual 2012-13 \$m | Budget 2012-13 \$m | Actual 2011-12 \$m | Budget 2011-12 \$m |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Income | | | | |
| Net tariff income | 271.265 | 270.81 | 234.46 | 256.44 |
| Interest on investments | 0.37 | 0.45 | 0.44 | 0.50 |
| Profit/(loss) on Sale of Assets | (4.94) | (3.50) | (0.44) | - |
| External Sales | 16.56 | 15.27 | 13.24 | 13.25 |
| Contributions from capital works | 23.19 | 19.43 | 31.13 | 15.31 |
| Other (including non-regulated income) | 6.01 | 3.50 | 9.18 | 2.77 |
| TOTAL INCOME | 313.57 | 305.96 | 288.01 | 288.28 |
| Expenditure | | | | |
| Operating expenses | 134.81 | 134.63 | 121.82 | 126.07 |
| Revaluation decrement | 29.26 | - | - | - |
| Depreciation & amortisation | 43.93 | 50.39 | 52.37 | 41.36 |
| Interest payable | 55.50 | 54.51 | 50.45 | 51.26 |
| Financial charges | 18.07 | 18.06 | 15.78 | 15.71 |
| TOTAL EXPENDITURE | 281.57 | 257.59 | 240.42 | 234.39 |
| PROFIT BEFORE TAX | 32.00 | 48.37 | 47.59 | 53.89 |

Operating Program 2013-14 Economic Entity

| | Budget 2013-14 \$m |
|--|--------------------------|
| Income | |
| Net tariff income | 275.96 |
| Interest on investments | 0.20 |
| Profit/(loss) on sale of assets | - |
| External sales | 16.06 |
| Contributions from capital works | 19.01 |
| Other (including non-regulated income) | 2.91 |
| TOTAL INCOME | 314.14 |
| Expenditure | |
| Operating Expenses | 137.08 |
| Depreciation & Amortisation | 45.30 |
| Interest Payable | 55.22 |
| Financial Charges | 16.66 |
| TOTAL EXPENDITURE | 254.26 |
| PROFIT BEFORE TAX | 59.88 |

Five Year Financial Summary and Ratio Analysis

1 Statement of Financial Position (Economic Entity)

| | Actual 2012-13 \$m | Actual 2011-12 \$m | Actual 2010-11 \$m | Actual 2009-10 \$m | Actual 2008-09 \$m |
|--------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Current Assets | | | | | |
| Cash & cash equivalents | 31.64 | 10.72 | 6.82 | 9.69 | 5.19 |
| Trade and other receivables | 45.67 | 42.19 | 45.48 | 44.39 | 41.31 |
| Inventories | 2.67 | 2.50 | 2.16 | 2.25 | 2.30 |
| Assets held for sale | 5.52 | 13.36 | 0.13 | 2.87 | - |
| TOTAL CURRENT ASSETS | 85.00 | 68.77 | 54.59 | 59.20 | 48.80 |
| Non-current assets | | | | | |
| Fixed assets | 2,599.29 | 2,910.90 | 3,481.66 | 2,825.93 | 2,594.80 |
| Investments/other | - | - | - | 10.95 | 7.49 |
| TOTAL ASSETS | 2,599.29 2,684.80 | 2,910.90 2,979.67 | 3,481.66 3,536.25 | 2,836.88 2,896.08 | 2,602.29 2,651.09 |
| Current Liabilities | | | | | |
| Trade and other payables | 81.80 | 53.69 | 63.71 | 61.31 | 57.97 |
| Borrowings | 1.37 | 75.07 | 19.02 | 145.83 | 75.21 |
| Provisions | 40.79 | 43.68 | 42.47 | 63.34 | 63.51 |
| Current tax liabilities | 9.02 | 4.80 | 3.54 | 6.37 | 1.86 |
| TOTAL CURRENT LIABILITIES | 132.98 | 177.24 | 128.74 | 276.85 | 198.55 |
| Non-Current Liabilities | | | | | |
| Borrowings | 984.72 | 843.30 | 796.73 | 516.82 | 446.75 |
| Provisions/other | 252.18 | 398.20 | 559.19 | 414.38 | 386.79 |
| TOTAL CURRENT LIABILITIES | 1,236.90 | 1,241.50 | 1,355.92 | 931.20 | 833.54 |
| TOTAL LIABILITIES | 1,369.88 | 1,418.74 | 1,484.66 | 1,208.05 | 1,032.08 |
| NET ASSETS | 1,314.92 | 1,560.93 | 2,051.59 | 1,688.03 | 1,619.01 |
| Capital and Retained Earnings | | | | | |
| Issued capital | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Asset revaluation reserve | 557.71 | 827.86 | 1,279.65 | 924.55 | 865.91 |
| Accumulated funds | 657.21 | 633.07 | 671.94 | 663.48 | 653.10 |
| TOTAL EQUITY | 1,314.92 | 1,560.93 | 2,051.59 | 1,688.03 | 1,619.01 |

2 Income Statement (Economic Entity)

| | Actual 2012-13 \$m | Actual 2011-12 \$m | Actual 2010-11 \$m | Actual 2009-10 \$m | Actual 2008-09 \$m |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Trading Operations | | | | | |
| Revenue | | | | | |
| - Tariff | 271.65 | 234.46 | 227.96 | 223.16 | 183.54 |
| - Other | 23.32 | 22.42 | 17.03 | 15.23 | 22.85 |
| Operating costs | 133.77 | 119.93 | 107.07 | 100.33 | 91.39 |
| Gross margin | 161.20 | 136.95 | 137.92 | 138.06 | 115.0 |
| Other Income | | | | | |
| - Investments | 0.35 | 0.44 | 0.54 | 0.33 | 0.68 |
| Other Expenditure: | | | | | |
| - Financing charges | 73.57 | 66.23 | 57.08 | 47.41 | 32.35 |
| - Depreciation and amortisation | 43.93 | 52.37 | 35.68 | 36.46 | 34.71 |
| - Superannuation expense | 1.05 | 1.89 | 1.62 | 3.57 | 2.80 |
| - Other | 34.19 | 0.44 | 26.29 | 0.32 | 4.01 |
| Profit Before Contributions for Capital Works | 8.81 | 16.46 | 17.79 | 50.63 | 41.81 |
| Contributions for capital works | 23.19 | 31.13 | 16.17 | 15.37 | 20.16 |
| Net Profit Before Tax | 32.00 | 47.59 | 33.96 | 66.00 | 61.97 |

3 Financial Ratios

Profit included in calculating ratios is Profit before superannuation adjustments and Contributions for Capital Works.

| | 2012-13 | 2011-12 | 2010-11 | 2009-10 | 2008-09 |
|---|---------|---------|---------|---------|---------|
| A – Gross profit (%) | 54.47 | 53.26 | 56.34 | 42.07 | 55.72 |
| B – Working capital (ratio) | 0.64 | 0.39 | 0.42 | 0.21 | 0.25 |
| C – Cash ratio | 0.24 | 0.06 | 0.05 | 0.04 | 0.03 |
| D – Equity to total liabilities (ratio) | 0.96 | 1.10 | 1.38 | 1.40 | 1.57 |
| E – Interest cover (times) | 1.90 | 1.86 | 1.77 | 2.09 | 2.51 |
| F – Return on equity (%) | 1.30 | 2.50 | 2.54 | 7.14 | 6.47 |
| G – Real rate of return (%) | 3.44 | 3.12 | 2.76 | 3.67 | 2.75 |
| H – Return on total net assets (%) | 0.75 | 1.18 | 0.94 | 3.23 | 3.01 |

Comments on Financial Ratios

For ratios calculated with reference to profit, it is the profit before superannuation adjustments and capital contributions 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.

A - Gross Profit

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.

B - Working Capital

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.

C - Cash Ratio

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. The increase in the ratio reported for 2012-13 is a consequence of the increase in cash and cash equivalents at balance date (2013: \$31.6 million; 2012: \$10.7 million).

D - Equity to Total Liabilities

Equity to Total Liabilities is calculated as total equity divided by total liabilities. This ratio provides an indication of the longer term solvency of Hunter Water, in that it shows the level of financial equity in Hunter Water as represented by how many times net assets if liquidated would cover total liabilities. The ratio has decreased this year due to increased debt levels.

E - Interest Cover

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 Hunter Water is achieving profits sufficient to cover financing costs, however it has increased from last year as a result of higher funds from operations.

F - Return on Equity

Return on Equity is calculated as operating profit divided by the sum of Issued Capital and Retained Profits. Return on Equity for 2012-13 is 1.20%, which is lower than last year due to lower operating profit predominantly due to the recognition of the revaluation decrement for land.

G - Real Rate of Return

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 i.e. capital costs, recurrent costs and revenue. The rate of return Hunter Water 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 3.42%.

H - Return on Total Net Assets

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 2012-13 Return on Total Net Assets is 0.69%.

6.4.3 Pricing Structure

The NSW Independent Pricing and Regulatory Tribunal (IPART) sets the prices that Hunter Water charges for water supply, sewer services, stormwater drainage and a range of miscellaneous services. The 2012-13 prices were set by IPART in July 2009 as part of a four-year price determination applying from July 2009 to 30 June 2013.

| Water Service Charge (\$) Filtered & Unfiltered (Metered & Unmetered) Meter/ Diameter Pipe Size mm | Meter Equivalent | 2012-13 | | 2011-12 | |
|--|------------------|-------------|-------------|-------------|-------------|
| | | Main Prices | Dungog Only | Main Prices | Dungog Only |
| | | \$ | \$ | \$ | \$ |
| | | All Cycles | | All Cycles | |
| 20 | 1.00 | 18.92 | 69.55 | 18.84 | 76.87 |
| 25 | 1.56 | 29.56 | 108.67 | 29.45 | 120.11 |
| 32 | 2.56 | 48.43 | 178.05 | 48.24 | 196.80 |
| 40 | 4.00 | 75.68 | 278.20 | 75.38 | 307.49 |
| 50 | 6.25 | 118.25 | 434.70 | 117.77 | 480.44 |
| 65 | 10.56 | 199.83 | 734.64 | 199.05 | 811.96 |
| 80 | 16.00 | 302.70 | 1,112.81 | 301.51 | 1,229.94 |
| 100 | 25.00 | 472.98 | 1,738.78 | 471.12 | 1,921.78 |
| 150 | 56.25 | 1,064.20 | 3,912.25 | 1,060.00 | 4,324.01 |
| 200 | 100.00 | 1,891.89 | 6,955.10 | 1,884.46 | 7,687.13 |
| 250 | 156.25 | 2,956.09 | 10,867.37 | 2,944.46 | 12,011.15 |
| 300 | 225.00 | 4,256.77 | 15,649.01 | 4,240.03 | 17,296.06 |
| 350 | 306.25 | 5,793.93 | 21,300.03 | 5,771.15 | 23,541.87 |

| Water Usage Charge (Metered Properties Only) (\$/kL) | 2012-13 | | 2011-12 | |
|--|-------------|-------------|-------------|-------------|
| | Main Prices | Dungog Only | Main Prices | Dungog Only |
| | \$ | | \$ | |
| Tier 1 (≤ 50,000 kL) | | | | |
| Filtered water | 2.08 | 2.08 | 1.90 | 1.90 |
| Unfiltered water | 1.60 | 1.60 | 1.45 | 1.45 |
| Tier 2 - Filtered Water (> 50,000 kL) | | | | |
| Kurri Kurri | 2.06 | | 1.87 | |
| Lookout | 1.90 | | 1.73 | |
| Newcastle | 1.85 | | 1.69 | |
| Seaham - Hexham | 1.61 | | 1.49 | |
| South Wallsend | 1.94 | | 1.77 | |
| Tomago - Kooragang | 1.56 | | 1.44 | |
| Dungog - charges only for water sourced from Chichester Dam within Shire | | 1.56 | | 1.44 |
| All other locations | 2.08 | | 1.90 | |
| Gosford-Wyong Water Usage Charges (\$/kL)¹ | 1.37 | | 1.33 | |

¹ Charge for supply by Hunter Water is same as charge for supply by either Wyong or Gosford council.

