# HUNTER WATER CORPORATION

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE HALF YEAR ENDED

# 31 DECEMBER 2012

# Contents



# Company Particulars

**Directors**

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

**Company Secretary**
Mr S Phillips

**Auditors**
Audit Office of New South Wales

**Bankers**
Commonwealth Bank of Australia

# DIRECTORS' REPORT

The Directors submit the following report made in accordance with a resolution of the Directors of the Parent Entity and Controlled Entity for the half year ended 31 December 2012.

## DIRECTORS

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

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

## INFORMATION ON DIRECTORS

### T LAWLER

B Com, FCA, FAICD, FAIM

Terry Lawler was appointed as Chairman of Hunter Water Corporation and its subsidiary in January 2012. 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

B Eng, MBA, FIE (Aust), FAIM, CPEng

Kim Wood was appointed as Managing Director of Hunter Water Corporation in November 2011 and is also a Director of Hunter Water Australia Pty Limited. 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 power and water utilities across Australia. Mr Wood was the inaugural CEO of City West Water and then went on to head the Victorian electricity transmission business, GPU PowerNet. Other CEO roles have included the 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 originally commenced his working career as an engineer with Victoria's State Electricity Commission.

### JR EATHER

B Com, 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 has previously been Chairman of the University of Newcastle Foundation and is currently a Director of The Heal for Life Foundation, which operates a healing centre for survivors of child abuse.

**BL CROSSLEY**

B. Nat. Res. (Hons), MEIA, MAICD

Ms Crossley was appointed as a Director on 1 February 2004. Ms Crossley is a Director of Umwelt (Australia) Pty Ltd, 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.

**RA CHAPPEL**

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

Mr Chappel was appointed as a Director on 1 February 2004 and was a Director of Hunter Water Australia Pty Limited. Mr Chappel retired from both appointments on 31 December 2012. 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.

**C CIFUENTES**

B Ec, LLB (UTS) (Hons)

Ms Cifuentes was appointed as a Director on 1 February 2011. She is a public policy and investment markets professional, with over 25 years experience in economics, policy and finance. She is currently 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 former Director of the NSW Treasury Corporation (the State's central borrowing authority). She 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 is a member of the Institute of Company Directors and is a member of a number of NSW audit and risk committees. 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.

**S IVENS**

BA, Dip Ed, MBA, LLB

Ms Ivens was appointed as director on 1 April 2012. She has made a strong contribution to the Hunter business community, particularly trough 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 Businessperson of the Year award in 2006.

**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 and a member of the National Health and Medical Research Council Principal Advisory Committee on Preventative & Community Health. She has extensive experience as a non-executive director with a strong background in corporate governance, strategic planning, capital developments, risk management and compliance.

## MEETINGS OF DIRECTORS

| | BOARD MEETINGS | | COMMITTEE MEETINGS Audit & Risk | | Corporate Governance | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| T Lawler | 4 | 5 | 1 | 2 | 2 | 2 |
| K Wood | 5 | 5 | * | * | 2 | 2 |
| J Eather | 5 | 5 | 2 | 2 | 2 | 2 |
| B Crossley | 4 | 5 | 1 | 2 | 2 | 2 |
| R Chappel | 4 | 5 | * | * | * | * |
| C Cifuentes | 4 | 5 | 2 | 2 | 2 | 2 |
| S Ivens | 4 | 5 | * | * | * | * |

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 half year ended 31 December 2012 was $32.07m compared with $30.22m for the previous half year.

## REVIEW OF OPERATIONS

## FINANCIAL

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 year to date profit before tax is favourable to budget by $7.76m.

## SUBSEQUENT EVENTS

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

## DIRECTORS INDEMNIFICATION

Hunter Water Corporation has an agreement to indemnify the Directors and secretary of the Corporation and its Controlled 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 half year ended 31 December 2012.

## 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 Chair |
| Mr | T | Lawler | Board Chairman |
| Ms | B | Crossley | Director |
| Ms | C | Cifuentes | Director |

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 Corporation's external auditors; and
- Oversee Hunter Water's fraud and corruption control policies and plans.

## CORPORATE GOVERNANCE COMMITTEE

The Parent Entity has a Corporate Governance Committee with its primary objective to overview Board strategic direction and business performance. This Committee includes duties required by Treasury processes for a Board Nominations Committee.

The committee's main objectives are to:

- To review the development and implementation of principles, policies and practices of Corporate Governance, Risk Management and Internal Controls.
- To make recommendations to the Board, in relation to the above, as appropriate.
- Review the skills of Directors and make recommendations, where required, to Treasury as part of Nominations to Boards of State Owned Corporations process.

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

| | | | |
|---|---|---|---|
| Mr | T | Lawler | Chair |
| Ms | B | Crossley | Director |
| Mr | J | Eather | Director |
| Ms | C | Cifuentes | Director |
| Mr | K | Wood | Director |

## DIRECTORS' BENEFITS

During or since the end of half year no Director of the Economic Entity has received or become entitled to receive a benefit 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

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

## ENVIRONMENTAL REGULATION

Operations of the Parent Entity are subject to licences issued under the *Protection of the Environment Operations Act 1997*. During the financial year the Parent Entity materially complied with all requirements in respect to these licences and associated legislation.