Sewer

| Meter/Diameter Pipe Size mm | Meter Equivalent | 2012-13 | | 2011-12 | |
|---|------------------|-------------------|-------------------|-------------------|-------------------|
| | | Main Prices \$ | Dungog Only \$ | Main Prices \$ | Dungog Only \$ |
| Residential Properties | | | | | |
| 20 | 1.00 | 555.23 | 555.23 | 521.25 | 521.25 |
| 25 | 1.56 | 867.55 | 867.55 | 814.45 | 814.45 |
| 32 | 2.56 | 1,421.39 | 1,421.39 | 1,334.40 | 1,334.40 |
| 40 | 4.00 | 2,220.92 | 2,220.92 | 2,085.00 | 2,085.00 |
| 50 | 6.25 | 3,470.19 | 3,470.19 | 3,257.82 | 3,257.82 |
| 65 | 10.56 | 5,864.63 | 5,864.63 | 5,505.70 | 5,505.70 |
| 80 | 16.00 | 8,883.69 | 8,883.69 | 8,340.00 | 8,340.00 |
| 100 | 25.00 | 13,880.76 | 13,880.76 | 13,031.24 | 13,031.24 |
| 150 | 56.25 | 31,231.72 | 31,231.72 | 29,320.32 | 29,320.32 |
| 200 | 100.00 | 55,523.06 | 55,523.06 | 52,125.00 | 52,125.00 |
| 250 | 156.25 | 86,754.78 | 86,754.78 | 81,445.30 | 81,445.30 |
| 300 | 225.00 | 124,926.88 | 124,926.88 | 117,281.23 | 117,281.23 |
| 350 | 306.25 | 170,039.37 | 170,039.37 | 159,632.79 | 159,632.79 |
| Non-Residential Properties | | | | | |
| 20 | 1.00 | 1,110.46 | 1,110.46 | 1,042.50 | 1,042.50 |
| 25 | 1.56 | 1,735.10 | 1,735.10 | 1,628.91 | 1,628.91 |
| 32 | 2.56 | 2,842.78 | 2,842.78 | 2,668.80 | 2,668.80 |
| 40 | 4.00 | 4,441.85 | 4,441.85 | 4,170.00 | 4,170.00 |
| 50 | 6.25 | 6,940.38 | 6,940.38 | 6,515.63 | 6,515.63 |
| 65 | 10.56 | 11,729.25 | 11,729.25 | 11,011.41 | 11,011.41 |
| 80 | 16.00 | 17,767.38 | 17,767.38 | 16,680.00 | 16,680.00 |
| 100 | 25.00 | 27,761.53 | 27,761.53 | 26,062.50 | 26,062.50 |
| 150 | 56.25 | 62,463.44 | 62,463.44 | 58,640.62 | 58,640.62 |
| 200 | 100.00 | 111,046.12 | 111,046.12 | 104,249.99 | 104,249.99 |
| 250 | 156.25 | 173,509.56 | 173,509.56 | 162,890.61 | 162,890.61 |
| 300 | 225.00 | 249,853.77 | 249,853.77 | 234,562.47 | 234,562.47 |
| 350 | 306.25 | 340,078.74 | 340,078.74 | 319,265.58 | 319,265.58 |
| Multi Premises (Residential) i.e. Flats & Units | | | | | |
| Per each residential property located in a multi premises (minimum charge)* | | 363.20 | 363.20 | 340.98 | 340.98 |
| Sewer Usage Charge - Non-residential Only (\$/kL) (metered only) | | 0.67 | 0.67 | 0.65 | 0.65 |

* Note the service charge per flat/unit is determined as the higher of the calculated charge using the minimum charge above or the calculated charge using the 'Residential Properties' prices above.

Stormwater

| Stormwater Service Charge (\$) | 2012-13 | | 2011-12 | |
|--|----------|--|----------|--|
| | \$ | | \$ | |
| Residential | 86.42 | | 82.30 | |
| Non-Residential | | | | |
| Small (< 1,000m ²) or low impact | 86.42 | | 82.30 | |
| Medium (1,001 - 10,000m ²) | 156.20 | | 148.76 | |
| Large (10,001 - 45,000m ²) | 993.59 | | 946.22 | |
| Very Large (> 45,000m ²) | 3,156.84 | | 3,006.32 | |
| Recycled Water (Mandatory Schemes) | | | | |
| Gillieston Heights | | | | |
| Service charge (20mm base \$/year) | 23.07 | | 22.41 | |
| Usage charge (\$/kL) | 1.60 | | 1.43 | |
| Chisholm | | | | |
| Service charge (20mm base \$/year) | 23.07 | | 22.41 | |
| Usage charge (\$/kL) | 1.60 | | 1.43 | |

| Backlog & Other Sewerage Services | 2012-13 | | 2011-12 | |
|---|-------------|-------------|-------------|-------------|
| | Main Prices | Dungog Only | Main Prices | Dungog Only |
| | \$ | \$ | \$ | \$ |
| Environmental improvement charge (EIC) (\$) (same for Hunter Water & Dungog) | 35.89 | 35.89 | 34.86 | 34.86 |
| Clarence Town sewer charge (\$) (Dungog only) | | 116.02 | | 112.69 |

Exempt Service

| mm | Meter Equivalent | 2012-13 | | 2011-12 | |
|-------------------------------|------------------|-------------|-------------|-------------|-------------|
| | | Main Prices | Dungog Only | Main Prices | Dungog Only |
| | | \$ | \$ | \$ | \$ |
| Exempt Proportion | | 0.41 | 0.41 | 0.41 | 0.41 |
| Water Service - Exempt | | | | | |
| 20 | 1.00 | 7.74 | 28.45 | 7.71 | 31.45 |
| 25 | 1.56 | 12.09 | 44.46 | 12.05 | 49.14 |
| 32 | 2.56 | 48.43 | 178.05 | 48.24 | 196.80 |
| 40 | 4.00 | 75.68 | 278.20 | 75.38 | 307.49 |
| 50 | 6.25 | 118.25 | 434.70 | 117.77 | 480.44 |
| 65 | 10.56 | 199.83 | 734.64 | 199.05 | 811.96 |
| 80 | 16.00 | 302.70 | 1,112.81 | 301.51 | 1,229.94 |
| 100 | 25.00 | 472.98 | 1,738.78 | 471.12 | 1,921.78 |
| 150 | 56.25 | 1,064.20 | 3,912.25 | 1,060.00 | 4,324.01 |
| 200 | 100.00 | 1,891.89 | 6,955.10 | 1,884.46 | 7,687.13 |
| 250 | 156.25 | 2,956.09 | 10,867.37 | 2,944.46 | 12,011.15 |
| 300 | 225.00 | 4,256.77 | 15,649.01 | 4,240.03 | 17,296.06 |
| 350 | 306.25 | 5,793.93 | 21,300.03 | 5,771.15 | 23,541.87 |

The rebate for water service charges only applies to services of 20mm or 25mm. The standard water service charge applies to all other sizes.

Sewer Service - Exempt

| mm | Meter equivalent | 2012-13 | | 2011-12 | |
|--|------------------|-------------------|-------------------|-------------------|-------------------|
| | | Main Prices \$ | Dungog Only \$ | Main Prices \$ | Dungog Only \$ |
| 20 | 1.00 | 226.08 | 226.08 | 212.24 | 212.24 |
| 25 | 1.56 | 352.68 | 352.68 | 331.09 | 331.09 |
| 32 | 2.56 | 578.76 | 578.76 | 543.33 | 543.33 |
| 40 | 4.00 | 904.32 | 904.32 | 848.96 | 848.96 |
| 50 | 6.25 | 1,413.00 | 1,413.00 | 1,326.50 | 1,326.50 |
| 65 | 10.56 | 2,387.40 | 2,387.40 | 2,241.25 | 2,241.25 |
| 80 | 16.00 | 3,617.28 | 3,617.28 | 3,395.84 | 3,395.84 |
| 100 | 25.00 | 5,652.00 | 5,652.00 | 5,306.00 | 5,306.00 |
| 150 | 56.25 | 12,717.00 | 12,717.00 | 11,938.50 | 11,938.50 |
| 200 | 100.00 | 22,608.00 | 22,608.00 | 21,224.00 | 21,224.00 |
| 250 | 156.25 | 35,325.00 | 35,325.00 | 33,162.50 | 33,162.50 |
| 300 | 225.00 | 50,868.00 | 50,868.00 | 47,754.00 | 47,754.00 |
| 350 | 306.25 | 69,237.00 | 69,237.00 | 64,998.50 | 64,998.50 |
| Pensioner rebate (same for Hunter Water & Dungog) | | 258.00 | 258.00 | 239.00 | 239.00 |

6.4.4 Statement of Corporate Intent

The annual Statement of Corporate Intent (SCI) specifies commercial performance targets agreed by Hunter Water and its voting shareholders.

Performance against the SCI for the 2012-13 financial year is shown below:

| | 2012-13 SCI Target \$m | 2012-13 Actual \$m |
|--|------------------------------|--------------------------|
| Operating profit before income tax expense | 48.36 | 32.00 |
| Income tax expense | 14.53 | 9.43 |
| Net debt | 1,025.21 | 986.10 |

SCI performance for 2012-13 was impacted by the revaluation decrement on land and non-operational buildings of \$29.36 million. If this was excluded then Hunter Water would have been \$13.00 million ahead of target for operating profit before income tax expense.

6.4.5 Liability Management Performance

Hunter Water contracts the services of an external specialist (currently NSW T-Corp) to actively manage the Entity's debt portfolio. At 30 June 2013 key statistics on the Corporation's debt portfolio were as follows:

| | Actual 2012-13 | Target 2012-13 |
|------------------------------------|----------------|-----------------|
| Current capital value (\$) | 986,097,000 | 1,025,210,000 |
| Average cost of debt (%) | 6.87 | 7.58 |
| Duration | | |
| Pre-dec 2010 nominal debt (years) | 4.88 | Eroding to zero |
| Post-dec 2010 nominal debt (years) | 5.13 | 6.25 |
| Inflation linked debt | 9.48 | 12.8 |

6.4.6 Credit Card Certification

Usage of corporate credit cards is in accordance with Corporation policy, and with directions and or memoranda by the Treasurer of NSW and the Premier of NSW.

6.4.7 Major Acquisitions Over \$0.5 million¹

| Project | 2012-13 Expenditure \$m |
|--|-------------------------------|
| Wastewater Treatment Works Upgrade (includes treatment plants at Burwood Beach, Boulder Bay, Cessnock, Shortland & Farley) | 23.42 |
| Kooragang Recycled Water Project | 20.81 |
| Williamtown / Raymond Terrace Wastewater Transportation Scheme | 7.65 |
| Adamstown Wet Weather Pump Station | 5.26 |
| Maitland North Rothbury Water Distribution Stage 3 | 4.89 |
| Cessnock Water Distribution Upgrade | 4.84 |
| High Voltage Network Upgrade | 4.82 |
| Tomago Pre-Treatment Facility | 2.31 |
| Aberglasslyn Wastewater System Upgrade | 2.28 |
| Other Major Acquisitions (mostly made up of replacements in Hunter Water's Water and Sewer Networks) | 34.60 |
| TOTAL | 110.89 |

¹Amounts include expenditure on projects in progress at 30 June 2013.

6.4.8 Consultancies from 1 July 2012 to 30 June 2013

Consultants \$50,000 and over

| Consultant | Project | Cost \$ |
|----------------------------------|--|------------------|
| GHD Pty Ltd | Water Network Asset | 53,122 |
| Sinclair Knight Merz | Windale Wastewater Transportation System Upgrade - Stage 2 | 57,165 |
| Consulting Environmental Eng. | Burwood Beach / Boulder Bay Marine Assessment | 64,120 |
| Water Services Assoc. of Aust. | Aquamark 2012 Benchmarking | 64,850 |
| GHD Pty Ltd | Lochinvar Water Pump Station - Detail Design | 68,167 |
| Hunter Water Australia P/L | Cooranbong Wastewater Study | 69,988 |
| Entatek Pty Ltd | ERP Upgrade Project Services | 187,226 |
| Hunter Water Australia P/L | Tarro To Beresfield Trunk Watermain Replacement - Concept Design Stage 1 | 90,182 |
| Hunter Water Australia P/L | Chlorine Decay Tests -Grahamstown WTP Stage 3 Pilot Plant | 100,149 |
| Hunter Water Australia P/L | Environmental Planning Services to Lower Hunter Water Plan | 103,180 |
| University Of Technology, Sydney | Lower Hunter Water Plan - Option Investigation - Rainwater Tanks | 106,305 |
| Hunter Water Australia P/L | Lower Hunter Water Plan - Project Management | 123,276 |
| GHD Pty Ltd | Swansea Wastewater Network Stage 2 Upgrades - Concept Design Detailed Design | 164,653 |
| Hunter Water Australia P/L | Burwood Beach WWTW Stage 3 Options Development | 177,245 |
| Hunter Water Australia P/L | Carrington To Mayfield Network Upgrade | 200,525 |
| Hunter Water Australia P/L | Burwood Beach WWTW UV Disinfection Pilot Study | 526,478 |
| TOTAL CONSULTANTS | 16 | 2,156,629 |

Consultants less than \$50,000

| Category | Number | Cost \$ |
|--------------------------|-----------|------------------|
| Engineering | 51 | 661,688 |
| Environmental | 17 | 482,593 |
| Finance | 1 | 15,405 |
| TOTAL | 69 | 1,159,686 |
| TOTAL CONSULTANTS | 85 | 3,316,315 |

6.4.9 Research and Development

During 2012-13 Hunter Water undertook and collaborated on research and development on 13 projects covering water, corrosion and wastewater subjects. This research was conducted both internally and in association with other organisations such as Hunter Water Australia Pty Ltd, Monash University, University of Queensland, University of New South Wales, University of Newcastle, Australia National University, University of Technology Sydney and NSW Trade and Investment. The projects were undertaken either to address identified knowledge gaps in areas of Hunter Water's operations to meet strategic business goals or to provide information for regulatory authorities regarding the Hunter Water's operations.

| Completed Projects | \$ |
|--|---------------|
| Burwood Beach Anaerobic Digestion Trials with Eudiometer | 500 |
| Burwood Beach Anaerobic Digestion Trials | 15,129 |
| Campvale Faecal Sterol Study | 1,075 |
| TOTAL | 16,704 |

| Continuing Projects | \$ |
|---|----------------|
| Corrosion and Septicity ARC Project | 40,144 |
| Minimising Emissions from Wastewater Biosolids for Beneficial Reuse | 30,000 |
| Grahamstown Adaptive Management Strategy – Sediment Nutrient Sources Investigation | 27,785 |
| Optimal management of critical water and wastewater pressurised mains | 20,000 |
| Monitoring Organic Matter in Drinking Water Systems | 14,130 |
| University of Newcastle study on Actinomycetes | 13,837 |
| Assessing the extent to which E. coli is a reliable faecal indicator | 10,310 |
| Eastern King Prawn Habitat Study | 10,000 |
| Robust optimization of urban drought security in the face of uncertain climate - NCCARF | 4,444 |
| Fluro Whitening Compounds | 342 |
| TOTAL | 170,992 |

6.4.11 Donations and Sponsorship

To Non-Government Community Organisation

| Organisation | Program | Summary of Project | Target Clients | Type | Amount \$ |
|---|------------------------------------|---|----------------------------------|------------------|-----------|
| Adventure Racing Teams | Employee participation | Outdoor challenge promoting a one team approach | Hunter Water employees | Employee funding | 1,231 |
| Australian Water Association SWWS | National conference | Support of industry knowledge sharing | Water Industry professionals | Donation | 2,000 |
| Bikefest | Bikefest Newcastle | Support for community event that promotes a healthy lifestyle and environment | Lower Hunter community | Grant | 8,000 |
| Booragual, Woodrising, Marmong Point Neighbourhood Group | Water tank | Sustainable water practice for neighbourhood garden | Neighbourhood Group | Grant | 3,000 |
| Compass Housing Services | Complex garden | Water solution for garden in low socio economic housing complex | Low socio economic housing group | Grant | 2,000 |
| Camp Quality | Giggle Ball | Support for local ball to raise money for children with cancer | Lower Hunter community | Charity | 5,000 |
| Dungog Pedalfest | Pedalfest | Community bike festival that promotes healthy and sustainable lifestyles | Lower Hunter community | Grant | 5,740 |
| Engineers Australia | Corporate sponsorship | Recognises skills and talented engineers to work in local area | Engineers in the Lower Hunter | Sponsorship | 4,000 |
| Hunter Surf Life Saving | Corporate sponsorship | Helps reduce number of lives lost in the surf with the support of the operations unit | Lower Hunter community | Sponsorship | 40,000 |
| Hunter Water Corporation v Hunter Water Australia cricket | Employee participation | Builds relationship and team spirit with HWC and HWA | Hunter Water employees | Employee funding | 120 |
| Hunter Valley Research Foundation | Corporate sponsorship | Support of research to be carried out to aid local businesses and organisations in the region | Lower Hunter business community | Sponsorship | 10,000 |
| Hunter Water Twilight Nine Golf Club | Employee participation | Golf social club across all working groups | Hunter Water employees | Employee funding | 1,500 |
| Hunter Wetlands Centre | Envirothon Challenge | School program that educates about sustainable environments | School Children | Grant | 3,000 |
| Hunter Wetlands Centre | Corporate sponsorship | Support for conservation and the management of the wetlands environment in local area | Lower Hunter community | Sponsorship | 15,000 |
| Newcastle National Park Croquet Club | Maximising natural water resources | Installation of a rainwater tank to reduce using drinking water for use on greens | Croquet members | Grant | 3,000 |
| Ocean Swims | Employee participation | Embraces team culture for swimmers in area of operations | Hunter Water employees | Employee funding | 1,049 |

| Organisation | Program | Summary of Project | Target Clients | Type | Amount \$ |
|---|---|--|--|------------------|----------------|
| Paraplegic & Quadriplegic Association of NSW | Wheels for a Day | Support for awareness of the difficulties people face living in the community with a disability | People in the community living with a disability | Charity | 500 |
| Redhead Public School P & C's Learnscapes Committee | Redhead Community Gardens | New community garden that teaches sustainability skills | Redhead residents | Grant | 5,000 |
| Solar Sailor | Solar Sailor Christmas event | Support family Christmas Eve Santa cruise who visits children on the shores of Lake Macquarie | Lake Macquarie community | Donation | 2,000 |
| Southlake Community Gardens | Yunung Community Garden Drainage and Wetland plan | Improve stormwater and ground water drainage throughout garden | Lake Macquarie community | Grant | 2,500 |
| St Albans Anglican Church | Community Garden Rain Watering Initiative | Materials to harvest rainwater from church roof to tank for use on garden | Church community | Grant | 3,000 |
| Surfest | Corporate sponsorship | Community event that focus on supporting local young talent with a career in surfing | Lower Hunter community | Sponsorship | 15,000 |
| Surfers for Autism | Surfing for Autism 2013 | Community event for children with Autism | Lower Hunter community | Donation | 500 |
| Sparke Helmore Triathlon | Employee participation | Team event that encourages fitness and generates a healthy lifestyle | Hunter Water employees | Employee funding | 900 |
| Thornton Child Care and Preschool Centre | Water Sustainability in Children's Services | Funding for the installation of a water tank for the children's garden | Thornton Child Care and Preschool children | Grant | 4,400 |
| Total Agricultural College | Scholarship | Three scholarship's for students suffering hardship | Agriculture students | Scholarship | 5,000 |
| Total Field Days | Total Field Days Education Program | Community day to teach residents how to protect the quality of the Lower Hunter's drinking water | Lower Hunter residents | Grant | 5,000 |
| Water Aid Australia | Donation | Membership to help provide water in disadvantaged countries | International | Charity | 6,200 |
| TOTAL | | | | | 154,640 |

6.4.11 Payment Performance

Invoices Paid on Time Within Each Quarter

| Quarter | Total Invoices Paid on Time | | Paid on time | | Total Invoices Paid Within Quarter | |
|-----------|-----------------------------|-----------------|--------------|--|------------------------------------|--|
| | Target No. % | Actual No. % | \$ | | \$ | |
| September | 95 | 90 | 57,634,555 | | 63,472,355 | |
| December | 95 | 93 | 51,303,155 | | 54,853,942 | |
| March | 95 | 88 | 41,134,795 | | 44,180,260 | |
| June | 95 | 92 | 47,617,817 | | 49,943,867 | |

The invoice payment report is based on quantity of invoices paid on time as a percentage and not based on a dollar amount.

Analysis of Total Invoices Paid Within Each Quarter

| Quarter | Paid on Time | Less than 30 Days Overdue | Between 30 and 60 Days Overdue | Between 60 and 90 Days Overdue | More than 90 Days Overdue | Total Invoices Paid Within Quarter |
|-----------|--------------|---------------------------|--------------------------------|--------------------------------|---------------------------|------------------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| September | 57,634,555 | 4,582,817 | 499,880 | 242,450 | 512,654 | 63,472,355 |
| December | 51,303,155 | 2,271,978 | 776,262 | 128,091 | 374,456 | 54,853,942 |
| March | 41,134,795 | 2,063,604 | 496,516 | 326,073 | 159,272 | 44,180,260 |
| June | 47,617,817 | 1,514,839 | 346,485 | 167,786 | 296,940 | 49,943,867 |

The majority of invoices which were not paid promptly were those which were under dispute or waiting until full finalisation or satisfaction of the related work.

No interest was paid due to late payments.

6.4.12 Production Costs of the Annual Report

Hunter Water advises that there were no external production incurred costs in the production of this Annual Report.

6.4.13 Significant Audit Matters

Hunter Water is required to disclose in the Annual Report under section 7 *Annual Reports (Statutory Bodies) Act 1984* No 87 a response to any significant matters raised by the external auditors, The Audit Office of New South Wales. The following significant matters were raised by the Audit Office in their Client Service Report for the year ended 30 June 2013.

Tillegra Land Use Strategy

The Corporation continues to work on its Tillegra Land Use Strategy. It expects to conclude on this strategy in early 2014 and start an appropriate Land Sales Program.

External valuers revalued the Tillegra land assets to \$59.3 million at 30 June 2013 (30 June 2012 - \$87.7 million) and the Corporation recognised the \$28.4m decrease in market value in the profit or loss. The Corporation started a disposal program for Tillegra land assets in 2012 under the right of refusal available to former landowners. There were no sales to former land owners to 30 June 2012. As a result land assets previously held for sale have been reversed. The Corporation has three properties in assets held for sale at 30 June 2013 at a total value of \$3.6 million.

Corporation's Response

An external agent has been engaged to develop a Land Management Strategy for Tillegra land assets. The first draft of which was made available for public comment from 25 September to 22 October 2013.

Land and buildings were revalued in the 2012-13 financial year with a revaluation decrement arising against a number of assets mostly related to Tillegra properties. The decrease in asset values was a consequence of original capitalised costs being at market valuation at the time of acquisition, the inclusion of costs associated with acquiring the assets and a subsequent decrease in general market values. The write-down of Tillegra assets recognised in the Statement of Financial Performance at 2012-13 was \$28.4million.

6.5 Legislation

6.5.1 Right to Information

During 2012-13, Hunter Water received 5 formal *Government Information (Public Access) Act 2009* (GIPA) applications, all of which were determined within the statutory timeframe.

In order to promote 'openness of government' the majority of information requests are handled informally. A formal application is not required if the volume of and ease of access to the information required to satisfy the request is not labour intensive.

Hunter Water conducts community surveys every year on how Hunter Water can better engage with the public.

Information regarding these activities is regularly updated on the Hunter Water website and communicated via these other methods, including:

- Events and open days
- Publications and promotional material
- Advertising
- Newsletters and direct mail
- Media campaigns
- Partnerships and alliances
- Sponsorship and community funding
- Stakeholder briefings
- Media and government relations
- Water efficiency education program

Hunter Water proactively releases information on its pollution monitoring program for the Environment Protection Authority. Information is also made publicly available concerning water storage levels, major infrastructure projects, and Independent Pricing and Regulatory Tribunal pricing submissions.

Hunter Water has also established an 'Incident Response' area on its website to provide up-to-date information to customers during incidents involving our assets, the environment, customers or staff.

Number of Applications by Type of Applicant and Outcome¹

| | Access Granted in Full | Access Granted in Part | Access Refused in Full | Information Not Held | Information Already Available | Refuse to Deal with Application | Refuse to Confirm/ Deny Whether Information is held | Application Withdrawn |
|---|------------------------|------------------------|------------------------|----------------------|-------------------------------|---------------------------------|---|-----------------------|
| Media | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of Parliament | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Private sector business | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Not for profit organisations or community groups | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (application by legal representative) | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Members of the public (other) | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |

¹More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to the table which follows.

Number of Applications by Type of Application and Outcome¹

| | Access Granted in Full | Access Granted in Part | Access Refused in Full | Information Not Held | Information Already Available | Refuse to Deal with Application | Refuse to Confirm/Deny Whether Information is held | Application Withdrawn |
|--|------------------------|------------------------|------------------------|----------------------|-------------------------------|---------------------------------|--|-----------------------|
| Personal information applications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Access applications (other than personal information applications) | 4 | 4 | 0 | 1 | 0 | 0 | 0 | 0 |
| Access applications that are partly personal information applications and partly other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

¹ A personal information application is an access application for personal information (as defined in clause 4 of Schedule 4 of the Act) about the applicant (the applicant being an individual).

Invalid Applications

| Reason for Invalidity | Number of Applications |
|---|------------------------|
| Application does not comply with formal requirements (section 41 of the Act) | 1 |
| Application is for excluded information of the agency (section 43 of the Act) | 0 |
| Application contravenes restraint order (section 110 of the Act) | 0 |
| Total number of invalid applications received | 1 |
| Invalid applications that subsequently became valid applications | 1 |

Conclusive Presumption of Overriding Public Interest Against Disclosure: Matters Listed in Schedule 1 of the Act

| | Number of Times Consideration Used ¹ |
|---|---|
| Overriding secrecy laws | 0 |
| Cabinet information | 0 |
| Executive council information | 0 |
| Contempt | 0 |
| Legal Professional Privilege | 0 |
| Excluded information | 0 |
| Documents affecting law enforcement and public safety | 0 |
| Transport safety | 0 |
| Adoption | 0 |
| Care and protection of children | 0 |
| Ministerial code of conduct | 0 |
| Aboriginal and environmental heritage | 0 |

¹ More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once for each application). This also applies in relation to the table that follows.

Other Public Interest Considerations Against Disclosure: Matters Listed in Table to Section 14 of Act

| | Number of Occasions when Application Not Successful |
|--|---|
| Responsible and effective government | 1 |
| Law enforcement and security | 0 |
| Individual rights, judicial processes and natural justice | 4 |
| Business interests of agencies and other persons | 0 |
| Environment, culture, economy and general matters | 0 |
| Secrecy provisions | 0 |
| Exempt documents under interstate Freedom of Information legislation | 0 |

Timeliness

| | Number of Applications |
|--|------------------------|
| Decided within the statutory timeframe (20 days plus any extensions) | 5 |
| Decided after 35 days (by agreement with applicant) | 0 |
| Not decided within time (deemed refusal) | 0 |
| TOTAL | 5 |

Number of Applications Reviewed Under Part 5 of the Act (by Type of Review and Outcome)

| | Decision Varied | Decision Upheld | Total |
|--|-----------------|-----------------|----------|
| Internal review | 0 | 0 | 0 |
| Review by Information Commissioner* | 0 | 0 | 0 |
| Internal review following recommendation under section 93 of Act | 0 | 0 | 0 |
| Review by ADT | 0 | 0 | 0 |
| TOTAL | 0 | 0 | 0 |

* Note the Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made.

Applications for review under part 5 of the Act (by type of applicant)

| Reason for Invalidity | Number of Applications for Review |
|---|-----------------------------------|
| Applications by access applicants | 0 |
| Applications by persons to whom information the subject of access application relates (see section 54 of the Act) | 0 |

6.5.2 Legislative Change

There was no material legislative changes during 2012-13.

6.6 Public Interest Disclosures

Reporting Period July 2013 - June 2013

| | |
|---|-----|
| Number of public interest disclosure received by Hunter Water | 0 |
| Number of public officials who made public interest disclosures to Hunter Water | 0 |
| Information on public interest disclosures received: | |
| - Corrupt conduct | 0 |
| - Maladministration | 0 |
| - Serious and substantial waste of public money | 0 |
| - Government information contravention | 0 |
| - Local government pecuniary interest contravention | 0 |
| Number of public interest disclosures (received since 1 Jan 2012) that have been finalised in this reporting period | 0 |
| Has Hunter Water established an internal reporting policy? | Yes |
| Has Hunter Water taken action to meet their staff awareness obligations? | Yes |
| Actions taken to increase awareness include: | |
| - Introduction of an e-learning module for all staff | |
| - Inductions for new employees | |
| - Provision of intranet resources | |

6.7 Risk management and Insurance Arrangements

Hunter Water has implemented an Enterprise Risk Management Framework across the business. This framework is consistent with ISO 31000 and provides a transparent and consistent approach to risk management, as well as standardised documentation and terminology.

As part of its ongoing risk identification, assessment and management activities, Hunter Water continues to establish and refine controls which reduce the impact and likelihood of adverse events. There are some key risks and various controls and management strategies that have been established to mitigate those risks. Details of residual risks assessed as high are outlined in the following table.

Hunter Water has a comprehensive insurance program with the NSW Treasury Managed Fund. The central types of cover held include public liability, motor vehicles, workers compensation and property.

| Key risks (as Reported in the SCI) | Description | Potential Impact on SCI Targets | Treatment Actions |
|---|---|--|--|
| 1. Major asset failure | Operational asset failure with resultant inability to deliver core services | The financial impact of this risk eventuating has been subjective assessed as potentially over \$25 million | Review asset risk profiles and maintain asset management strategies Maintain detailed dam asset management plan |
| 2. Safety in the workplace | Unsafe work environment or practices result in escalated levels of injury | The financial impact of this risk eventuating in terms of fines or penalties has been subjectively assessed as \$1-3 Million | Maintain comprehensive workplace health and safety management systems Upgrade the Contractor Safety Management System Achieve accreditation for workplace health and safety to AS 4801 |
| 3. Inadequate water/ wastewater capacity | Imbalance in water supply/ demand or wastewater service/demand | The financial impact of this risk eventuating has been subjectively assessed as potentially over \$25 million | Provide support to the NSW Office of Water in the development of a Lower Hunter Water Plan Review annual planning and risk review process for networks and treatment plants |
| 4. Adequacy of business systems | Business systems unable to support efficient delivery of core services | The financial impact on this risk eventuating has been subjectively assessed as potentially \$10-25 million. | Undertake the ICT disaster recovery project Undertake the ICT infrastructure review and replacement program Upgrade the network and telecommunication review program |

6.8 Major Capital Works in Progress

| Project | Cost \$ | Commenced | Status |
|---|------------|-----------|--------------------|
| Aberglasslyn Wastewater Transport Upgrade - Stage 2 | 6,402,000 | Dec-08 | Nearing Completion |
| Adamstown Wet Weather Pump System Upgrade | 14,900,000 | Jun-11 | Nearing Completion |
| Boulder Bay Wastewater Treatment Works Upgrade - Stage 2 | 25,585,000 | May-10 | Complete |
| Burwood Beach Wastewater Treatment Works Upgrade - Stage 2 | 50,310,000 | Dec-08 | Complete |
| Cessnock Water Distribution Works - Stage 1 | 20,247,439 | Nov-08 | Nearing Completion |
| Farley Wastewater Treatment Works Upgrade - Stage 3 | 29,424,544 | Sep-08 | Complete |
| High Voltage Major Upgrade | 50,500,000 | Sep-09 | Underway |
| Kooragang Island Recycled Water Works - Stage 1 | 69,800,000 | Feb-07 | Underway |
| Maitland-North Rothbury Water Distribution Upgrades - Stage 3 | 14,097,000 | Jun-11 | Underway |
| Millfield & Ellalong Priority Sewerage Program | 17,232,351 | Nov-07 | Complete |
| Shortland Wastewater Treatment Works Augmentation - Stage 3 | 11,350,000 | Jun-11 | Complete |
| Toronto Wastewater Treatment Inlet Works | 11,364,000 | Mar-11 | Complete |
| Wastewater Transfer System Upgrades - Williamstown/Tomago | 17,200,000 | Jul-10 | Underway |

Note the status is at 30 June 2013.

Definitions

Underway - Design commenced

Nearing completion - Due for completion by 30 Dec 2013

Complete - Practical completion achieved, in operation

Hunter Water Australia

About Us

Hunter Water Australia Pty Limited (Hunter Water Australia) is a fully-owned subsidiary of Hunter Water Corporation that operates as an independent commercial enterprise. Hunter Water Australia operates throughout Australia and internationally, providing a range of specialist technical, management and operational services to water agencies, councils, and industry.

During the 2012-13 financial year, Mr Terry Lawler, Chairman of Hunter Water Corporation, chaired Hunter Water Australia's Board. Other directors are Mr Jeff Eather (Director for Hunter Water), and Mr Kim Wood (Managing Director, Hunter Water).

As of 27 June 2013 Mr Terry Lawler stepped down from the position of Chairman. Mr Jeff Eather was appointed as the new chairman.

Mr Jim Keary is the General Manager of Hunter Water Australia, and Ms Andrea Swan is the Company Secretary.

What We Do

The company specialises in:

- Operation of water and wastewater treatment works
- Providing operations support services and systems
- Water and wastewater planning and investigations
- Process, mechanical, electrical, and structural design of water and wastewater treatment works and other infrastructure
- Laboratory testing of water and wastewater
- Community education and environmental assessment
- Telemetry and automation
- Surveying and electronic mapping
- Materials and corrosion engineering
- Dam monitoring and assessment
- Asset management
- Pricing and capital planning studies
- Project delivery management
- Irrigation engineering

Company Performance

The net profit after tax for the year ending 30 June 2013 amounted to \$3,662,538.

This was a good financial result in a tough consulting market. All key objectives were met except for safety, where there was one lost time injury in contrast to our annual target of zero. Considerable effort continues to be put into safety improvements, especially at the treatment plants. Certification of the safety and environmental management system was obtained in 2012-13.

Our Work

Hunter Water Australia's services fall in three main areas; Operations and partnering, consultancy and laboratory services. Each of these areas performed well in the 2012-13 financial year. The consultancy area was below budget but was still profitable in a tough market.

Operations and Partnering

Hunter Water Australia is a market leader in water and wastewater process design and operational management support. Hunter Water Australia has numerous partnering and twinning arrangements with councils and water agencies. An experienced team handles infrastructure management and operations for 25 water and wastewater treatment plants in the Hunter region, and is integral to supporting the operation of other treatment plants throughout Australia. Hunter Water Australia works closely with clients to help solve specific problems, optimise processes, train operators and improve capabilities.

During 2012-13, Hunter Water Australia expanded to service more operations support and partnering agreements. Work has included capital works planning and procurements, plant optimisation, asset management, plant audits, operator training, development of operational systems and preparing detail designs for new infrastructure.

Hunter Water Australia continues to focus on working closely with regional Australian communities to assist them in dealing with the challenges they face.

Consultancy

Hunter Water Australia's broad operations background is backed by a network of specialist consultants to ensure it continues to provide the best solutions for its clients. Over the past financial year, Hunter Water Australia specialists were involved in a range of projects throughout Australia.

Examples of Hunter Water Australia's most significant projects for 2013 include:

The detailed design of recycled water treatment plants at Hawks Nest and Tuncurry for Mid Coast Water. This project won the 2013 Recovering, Recycling and Reusing category at the annual Institute of Public Works Engineers Australia, NSW Division, Excellence Awards. Hunter Water Australia's achievement was completing the detailed design in collaboration with Mid Coast Water within 18 weeks to meet the timing deadline for funding from the Australian Government's Water for the Future grant.

Another significant project was the complete design, fabrication, delivery, construction and commissioning of two water treatment plants for the Federal Government at Shoalwater Bay in Queensland. This project was completed in under 18 weeks, which is an outstanding achievement.

Laboratories

Hunter Water Laboratories are based at Warabrook in Newcastle. It is one of the best high-quality environmental testing facilities in Australia tailored to efficiently meet the strict testing requirements of large urban water supply and wastewater systems. It also caters for the strict testing regulations of the mining industry. The laboratories carry out water, wastewater, biosolids and environmental water quality monitoring as well as cryptosporidium/giardia and legionella testing. Expertise in sampling, chemical, organics and microbiological analysis of waters is the core business of the Laboratories, which also operates a material testing facility. Analysis techniques and equipment used in this laboratory are to the high standard of APHA (American Public Health Association) Standard Methods and Australian Standards. The laboratory is NATA accredited to conduct over 90 chemical and microbiological testing regimes and also carries AS/NZS ISO9001:2008 *Registration covering Chemical, Microbiological, Sampling and Administration*.

Hunter Water Australia and the Pacific

The Hunter Water Group started a twinning arrangement with Water PNG in 2011 that is funded by the Asian Development Bank. One of the 16 towns and cities where Water PNG operates water supply and sewerage systems is the city of Lae in northern PNG. This was adopted as the case study site for the twinning projects. The achievements under the twinning so far include increasing the collection of revenue, reducing losses from the water supply system, implementing better monitoring of water quality and improving the operation of the water system. Water PNG staff have also benefited from operations and maintenance training carried out in the Hunter region. The twinning activities have not only been useful for Water PNG and their staff but provided specialists from Hunter Water with an opportunity to use their skills and experience in a neighbouring country with many different challenges. Due to the initial success, the Asian Development Bank extended this twinning to Mt Hagen, Madang and Wewak. The twinning activities were completed in early 2013.

Hunter Water Australia Financial Statements

Company Particulars

Directors

Mr TH Lawler (Chairman to 27 June 2013. Resigned 25 July 2013)

Mr K Wood (Resigned 25 July 2013)

Mr J Eather (Chairman from 27 June 2013)

Mr P Dalglish (Appointed 25 July 2013)

Company Secretary

Ms A Swan

Registered Office

The registered office and principal place of business of the company is –

19 Spit Island Close, Steel River,

Mayfield West, NSW 2304

Hunter Water Australia Pty Limited is a company limited by shares, incorporated and domiciled in Australia.

ABN – 19 080 869 905

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 2013.

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 TH Lawler (Chairman to 27 June 2013. Resigned 25 July 2013)

Mr K Wood (Resigned 25 July 2013)

Mr RA Chappel (Resigned 22 January 2013)

Mr J Eather (Chairman from 27 June 2013)

Mr P Dalglish (Appointed 25 July 2013)

Information on Directors

T LAWLER - BCom, FCA, FAICD, FAIM

Mr Lawler was appointed as Chairman of Hunter Water Corporation in January 2012 and was also Chairman of Hunter Water Australia Pty Limited (Hunter Water Corporation's Controlled Entity) until 25 July 2013. Mr Lawler is Chairman of Lawler Chartered Accountants and Lawler Partners Pty Limited, a national award winning accounting and business advisory firm. He is also Chair of Life Without Barriers Limited.

Mr Lawler is a Director of Ampcontrol Pty Ltd, Powerdown Australia Pty Ltd, Peoplefusion Pty Ltd and is an advisory board member of Urban Purveyor Group Pty Limited. He has previously been the Chairman of National Rail Corporation Limited, Newcastle Knights Ltd and a Director of Newcastle Port Corporation.

K WOOD - BEng, DipEng, MBA, FIEAust, CPEng, FAIM

Mr Wood was appointed as Managing Director of Hunter Water Corporation in November 2011 and was also a Director of Hunter Water Australia Pty Limited until 25 July 2013. He was previously the CEO of Queensland's Allconnex Water, which he helped establish in 2010. He has extensive utility experience as a CEO, having led a number of electricity and water utilities throughout Australia.

Mr Wood was the inaugural CEO of City West Water and then went on to head the Victorian electricity transmission business, GPU PowerNet. His other CEO roles have included Northern Territory Power and Water Corporation, and Queensland power generator Stanwell Corporation. His experience includes past private sector leadership roles in the telecommunications industry, firstly as Managing Director of GEC Plessey Telecommunications and later with publicly listed company, DataFast.

Mr Wood has also had extensive experience as a company director, including several industry association directorships. He has prior senior management experience with the Australian operations of both Hewlett Packard and Bell South. He commenced his working career as an engineer with Victoria's State Electricity Commission.

JR EATHER - BCom (Newcastle), CPA, FCIM, MAICD

Mr Eather was appointed as a Director on 1 January 2008 and is also a Director of Hunter Water Australia Pty Limited. 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 currently a Director of The Heal for Life Foundation, a healing centre for survivors of child abuse and a Director of the Newcastle Permanent Building Society. Mr Eather has previously been Chairman of The University of Newcastle Foundation.

P DALGLISH - BSc, P.DMktgMgmt

Mr Dalglish was appointed as a Director on 2 July 2013 and a Director of Hunter Water Australia Pty Limited on 25 July 2013. Mr Dalglish is a water industry specialist with over 35 years' experience in all facets of the industry including management of large-scale wastewater treatment operations and infrastructure projects, corporate planning and system performance review.

Mr Dalglish is currently a Director of Chester Consulting Pty Ltd and has held senior management positions with Sydney Water Corporation and URS Australia Pty Ltd where he has worked on strategic projects across Australia and in New Zealand, The Philippines, Iraq and Vietnam.

Meetings of Directors

Board Meetings

| | Number of meetings attended | Number of meetings held during the time the Director held office |
|--------------------------------------|-----------------------------|--|
| T Lawler (Resigned 25 July 2013) | 9 | 11 |
| K Wood (Resigned 25 July 2013) | 11 | 11 |
| R Chappel (Resigned 22 January 2013) | 4 | 5 |
| J Eather | 11 | 11 |

Principal Activities

The principal activities of the Company in 2012-13 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 2013, was \$3,662,538 compared with a net profit after tax of \$5,559,207 for the previous year.

The entity comprises six Business Units whose performance is independently monitored. The Business Units are made up of Treatment Operations, Process Engineering, Planning, Design & Project Management, Electrical and Laboratories. All businesses achieved a profit result for the year.

Dividends Paid

During the year, a dividend was paid to the Shareholder of \$3,892,910 for the year ended 30 June 2012 that was declared at 27 July 2012. A special dividend was also paid to the Shareholder of \$3,000,000 that was declared at 27 July 2012.

A dividend of \$2,563,777 has been declared for the year ended 30 June 2013. This will be paid to the Shareholder on 1 August 2013.

Subsequent Events

No other 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 2013.

True and Fair View

The financial statements and notes give a true and fair view of the financial position as at 30 June 2013 and the performance for the financial year ended 30 June 2013.

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 as required under Section 307C of the *Corporations Act 2001* is set out on page 111.

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:



Mr. J. Eather
Chairman



Mr. P. Dalglish
Director

Dated: 29 August 2013 Newcastle

Auditor's Independence Declaration



To the Directors
Hunter Water Australia Pty Limited

22 August 2013

Auditor's Independence Declaration

As auditor for the audit of the financial statements of Hunter Water Australia Pty Limited for the year ended 30 June 2013, I declare, 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
- any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a large, sweeping flourish at the end.

James Sugumar
Director, Financial Audit Services

22 August 2013
SYDNEY

Independent Auditor's Report



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 statements of Hunter Water Australia Pty Limited (the Company), which comprise the statement of financial position as at 30 June 2013, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Opinion

In my opinion the financial statements:

- are in accordance with the *Corporations Act 2001*, including:
 - giving a true and fair view of the Company's financial position as at 30 June 2013 and its performance for the year ended on that date
 - complying with Australian Accounting Standards and the Corporations Regulations 2001
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010.

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

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards, the PF&A Act and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view 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 control. 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 statements.

I believe 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
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information that may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards, the *Corporations Act 2001* and relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- 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 roles 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 the Company on 22 August 2013, would be in the same terms if provided to the directors as at the time of this auditor's report.



James Sugumar
Director, Financial Audit Services

2 September 2013
SYDNEY

Income Statement for the Year Ended 30 June 2013

Start of Audited Financial Statements

| | Notes | 2013 \$ | 2012 \$ |
|--|-------|-------------------|-------------------|
| Income | | | |
| Services | 2 | 37,837,895 | 37,519,360 |
| Other income | 2 | 675,670 | 778,416 |
| TOTAL INCOME | | 38,513,565 | 38,297,776 |
| Expenses | 3 | (33,277,463) | (30,353,061) |
| PROFIT BEFORE INCOME TAX | | 5,236,102 | 7,944,715 |
| Income tax expense | 4 | (1,573,564) | (2,385,508) |
| PROFIT FOR THE YEAR | | 3,662,538 | 5,559,207 |
| Attributable to: | | | |
| Owners of Hunter Water Australia Pty Limited | | 3,662,538 | 5,559,207 |
| | | 3,662,538 | 5,559,207 |

The Income Statement should be read in conjunction with the accompanying notes on pages 118 to 141.

Statement of Comprehensive Income for the Year Ended 30 June 2013

| | Notes | 2013 \$ | 2012 \$ |
|---|-------|------------------|--------------------|
| Profit for the year | | 3,662,538 | 5,559,207 |
| Other comprehensive income | | | |
| Superannuation actuarial gains/ (losses) | 19 | 2,663,434 | (6,345,667) |
| Income tax on superannuation actuarial gains/ (losses) | 12 | (799,030) | 1,903,700 |
| Other comprehensive income for the year net of tax | | 1,864,404 | (4,441,967) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 5,526,942 | 1,117,240 |

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 118 to 141.

Statement of Financial Position as at 30 June 2013

| | Notes | 2013 \$ | 2012 \$ |
|--------------------------------------|-------|-------------------|-------------------|
| Current assets | | | |
| Cash & cash equivalents | 6 | 2,601,720 | 7,346,559 |
| Investments | 7 | 7,634,338 | - |
| Trade and other receivables | 8 | 7,253,228 | 8,433,494 |
| Current tax assets (liabilities) | 9 | 38,783 | (765,514) |
| TOTAL CURRENT ASSETS | | 17,528,069 | 15,014,539 |
| Non-current assets | | | |
| Plant & equipment | 10 | 3,516,990 | 4,007,401 |
| Intangible assets | 11 | 260,293 | 313,192 |
| Investments | 7 | - | 5,000,000 |
| Deferred tax assets | 12 | 2,902,332 | 3,684,710 |
| TOTAL NON-CURRENT ASSETS | | 6,679,615 | 13,005,303 |
| TOTAL ASSETS | | 24,207,684 | 28,019,842 |
| Current liabilities | | | |
| Trade and other payables | 13 | 2,386,717 | 2,481,743 |
| Provisions | 14 | 6,466,701 | 3,414,713 |
| TOTAL CURRENT LIABILITIES | | 8,853,418 | 5,896,456 |
| Non-current liabilities | | | |
| Provisions | 14 | 659,062 | 402,316 |
| Underfunded Defined Benefit Super | 15 | 7,035,963 | 10,132,085 |
| TOTAL NON-CURRENT LIABILITIES | | 7,695,025 | 10,534,401 |
| TOTAL LIABILITIES | | 16,548,443 | 16,430,857 |
| Net assets | | 7,659,241 | 11,588,985 |
| Equity | | | |
| Contributed equity | 16 | 900,010 | 900,010 |
| Retained earnings | | 6,759,231 | 10,688,975 |
| TOTAL EQUITY | | 7,659,241 | 11,588,985 |

The Statement of Financial Position should be read in conjunction with the accompanying notes on pages 118 to 141.

Statement of Changes in Equity for the Year Ended 30 June 2013

| | Notes | Retained Profits \$ | Contributed Equity \$ | Total \$ |
|--|-------|--------------------------------|----------------------------------|---------------------|
| Balance at 1 July 2012 | | 10,688,976 | 900,010 | 11,588,986 |
| Profit for the year | | 3,662,538 | - | 3,662,538 |
| Other comprehensive income: | | | | |
| Superannuation actuarial gains/ (losses) | | 2,663,434 | - | 2,663,434 |
| Income tax on superannuation actuarial gains/ (losses) | | (799,030) | - | (799,030) |
| Total Other Comprehensive Income | | 1,864,404 | - | 1,864,404 |
| Total Comprehensive Income for the year | | 5,526,942 | - | 5,526,942 |
| Transactions with owners in their capacity as owners | 5 | (9,456,687) | - | (9,456,687) |
| Balance at 30 June 2013 | | 6,759,231 | 900,010 | 7,659,241 |
| | | Retained Profits \$ | Contributed Equity \$ | Total \$ |
| Balance at 1 July 2011 | | 9,571,736 | 900,010 | 10,471,746 |
| Profit for the year | | 5,559,207 | - | 5,559,207 |
| Other comprehensive income: | | | | |
| Superannuation actuarial gains/ (losses) | | (6,345,667) | - | (6,345,667) |
| Income tax on superannuation actuarial gains/ (losses) | | 1,903,700 | - | 1,903,700 |
| Total Other Comprehensive Income | | (4,441,967) | - | (4,441,967) |
| Total Comprehensive Income for the year | | 1,117,240 | - | 1,117,240 |
| Transactions with owners in their capacity as owners | 5 | - | - | - |
| Balance at 30 June 2012 | | 10,688,976 | 900,010 | 11,588,986 |

The Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 118 to 141.

Statement of Cash Flows for the Year Ended 30 June 2013

| | Notes | 2013 \$ | 2012 \$ |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 42,681,903 | 41,174,709 |
| Payments to suppliers and employees (inclusive of GST) | | (35,491,920) | (33,276,100) |
| | | 7,189,983 | 7,898,609 |
| Interest received | | 250,032 | 454,370 |
| Income taxes paid | | (2,394,514) | (1,615,120) |
| Net cash flows from operating activities | 17 | 5,045,501 | 6,737,859 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (243,117) | (903,083) |
| Loan to HWC | | (2,634,336) | - |
| Net cash flows from investing activities | | (2,877,453) | (903,083) |
| Cash flows from financing activities | | | |
| Dividends paid | 5 | (6,892,910) | (3,558,109) |
| Net cash flows from financing activities | | (6,892,910) | (3,558,109) |
| Net increase / (decrease) in cash held | | (4,724,862) | 2,276,667 |
| Cash at beginning of financial period | | 7,346,559 | 5,069,916 |
| Effects of exchange rate changes on cash | | (19,977) | (24) |
| Cash at the end of the financial year | 6 | 2,601,720 | 7,346,559 |

The Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 118 to 141.

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 statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for Hunter Water Australia Pty Limited (the Company) as an individual entity. The Company is a fully owned subsidiary of Hunter Water Corporation (the Parent).

The Company's financial statements for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the Board on 29 August 2013.

A. Basis of preparation

These general purpose financial statements have been prepared in accordance with applicable Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001*, Part 3 of the *Public Finance & Audit Act 1983* and Public Finance and Audit Regulation 2010.

The Board has determined that the Company is a for-profit entity for financial reporting purposes. The accounting policies applied are based on the requirements applicable to for-profit entities on these mandatory or statutory requirements.

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.

Statement of compliance

The financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

Historical cost convention

The financial statements have been prepared on an accruals basis using the historical cost convention with the exception of Provisions and Underfunded Superannuation Benefits. Refer to Notes 15 and 16 for details.

Rounding

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

Currency

All amounts in the financial statements are reported in Australian 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 from consulting services is recognised in the accounting period in which the services are rendered. For time and materials contracts, revenue is recognised as the service is rendered. For fixed-price contracts, revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services to be provided. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

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 enacted at the reporting date 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 in other comprehensive income or directly in equity, are similarly recognised in other comprehensive income or 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 parent 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 Statement of Cash Flows presentation purposes, cash and cash equivalents include cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

E. Trade receivables

Trade receivables are recognised at original invoice amount less allowance for impairment. 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. An allowance for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due. The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

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.

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

All items of 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 11 Impairment of assets below).

The initial cost of the leasehold improvements at the Company's Steel River property includes an estimate of the cost of dismantling the improvements and restoring the site on which it is located. These costs are included in the value of the Company's Leasehold Improvements with a corresponding provision for the 'make good' recognised (see Note 1M).

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:

| Class of Asset | Useful Life |
|------------------------|---------------|
| Computers | 2 to 5 years |
| Support Assets | 3 to 10 years |
| Leasehold Improvements | 5 to 20 years |

The useful life of Leasehold Improvements has been reduced from 40 years to 5-20 years in the current period to bring disclosures in-line with the terms of lease agreements. The change has not resulted in a material impact on the financial statements and is expected to have similar impact on future financial statements.

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 twenty-five 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 future cash flows to be derived from an asset or cash-generating unit 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 over the term of the lease. Lease incentives received are recognised as an integral part of the total lease, over the term of the lease.

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 payables 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. The liability for annual leave is recognised in the provision for employee benefits. All other short term employee benefit obligations are presented as payables.

Long-term annual leave that is not expected to be taken within twelve months is measured at present value in accordance with AASB 119 Employee Benefits. Expected future payments are discounted using the Indicative Mid-Rates of selected Commonwealth Government Securities.

(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 Indicative Mid-Rates of selected Commonwealth Government Securities. 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 Statement of Financial Position and is measured as the present value of the defined benefit obligation at the reporting date plus any actuarial gains less any actuarial losses not recognised because of the treatment set out in AASB119.92 and 93 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. Actuarial gains and losses arising from adjustments and/or changes in actuarial assumptions are recognised in the period in which they occur directly in other comprehensive income.

The defined benefit superannuation fund receives fixed contributions from the Company and the Company's legal or constructive obligation is limited to these contributions. Contributions to the defined benefit fund are recognised as expenses as they become payable.

M. Provisions

A provision for make good has been made for the cost of dismantling the leasehold improvements and restoring the Company's Steel River property in accordance with the lease agreement. The provision has been calculated in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

N. 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.

O. 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 Statement of Financial Position 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 Statement of Financial Position.

Cash flows of GST included in the Statement of Cash Flows on a gross basis. The GST of cash flows from investing and financing activities that are recoverable from the Australian Taxation Office are classified as cash flows from operating activities.

Commitments are disclosed inclusive of GST where applicable.

P. Foreign currency transactions and balances

Foreign currency transactions are translated into Australian currency using the spot 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.

Q. Accounting standards and Australian accounting interpretations issued but not yet operative

Certain new accounting standards and interpretations applicable to Hunter Water Australia Pty Limited have been published that are not mandatory for the year ended 30 June 2013. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments (effective from 1 July 2013)

The standard replaces the multiple classification and measurement models in AASB 139 Financial Instruments: Recognition and Measurement with a single model that has only two classifications: amortised cost and fair value. There is no anticipated impact on the Company as all financial instruments are already recognised at amortised cost or fair value.

(ii) AASB 1053 application of tiers of Australian Accounting Standards and AASB 2010-2 amendments to Australian accounting standards arising from reduced disclosure requirements (effective from 1 July 2013).

On 30 June 2011 the AASB released a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Tier 1 requirements comprise the full range of AASB recognition, measurement, presentation and disclosure requirements that are currently applicable to reporting Entity in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2010-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

The Company is a subsidiary of a government owned corporation and it is likely that NSW Treasury will mandate adoption of tier 1 reporting. As a consequence, it is anticipated that the two standards will have no impact on the financial statements of the Company.

(iii) Revised AASB 119 - Employee benefits (effective 1 January 2013)

Removal of the corridor method of accounting for defined benefit plans means that all actuarial gains and losses are to be recognised immediately in other comprehensive income. Immediate recognition in the profit or loss is no longer permitted. There is no expected impact on the Company given the corridor method was previously not adopted.

(iv) AASB 2012-5 Amendments arising from the 2009-0211 annual improvements project (effective 1 January 2013)

The annual improvements project makes minor but necessary annual amendments to Australian Accounting Standards. Amendments this year affect AASB 1, AASB 101, AASB 116, AASB 132 and AASB 134. The amendments are applicable for annual periods beginning after 1 January 2013 and as such will have no impact for the period ended 30 June 2013.

Note 2. Income

| | 2013 \$ | 2012 \$ |
|--------------------------------------|-------------------|-------------------|
| Services | | |
| Sale of services | 37,837,895 | 37,519,360 |
| | 37,837,895 | 37,519,360 |
| Other income | | |
| Interest from parent entity | 163,767 | 216,931 |
| Interest from financial institutions | 71,768 | 232,389 |
| Superannuation Income | 432,688 | 326,130 |
| Other | 7,447 | 2,966 |
| | 675,670 | 778,416 |
| TOTAL INCOME | 38,513,565 | 38,297,776 |

Note 3. Expenses

| | 2013 \$ | 2012 \$ |
|--|-------------------|-------------------|
| Profit before tax includes the following net gains and expenses: | | |
| A. EXPENSES | | |
| Employee related expenses (see note B. below) | 19,455,278 | 18,899,621 |
| Project and contract outlays | 8,649,142 | 6,183,245 |
| Motor vehicles (excluding minimum lease payments) | 285,544 | 627,161 |
| Minimum lease payments | 1,757,394 | 1,634,662 |
| Information technology and communications | 603,923 | 543,758 |
| Foreign currency loss/(gain) | 20,565 | 1,926 |
| Loss/(gain) on disposal of assets | 8,695 | 69 |
| Debts written off | 303 | 298 |
| Other | 1,503,302 | 1,711,345 |
| | 32,284,146 | 29,602,085 |
| Depreciation and amortisation | | |
| Amortisation - Intangibles | 124,236 | 98,374 |
| Depreciation - Plant & Equipment | 869,081 | 667,295 |
| | 993,317 | 765,669 |
| Other charges against assets | | |
| Doubtful debt provision - trade receivables | - | (14,693) |
| TOTAL EXPENSES | 33,277,463 | 30,353,061 |
| B. EMPLOYEE RELATED EXPENSES | | |
| Salaries | 16,250,364 | 15,656,294 |
| Employee benefits | 1,654,583 | 1,739,138 |
| Superannuation relating to Defined Benefit Schemes | 233,730 | 248,145 |
| Superannuation relating to Defined Contribution Plans | 1,316,601 | 1,256,044 |
| | 19,455,278 | 18,899,621 |

Note 4. Income Tax on Profit Before Financial Instrument Fair Value Movements

| | Notes | 2013 \$ | 2012 \$ |
|--|-------|------------------|------------------|
| A. INCOME TAX EXPENSE | | | |
| Current tax | | 791,186 | 4,073,215 |
| Deferred tax | 12 | 782,378 | (1,687,707) |
| | | 1,573,564 | 2,385,508 |
| B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE | | | |
| Profit before income tax and financial instrument fair value movements | | 5,236,102 | 7,944,715 |
| Tax at the Australian rate of 30% | | 1,570,831 | 2,383,414 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | |
| Sundry items | | 2,733 | 2,094 |
| | | 1,573,564 | 2,385,508 |
| | | 1,573,564 | 2,385,508 |
| C. TAX EXPENSE/(INCOME) RELATING TO ITEMS IN OTHER COMPREHENSIVE INCOME | | | |
| 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 | 12 | (799,030) | 1,903,700 |
| | | (799,030) | 1,903,700 |

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(c). 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 22). 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

| | 2013 \$ | 2012 \$ |
|-----------------------|------------------|-------------|
| Opening balance | - | 3,558,109 |
| Add dividend declared | 9,456,687 | - |
| Less dividend paid | (6,892,910) | (3,558,109) |
| | 2,563,777 | - |

Under the national tax equivalent regime, the Company is not required to maintain a dividend franking account.

Note 6. Cash and Cash Equivalents

| | 2013 \$ | 2012 \$ |
|--------------------------|------------------|------------------|
| Cash at bank and on hand | 2,601,720 | 981,100 |
| Deposits at call | - | 6,365,459 |
| | 2,601,720 | 7,346,559 |

Bank overdraft facility

The Company has a bank overdraft facility available to the extent of \$200,000 as approved by the NSW Treasurer in accordance with the *Public Authorities (Financial Arrangements) Act 1987*. As at 30 June 2013 the whole amount of the overdraft was unused. The Company also has a credit card facility to the extent of \$120,000. All balances are repaid in full at the end of each month and no interest expense has occurred during the year.

The Company's exposure to interest rate risk is discussed in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 7. Investments

| | 2013 \$ | 2012 \$ |
|-------------------------|------------------|------------------|
| Current | | |
| Loan with Parent Entity | 7,634,338 | - |
| | 7,634,338 | - |
| Non current | | |
| Loan with Parent Entity | - | 5,000,000 |
| | - | 5,000,000 |

The loan with parent entity has been reclassified from non-current to current during the period to reflect the restructure of loan terms to allow a draw down on the loan given 2 business days' notice, and ability to recall the balance in full given 90 days' notice.

The Company's exposure to interest rate risk is discussed in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount mentioned above.

Note 8. Trade and Other Receivables

| | 2013 \$ | 2012 \$ |
|---------------------------|------------------|------------------|
| Current | | |
| Trade debtors | 3,761,787 | 5,367,754 |
| Other current receivables | 700 | 705 |
| Prepayments | 450,797 | 416,819 |
| Work in Progress | 2,256,756 | 2,224,138 |
| Security Deposits | 3,000 | 1,500 |
| Accrued Income | 780,188 | 408,082 |
| Accrued Interest | - | 14,496 |
| | 7,253,228 | 8,433,494 |

The Company's exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note 28 for more information on the risk management policy of the group and the credit quality of the entity's trade receivables.

Note 9. Current Tax Assets (Liabilities)

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| Provision for income tax payable | | |
| Opening balance | 765,514 | 211,119 |
| Less amount paid relating to prior year | (765,514) | (211,120) |
| Add amount payable for current year | 1,590,217 | 2,169,515 |
| | <hr/> | <hr/> |
| Less amount paid relating to current year | (1,629,000) | (1,404,000) |
| | (38,783) | 765,514 |

Note 10. Plant and Equipment

Plant and equipment comprise the following at cost which approximate fair value:

| | Computers | Support Assets | Leasehold Improvements | Total |
|--------------------------|----------------|-------------------|---------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| At 1 July 2011 | | | | |
| Gross carrying amount | 1,714,860 | 4,007,337 | 1,227,205 | 6,949,401 |
| Accumulated depreciation | (951,120) | (2,027,558) | (73,936) | (3,052,614) |
| Net carrying amount | 763,740 | 1,979,779 | 1,153,269 | 3,896,787 |
| At 30 June 2012 | | | | |
| Gross carrying amount | 1,995,988 | 4,388,541 | 1,228,555 | 7,613,085 |
| Accumulated depreciation | (1,221,691) | (2,279,356) | (104,637) | (3,605,684) |
| Net carrying amount | 774,297 | 2,109,185 | 1,123,918 | 4,007,401 |
| At 1 July 2012 | | | | |
| Gross carrying amount | 1,995,988 | 4,388,541 | 1,228,555 | 7,613,085 |
| Accumulated depreciation | (1,221,691) | (2,279,356) | (104,637) | (3,605,684) |
| Net carrying amount | 774,297 | 2,109,185 | 1,123,918 | 4,007,401 |
| At 30 June 2013 | | | | |
| Gross carrying amount | 2,078,745 | 4,426,150 | 1,444,141 | 7,949,036 |
| Accumulated depreciation | (1,519,543) | (2,643,328) | (269,175) | (4,432,046) |
| Net carrying amount | 559,202 | 1,782,822 | 1,174,966 | 3,516,990 |

Reconciliations

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

| | 2013 \$ | 2012 \$ |
|--|------------|------------|
| Reconciliation - computers | | |
| Net carrying amount at start of the year | 774,227 | 763,739 |
| Additions | 95,078 | 320,212 |
| Disposals | - | (69) |
| Depreciation expense | (310,102) | (309,655) |
| Net carrying amount at end of the year | 559,203 | 774,227 |
| Reconciliation - support assets | | |
| Net carrying amount at start of the year | 2,109,255 | 1,979,779 |
| Additions | 71,880 | 456,416 |
| Disposals | (8,695) | - |
| Depreciation expense | (389,618) | (326,940) |
| Net carrying amount at end of the year | 1,782,822 | 2,109,255 |
| Reconciliation - leasehold improvements | | |
| Net carrying amount at start of the year | 1,123,918 | 1,153,269 |
| Make Good - Steel River premises | 215,586 | - |
| Additions | - | 1,350 |
| Depreciation expense | (164,538) | (30,701) |
| Net carrying amount at end of the year | 1,174,966 | 1,123,918 |

Note 11. Intangible Assets

Intangible assets comprise the following at cost:

| | Software \$ | Other \$ | Total \$ |
|--------------------------|----------------|---------------|----------------|
| At 1 July 2011 | | | |
| Gross carrying amount | 700,438 | 101,823 | 802,260 |
| Accumulated amortisation | (506,696) | (9,103) | (515,799) |
| Net carrying amount | 193,742 | 92,720 | 286,461 |
| At 30 June 2012 | | | |
| Gross carrying amount | 804,030 | 101,823 | 905,853 |
| Accumulated amortisation | (579,482) | (13,179) | (592,661) |
| Net carrying amount | 224,548 | 88,644 | 313,192 |
| At 1 July 2012 | | | |
| Gross carrying amount | 804,030 | 101,823 | 905,853 |
| Accumulated amortisation | (579,482) | (13,179) | (592,661) |
| Net carrying amount | 224,548 | 88,644 | 313,192 |
| At 30 June 2013 | | | |
| Gross carrying amount | 898,875 | 108,122 | 1,006,997 |
| Accumulated amortisation | (723,345) | (23,359) | (746,704) |
| Net carrying amount | 175,530 | 84,763 | 260,293 |

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:

| | 2013 | 2012 |
|--|-----------|----------|
| | \$ | \$ |
| Reconciliation - software | | |
| Net carrying amount at start of the year | 224,548 | 193,743 |
| Additions | 69,859 | 125,105 |
| Amortisation expense | (118,877) | (94,299) |
| Net carrying amount at end of the year | 175,530 | 224,548 |
| Reconciliation - other | | |
| Net carrying amount at start of the year | 88,644 | 92,718 |
| Additions | 6,300 | - |
| Amortisation expense | (10,181) | (4,074) |
| Net carrying amount at end of the year | 84,763 | 88,644 |

Note 12. Deferred Tax Assets

| | 2013 | 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Non current | | |
| The balance comprises temporary differences attributable to: | | |
| Amounts recognised in profit & loss | | |
| Work in Progress | (633,224) | (606,476) |
| Workers Compensation prepayment | (19,703) | (18,441) |
| Employee benefits | 3,570,756 | 4,405,865 |
| Provision for Make Good | 78,577 | - |
| Other operating expenditure payable | 15,182 | 8,940 |
| Depreciation | (109,433) | (105,756) |
| Unrealised tax foreign currency loss | 177 | 578 |
| | 2,902,332 | 3,684,710 |
| Amounts recognised in other comprehensive income | | |
| Superannuation actuarial gains/(losses) | (799,030) | 1,903,700 |
| | (799,030) | 1,903,700 |
| Movements: | | |
| Opening balance at 1 July | 3,684,710 | 1,997,002 |
| Credited/(charged) to the Income Statement | (782,378) | 1,687,708 |
| CLOSING BALANCE AT 30 JUNE | 2,902,332 | 3,684,710 |

Note 13. Trade and Other Payables

| | 2013 | 2012 |
|-------------------|------------------|------------------|
| | \$ | \$ |
| Current | | |
| Trade creditors | 1,624,312 | 1,547,530 |
| Other creditors | 616,396 | 731,662 |
| Income in Advance | 146,009 | 202,551 |
| | 2,386,717 | 2,481,743 |

Details regarding liquidity risk and market risk including maturity analysis of above payables are disclosed in Note 28.

Note 14. Provisions

| | 2013 | 2012 |
|----------------------------------|------------------|------------------|
| | \$ | \$ |
| Current | | |
| Employee benefits - short term | 1,617,233 | 1,535,930 |
| Employee benefits - long term | 2,285,691 | 1,878,783 |
| Dividend provided | 2,563,777 | - |
| | 6,466,701 | 3,414,713 |
| Non-current | | |
| Employee benefits | 397,140 | 402,316 |
| Make Good – Steel River premises | 261,922 | - |
| | 659,062 | 402,316 |

Reconciliations

Reconciliation of Provision for Make Good – Steel River Premises at the beginning and end of the current and previous financial years is set out below:

| | 2013 | 2012 |
|---|----------------|------|
| | \$ | \$ |
| Reconciliation - make good - Steel River Premises | | |
| Opening balance | - | - |
| Increase in provision | 261,922 | - |
| | 261,922 | - |

Provisions are classified as current liabilities if the Company does not have unconditional right to defer settlement of the liabilities for at least 12 months after the reporting date. This means that short term benefits such as annual leave, roster leave and the unconditional component of long service leave entitlements are classified as current liabilities regardless of when they are expected to be settled. Current employee benefits of \$1,501,467 at 30 June 2013 (30 June 2012: \$1,576,754) are expected to be settled after 12 months from reporting date.

A provision for Make Good – Steel river premises has been recognised for the first time in the current period. The provision is based on an estimate of the cost of dismantling the improvements to the Steel River premises and restoring the site on which it is located.

Note 15. Other Non-Current Liabilities

| | Notes | 2013 | 2012 |
|--|-------|------------------|-------------------|
| | | \$ | \$ |
| Non current | | | |
| Provision for underfunded defined benefit superannuation | 19 | 7,035,963 | 10,132,085 |
| | | 7,035,963 | 10,132,085 |

Note 16. Contributed Equity

| | 2013 \$ | 2012 \$ |
|--|------------|------------|
| 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 17. Statement of Cash Flows

Reconciliation of profit for the year to the net cash flows from operating activities

| | 2013 \$ | 2012 \$ |
|---|------------------|------------------|
| Profit for the Year | 3,662,538 | 5,559,207 |
| Depreciation and amortisation | 993,317 | 765,669 |
| Superannuation Income | (432,688) | (326,130) |
| (Profit)/loss on sale of non-current assets | 8,695 | 69 |
| Net exchange differences | 20,565 | 1,926 |
| Make good lease costs | 46,336 | - |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in trade debtors | 1,605,378 | (479,954) |
| (Increase)/decrease in work in progress | (32,618) | (317,318) |
| (Increase)/decrease in deferred tax assets | (16,652) | 215,993 |
| (Increase)/decrease in other operating assets | (393,082) | 723,056 |
| Increase/(decrease) in trade creditors | (95,026) | (175,061) |
| Increase/(decrease) in inter-company tax payable | (804,297) | 554,395 |
| Increase/(decrease) in other provisions | 483,035 | 216,006 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 5,045,501 | 6,737,858 |

Note 18. Commitments

Lease commitments

Commitments in relation to leases contracted for the reporting date but not recognised as liabilities (inclusive of GST), payable:

| | 2013 \$ | 2012 \$ |
|---|------------------|------------------|
| Within one year | 1,595,016 | 1,493,616 |
| Later than one year but not later than five years | 4,131,131 | 3,201,021 |
| Later than five years | 358,413 | 2,267,231 |
| | 6,084,560 | 6,961,868 |
| Representing: | | |
| Cancellable operating leases | 961,065 | 817,146 |
| Non-cancellable operating leases | 5,123,495 | 6,144,722 |
| | 6,084,560 | 6,961,868 |

Operating lease commitments

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 the Company 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.

A 5 year option to renew the lease for the laboratory was taken on 1 July 2009. There is no option to sub-let under the current lease of the laboratory.

Future non-cancellable operating leases not provided for and payable (inclusive of GST):

| | 2013 \$ | 2012 \$ |
|---|------------------|------------------|
| Within one year | 1,081,054 | 1,028,099 |
| Later than one year but not later than five years | 3,684,028 | 2,849,392 |
| Later than five years | 358,413 | 2,267,231 |
| | 5,123,495 | 6,144,722 |

Note 19. 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 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) or the employee's choice of fund, which are accumulation type schemes. 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 2013 superannuation position:

| Member Numbers | SSS | SASS | SANCS | 2013 | 2012 |
|--|------------------|------------------|----------------|------------------|-------------------|
| Contributors | 3 | 10 | 13 | 26 | 26 |
| Deferred benefits | 2 | - | - | 2 | 2 |
| Pensioners | 11 | 1 | - | 12 | 12 |
| Pensions fully commuted | 5 | - | - | 5 | 5 |
| | SSS | SASS | SANCS | 2013 | 2012 |
| | \$ | \$ | \$ | \$ | \$ |
| Accrued liability | 16,576,452 | 4,408,017 | 696,853 | 21,681,322 | 22,894,962 |
| Estimated reserve account balance | (11,099,027) | (3,158,750) | (387,582) | (14,645,359) | (12,762,877) |
| | 5,477,425 | 1,249,267 | 309,271 | 7,035,963 | 10,132,085 |
| Future service liability | (271,198) | (575,910) | (290,552) | (1,137,660) | (1,355,366) |
| Net (asset)/liability to be recognised in statement of financial position | 5,477,425 | 1,249,267 | 309,271 | 7,035,963 | 10,132,085 |

C. Reconciliation

| | SSS \$ | SASS \$ | SANCS \$ | 2013 \$ | 2012 \$ |
|---|--------------|-------------|-------------|--------------|--------------|
| Present value of partly funded defined benefit obligations at beginning of the year | 17,901,988 | 4,274,899 | 718,075 | 22,894,962 | 17,509,405 |
| Current service cost | 53,742 | 104,625 | 29,804 | 188,171 | 149,820 |
| Interest cost | 539,023 | 129,197 | 21,351 | 689,570 | 907,800 |
| Contributions by fund participants | 39,091 | 61,460 | - | 100,551 | 130,613 |
| Actuarial (gains)/losses | (1,421,562) | 18,849 | (47,751) | (1,450,463) | 5,168,287 |
| Benefits paid | (535,830) | (181,013) | (24,626) | (741,469) | (970,964) |
| Present value of partly funded defined benefit obligations at end of the year | 16,576,452 | 4,408,017 | 696,853 | 21,681,322 | 22,894,962 |
| Fair value of fund assets at beginning of the year | 9,770,727 | 2,667,773 | 324,377 | 12,762,877 | 13,396,857 |
| Expected return on fund assets | 819,020 | 230,202 | 27,477 | 1,076,699 | 1,135,605 |
| Actuarial gains/(losses) | 926,786 | 256,751 | 29,434 | 1,212,971 | (1,177,380) |
| Employer contributions | 79,233 | 123,577 | 30,920 | 233,730 | 248,145 |
| Contributions by fund participants | 39,091 | 61,460 | - | 100,551 | 130,613 |
| Benefits paid | (535,830) | (181,013) | (24,626) | (741,469) | (970,964) |
| Fair value of fund assets at end of the year | 11,099,027 | 3,158,750 | 387,582 | 14,645,359 | 12,762,876 |
| Present value of partly funded defined benefit obligations at end of year | 16,576,452 | 4,408,017 | 696,852 | 21,681,321 | 22,894,962 |
| Fair value of fund assets at end of the year | (11,099,027) | (3,158,750) | (387,581) | (14,645,358) | (12,762,877) |
| Subtotal | 5,477,425 | 1,249,267 | 309,271 | 7,035,963 | 10,132,085 |
| Net Liability/(Asset) recognised in statement of financial position at end of year | 5,477,425 | 1,249,267 | 309,271 | 7,035,963 | 10,132,085 |

D. Expense recognised in the income statement

| Components Recognised in Income Statement | SSS \$ | SASS \$ | SANCS \$ | 2013 \$ | 2012 \$ |
|--|-----------|------------|-------------|-------------|-------------|
| Current service cost | 53,742 | 104,625 | 29,804 | 188,171 | 149,820 |
| Interest cost | 539,023 | 129,197 | 21,351 | 689,570 | 907,800 |
| Expected return on fund assets (net of expenses) | (819,020) | (230,202) | (27,477) | (1,076,699) | (1,135,605) |
| Expense/(income) recognised | (226,255) | 3,620 | 23,678 | (198,958) | (77,985) |

E. Expenses recognised in the statement of comprehensive income

| | SSS \$ | SASS \$ | SANCS \$ | 2013 \$ | 2012 \$ |
|--------------------------|-------------|------------|-------------|-------------|------------|
| Actuarial (gains)/losses | (2,348,348) | (237,901) | (77,185) | (2,663,434) | 6,345,667 |

F. Cumulative amount recognised in the statement of comprehensive income

| Actuarial (gains) losses | \$ |
|--------------------------|-------------|
| 2004/05 | 1,361,465 |
| 2005/06 | (2,530,305) |
| 2006/07 | (1,322,582) |
| 2007/08 | 1,622,799 |
| 2008/09 | 4,380,831 |
| 2009/10 | 1,209,695 |
| 2010/11 | (129,141) |
| 2011/12 | 6,345,667 |
| 2012/13 | (2,663,434) |
| | 8,274,995 |

G. Fund assets

The percentage invested in each asset class at the statement of financial position date:

| | 30 June 2013 | 30 June 2012 |
|--------------------------------------|--------------|--------------|
| Australian equities | 30.4% | 28.0% |
| Overseas equities | 26.1% | 23.7% |
| Australian fixed interest securities | 6.9% | 4.9% |
| Overseas fixed interest securities | 2.2% | 2.4% |
| Property | 8.3% | 8.6% |
| Cash | 13.1% | 19.5% |
| Other | 13.0% | 12.9% |

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.

H. Actual return on plan assets

| | SSS \$ | SASS \$ | SANCS \$ | 2013 \$ | 2012 \$ |
|------------------------------|-----------|------------|-------------|------------|------------|
| Actual return on fund assets | 1,627,621 | 460,941 | 56,911 | 2,145,473 | 20,057 |

I. 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:

Weighted-Average Assumptions

| | |
|--|--------------------------------|
| Expected rate of return on Fund assets backing current pension liabilities | 8.3% pa |
| Expected rate of return on Fund assets backing other liabilities | 7.3% pa |
| Expected salary increase rate | 2.7% pa for 6 years then 4% pa |
| Expected rate of CPI increase | 2.5% pa |

The demographic assumptions at 30 June 2013 are those that will be used in the 2012 triennial actuarial valuation.

J. 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 2009.

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 2013 and 2012 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)

2013: The economic assumptions used by the actuary to make the funding recommendation were an investment return on fund assets of 8.6% pa, a salary increase rate of; 2.25% (2013/14 to 2014/15), 2.0% (2015/16 to 2019/20), 2.5% (2020 onwards), and an inflation rate of 2.5% pa.

2012: The economic assumptions used by the actuary to make the funding recommendation were an investment return on fund assets of 8.6% pa, a salary increase rate of 2.5% pa, and an inflation rate of 2.5% pa.

The following is a summary of the 30 June 2013 financial position of the Fund calculated in accordance with *AAS 25 Financial Reporting by Superannuation Plans*:

| Surplus/Deficit | SSS \$ | SASS \$ | SANCS \$ | 2013 \$ | 2012 \$ |
|---------------------------------|--------------|-------------|-------------|--------------|--------------|
| Accrued benefits | 9,606,602 | 3,630,828 | 560,887 | 13,798,317 | 13,185,640 |
| Net market value of fund assets | (11,099,027) | (3,158,750) | (387,582) | (14,645,359) | (12,762,877) |
| Net (surplus)/deficit | (1,492,425) | 472,078 | 173,305 | (847,042) | 422,763 |

K. 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.

L. Historic summary

| | SSS | SASS | SANCS | 2013 |
|---|--------------|--------------|--------------|--------------|
| | \$ | \$ | \$ | \$ |
| Present value of defined benefit obligation | 16,576,452 | 4,408,017 | 696,853 | 21,681,322 |
| Fair value of fund assets | (11,099,027) | (3,158,750) | (387,582) | (14,645,359) |
| (Surplus)/Deficit in Fund | 5,477,425 | 1,249,267 | 309,271 | 7,035,963 |
| Experience adjustments - Fund liabilities | (1,421,562) | 18,849 | (47,751) | (1,450,464) |
| Experience adjustments- Fund assets | (926,786) | (256,751) | (29,434) | (1,212,971) |
| | 2012 | 2011 | 2010 | 2009 |
| | \$ | \$ | \$ | \$ |
| Present value of defined benefit obligation | 22,894,962 | 17,509,406 | 17,839,393 | 16,851,460 |
| Fair value of fund assets | (12,762,877) | (13,396,857) | (13,297,391) | (13,181,995) |
| (Surplus)/Deficit in Fund | 10,132,085 | 4,112,549 | 4,542,002 | 3,669,465 |
| Experience adjustments - Fund liabilities | 5,168,287 | (320,470) | 536,958 | 2,138,637 |
| Experience adjustments- Fund assets | 1,177,380 | 191,329 | 672,737 | 2,242,204 |

Expected Contributions

| | SSS | SASS | SANCS | 2013 | 2012 |
|---------------------------------|------------|-------------|--------------|-------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| Expected employer contributions | 62,546 | 116,774 | 29,833 | 209,153 | 258,895 |

Note 20. 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 2013.

Assets

The Company 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 2016, 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 21. Auditors' Remuneration

Amounts received or due and receivable by the auditors, from the Company

| | 2013 | 2012 |
|--|-------------|-------------|
| | \$ | \$ |
| Audit review of financial reports (exclusive of GST) | 35,000 | 35,000 |
| | 35,000 | 35,000 |

Note 22. 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.

A formal loan agreement has been entered into with the Parent Entity under normal terms and conditions. Interest is payable monthly at market rates.

A. Controlling entity

| | 2013 \$ | 2012 \$ |
|---|-------------|-------------|
| Transactions with controlling entity | | |
| Sales | | |
| Contracts & Consultancy Services | 21,870,753 | 24,029,269 |
| Purchases | | |
| Contracts | 241,403 | 219,997 |
| Consultancy Services | 15,090 | 139,539 |
| TOTAL PURCHASES | 256,493 | 359,536 |
| Interest received | 163,767 | 216,931 |
| Dividends paid | (6,892,910) | (3,558,109) |
| Outstanding balances at year end | | |
| Receivables | | |
| Sales and purchases | 2,123,635 | 3,421,475 |
| Tax funding agreements | 2,941,115 | 3,684,710 |
| Inter-company loan | 7,634,338 | 5,000,000 |
| Inter-company loan - interest | - | 14,496 |
| TOTAL RECEIVABLES | 12,699,088 | 12,120,681 |
| Payables | | |
| Sales and purchases | - | 1,500 |
| Tax funding agreements | - | 765,514 |
| Dividend payable | 2,563,777 | - |
| TOTAL PAYABLES | 2,563,777 | 767,014 |

B. Related entity/party

| Transactions with related entities | Entity | 2013 | 2012 |
|---|------------------------------------|------------------|------------------|
| | | \$ | \$ |
| Sales | | | |
| Engineering consultancy | GHD | - | 262 |
| Engineering consultancy | Hunter Development Corp | - | 34,762 |
| University engineering courses | University of Ncle | - | 10,359 |
| Engineering consultancy | Water Services Association of Aust | 28,700 | 27,600 |
| TOTAL SALES | | 28,700 | 72,983 |
| Purchases | | | |
| Superannuation contributions | First State Super | 1,249,638 | 1,329,420 |
| Project consultancy services | GHD | - | 58,793 |
| Labour hire | People Fusion | 2,561 | 21,401 |
| Scholarship fees | University of Ncle | - | 14,140 |
| Membership fees | Water Services Association of Aust | 1,200 | 11,225 |
| TOTAL PURCHASES | | 1,253,399 | 1,434,979 |
| Outstanding balances at year end | Entity | | |
| Receivables | | | |
| Engineering consultancy | Hunter Development Corp | - | 10,612 |
| 11am cash account | TCorp | - | 6,365,459 |
| TOTAL RECEIVABLES | | - | 6,376,071 |

Note 23. 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 TH Lawler Chairman to 27 June 2013 (Resigned 25 July 2013)

Mr K Wood (Resigned 25 July 2013)

Mr RA Chappel (Resigned 22 January 2013)

Mr J Eather Chairman from 27 June 2013

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:

| Name | Position |
|---------------|--|
| Mr J Keary | General Manager |
| Mr P Thompson | Manager Process Engineering |
| Mr D Bailey | Manager Treatment Operations |
| Mr J Gleeson | Chief Engineering Consultant |
| Mr C Smith | Manager Planning, Assets and Environmental |
| Mr J Smith | Manager Design and Project Delivery |
| Mr D Bowerman | Manager Electrical and SCADA |
| Ms A Swan | Manager Laboratories and Company Secretary |
| Mrs M Griffin | Commercial Manager |

C. Key management personnel compensation

| | 2013 | 2012 |
|------------------------------|------------------|------------------|
| | \$ | \$ |
| Short term employee benefits | 1,774,262 | 1,670,117 |
| Long term employee benefits | 57,239 | 54,975 |
| Post employment benefits | 253,885 | 275,939 |
| | 2,085,386 | 2,001,031 |

Note 24. Management Consultants Fees

| | 2013 | 2012 |
|--|--------|--------|
| | \$ | \$ |
| Management consultants paid or payable | 56,868 | 73,642 |

Note 25. Segment Information

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

Note 26. Economic Dependency

The Company operated independently of the parent entity. All transactions were on normal commercial terms and conditions. A significant portion of sales (approximately 56%) are derived from the parent entity, Hunter Water Corporation.

Note 27. 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 28. Financial Risk Management

A. Credit risk

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 56 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.

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 is 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:

| | Note | 2013 \$ | 2012 \$ |
|---------------------------|------|------------|------------|
| Cash and cash equivalents | 6 | 2,601,720 | 7,346,559 |
| Investments | 7 | 7,634,338 | 5,000,000 |
| Trade Receivables | 8 | 4,545,675 | 5,792,538 |
| | | 14,781,733 | 18,139,097 |

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

| | 2013 \$ | 2012 \$ |
|------------------|------------|------------|
| Domestic | 3,718,781 | 5,317,926 |
| Papua New Guinea | 43,006 | 49,828 |
| | 3,761,787 | 5,367,754 |

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

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| Controlling entity | 1,950,665 | 3,355,540 |
| Other Government entity | 987,373 | 1,516,999 |
| Incorporated entity (Proprietary or Public Company) | 822,048 | 494,113 |
| Unincorporated entity or sole trader | 1,701 | 1,102 |
| | 3,761,787 | 5,367,754 |

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

Impairment losses

The aging of trade receivables at the reporting date was:

| | 2013 | | 2012 | |
|-----------------------------|--------------|-------------------|--------------|-------------------|
| | Gross | Impairment | Gross | Impairment |
| | \$ | \$ | \$ | \$ |
| Not past due | 3,677,746 | - | 5,018,126 | - |
| Past due 2 to 6 months | 75,971 | - | 237,864 | - |
| Past due 6 to 12 months | 5,286 | - | 70,788 | - |
| Past due more than one year | 2,784 | - | 40,976 | - |
| | 3,761,787 | - | 5,367,754 | - |

The movement in allowance for impairment in respect of trade receivables during the year was as follows:

| | 2013 | 2012 |
|---|-------------|-------------|
| | \$ | \$ |
| MOVEMENT IN ALLOWANCE FOR IMPAIRMENT | | |
| Balance at 1 July | - | (14,784) |
| Amounts recovered during the year | - | 14,784 |
| Balance at 30 June | - | - |

All trade receivables at 30 June 2013 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. The loan held with the parent entity can be drawn down given 2 business days' notice, and can be recalled in full given 90 days' notice. In addition, the Company maintains a \$200,000 bank overdraft that is unsecured. Interest would be at the rate of 9.63% per annum for an overdraft up to \$200,000 and then 14.73% for an overdraft above that (2012: 9.98% and 15.08% respectively).

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

| 2013 | Carrying amount | Contractual cash outflows | 3 months or less | 4 months or more |
|--------------------------|------------------------|----------------------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ | \$ |
| Trade and other payables | 1,624,312 | 1,624,312 | 1,624,312 | - |
| | 1,624,312 | 1,624,312 | 1,624,312 | - |
| 2012 | Carrying amount | Contractual cash outflows | 3 months or less | 4 months or more |
| | \$ | \$ | \$ | \$ |
| Trade and other payables | 1,547,530 | 1,547,530 | 1,547,530 | - |
| | 1,547,530 | 1,547,530 | 1,547,530 | - |

C. Market risk

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 Papua New Guinea and New Zealand.

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 of 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. The Company's exposure to currency risk at the reporting date was as follows:

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

| | 2013 | 2012 |
|-------------------|-------------|-------------|
| | \$ | \$ |
| | PGK | PGK |
| Trade Receivables | 43,006 | 49,828 |
| Bank | 58,472 | - |
| | 101,478 | 49,828 |

Currency risk sensitivity analysis

A 10 percent strengthening of the Australia dollar against the following currencies at 30 June 2013 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 2012.

| | 2013 | | 2012 | |
|-----------------------|------------------|----------|------------------|---------|
| | Profit or (Loss) | Equity | Profit or (Loss) | Equity |
| | \$ | \$ | \$ | \$ |
| Papua New Guinea Kina | (10,148) | (10,148) | (4,983) | (4,983) |
| | (10,148) | (10,148) | (4,983) | (4,983) |

A 10 percent weakening of the Australian dollar against the above currencies at 30 June 2013 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.

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 \$200,000. Interest would be at the rate of 9.63% per annum for an overdraft up to \$200,000 and then 14.73% for an overdraft above \$200,000 (2012: 9.98% and 15.08% respectively).

At the reporting date the interest rate profile of the Company's interest bearing financial instruments were:

| | 2013 | 2012 |
|---------------------------|------------|------------|
| | \$ | \$ |
| Variable rate instruments | | |
| Financial assets | 10,176,035 | 12,344,801 |
| | 10,176,035 | 12,344,801 |

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 2012.

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 2012.

| 2013 | Profit or (Loss) 1% increase | Equity 1% increase |
|------------------------------|------------------------------|--------------------|
| | \$ | \$ |
| Variable rate interest rates | 101,760 | 101,760 |
| | 101,760 | 101,760 |
| 2012 | Profit or (Loss) 1% increase | Equity 1% increase |
| | \$ | \$ |
| Variable rate interest rates | 123,448 | 123,448 |
| | 123,448 | 123,448 |

D. Fair values

The financial assets and liabilities in the Statement of Financial Position are carried at amounts assumed to approximate their net fair values.

End of Audited Financial Statements

Directors' Declaration

Pursuant to section 41C of the *Public Finance and Audit Act 1983*, we state that in the opinion of the Directors of Hunter Water Australia Pty Limited, the financial statements and notes:

- a) Exhibit a true and fair view of the financial position of the Company as at 30 June 2013 and its performance as represented by the results of its operation and its cash flows for the year then ended.
- b) Comply with the applicable Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the *Australian Accounting Standards Board*, the *Corporations Act 2001*, Part 3 of the *Public Finance and Audit Act 1983* and *Public Finance and Audit Regulation 2010*.

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.

Signed in accordance with a resolution of the Directors:



Mr. J. Eather
Chairman



Mr. P. Dalglish
Director

Dated: 29 August 2013, Newcastle

Contact Us

The contact details for Hunter Water Corporation are:

Telephone

Customer enquiries: 1300 657 657
(Monday – Friday, 8.00am – 5.00pm)

Report a Fault: 1300 657 000
(24 hours, 7 days)

Teletypewriter (TTY) service: 131 450
(Monday – Friday, 8.30am – 5.00pm)

Fax: 02 4979 9625

Translation service: 131 450
(Monday- Friday, 8.30am - 5.00pm)

Head Office
36 Honeysuckle Drive
Newcastle NSW 2310

Postal Address
PO Box 5171
HRMC NSW 2310

Other Offices

Lake Macquarie Customer Centre
128 Main Road, Speers Point
(Monday - Friday, 9.00am-4.30pm)

Maitland Customer Centre
285 High Street, Maitland
(Monday - Friday, 9.00am-4.30pm)

The other offices are located within Council offices.

Email
enquiries@hunterwater.com.au

Annual Report Availability
www.hunterwater.com.au/annualreport

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