T Lawler
Chair

K Wood
Managing Director

Newcastle
February 2013

## INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2012

| | Economic Entity | | Parent Entity | |
|---|---|---|---|---|
| | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 |
| **Revenue** | | | | |
| Services | 157,772 | 147,993 | 151,170 | 141,928 |
| Other income | 681 | 1,263 | 4,503 | 662 |
| **Total Revenue** | 158,452 | 149,256 | 155,673 | 142,590 |
| **Expenditure** | | | | |
| Operational costs | (65,125) | (59,602) | (60,306) | (56,196) |
| Depreciation and amortisation | (22,104) | (26,533) | (21,694) | (26,148) |
| Finance costs | (36,032) | (32,901) | (36,117) | (33,017) |
| Other | (3,125) | - | (3,327) | (186) |
| **Total Operating Expenditure** | (126,386) | (119,036) | (121,444) | (115,547) |
| **Profit Before Income Tax Expense** | 32,066 | 30,220 | 34,228 | 27,043 |
| Income tax expense | (8,855) | (7,009) | (7,934) | (5,848) |
| **Net Profit for the Half Year From Continuing Operations** | **23,211** | **23,211** | **26,294** | **21,195** |
| Profit is attributable to: | | | | |
| Members of the entity | 23,211 | 23,211 | 26,294 | 21,195 |
| | **23,211** | **23,211** | **26,294** | **21,195** |

## STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2012

| | Economic Entity | | Parent Entity | |
|---|---|---|---|---|
| | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 |
| **Profit for the half year** | **23,211** | **23,211** | **26,294** | **21,195** |
| **Other comprehensive income** | | | | |
| Net increase/(decrease) in property plant and equipment revaluation reserve | (593) | (2,510) | (593) | (2,510) |
| Reallocation of revaluation reserve to retained earnings on asset retirements | 647 | - | 647 | - |
| **Total other comprehensive income** | 54 | (2,510) | 54 | (2,510) |
| **Total comprehensive income for the half year** | **23,265** | **20,701** | **26,348** | **18,685** |
| Total comprehensive income for the half year is attributable to: | | | | |
| Members of the entity | 23,265 | 20,701 | 26,348 | 18,685 |
| | **23,265** | **20,701** | **26,348** | **18,685** |

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

| | Economic Entity | | | Parent Entity | | |
|---|---|---|---|---|---|---|
| | 31-Dec 2012 $'000 | 30-Jun 2012 $'000 | 31-Dec 2011 $'000 | 31-Dec 2012 $'000 | 30-Jun 2012 $'000 | 31-Dec 2011 $'000 |
| **Current Assets** | | | | | | |
| Cash and cash equivalents | 16,152 | 10,724 | 8,727 | 14,699 | 3,377 | 4,495 |
| Trade and other receivables | 58,994 | 42,188 | 61,501 | 59,169 | 43,763 | 59,563 |
| Inventories | 2,533 | 2,504 | 2,580 | 2,533 | 2,504 | 2,580 |
| Assets held for sale | 3,619 | 13,360 | 20,228 | 3,619 | 13,360 | 20,228 |
| Other assets | 2,205 | - | 1,464 | 968 | - | 335 |
| Total Current Assets | 83,503 | 68,776 | 94,500 | 80,986 | 63,004 | 87,201 |
| **Non-Current Assets** | | | | | | |
| Other financial assets | - | - | - | 900 | 900 | 900 |
| Property, plant & equipment | 2,955,918 | 2,891,250 | 3,497,247 | 2,963,461 | 2,897,753 | 3,503,066 |
| Intangible assets | 9,501 | 19,645 | 8,909 | 9,198 | 19,332 | 8,633 |
| Total Non-Current Assets | 2,965,419 | 2,910,895 | 3,506,156 | 2,973,559 | 2,917,985 | 3,512,599 |
| **Total Assets** | **3,048,922** | **2,979,671** | **3,600,656** | **3,054,545** | **2,980,989** | **3,599,800** |
| **Current Liabilities** | | | | | | |
| Trade and other payables | 52,862 | 53,694 | 43,210 | 55,942 | 57,327 | 46,527 |
| Current tax liabilities | 6,121 | 4,800 | 7,819 | 7,430 | 4,800 | 6,093 |
| Borrowings | 66,669 | 75,072 | 15,080 | 72,724 | 75,072 | 15,080 |
| Provisions | 24,264 | 43,676 | 25,901 | 20,261 | 40,262 | 22,510 |
| Total Current Liabilities | 149,916 | 177,243 | 92,010 | 156,356 | 177,460 | 90,210 |
| **Non-Current Liabilities** | | | | | | |
| Borrowings | 917,156 | 843,296 | 881,313 | 917,156 | 848,296 | 886,313 |
| Provisions | 104,341 | 104,341 | 48,957 | 93,807 | 93,807 | 44,410 |
| Deferred tax liabilities | 293,311 | 293,859 | 506,084 | 297,519 | 298,067 | 510,466 |
| Total Non-Current Liabilities | 1,314,808 | 1,241,496 | 1,436,354 | 1,308,482 | 1,240,170 | 1,441,189 |
| **Total Liabilities** | **1,464,724** | **1,418,739** | **1,528,364** | **1,464,838** | **1,417,630** | **1,531,399** |
| **Net Assets** | **1,584,198** | **1,560,932** | **2,072,292** | **1,589,707** | **1,563,359** | **2,068,401** |
| **Equity** | | | | | | |
| Contributed equity | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Reserves | 815,693 | 816,286 | 1,277,139 | 815,693 | 816,286 | 1,277,139 |
| Retained profits | 668,505 | 644,646 | 695,153 | 674,014 | 647,072 | 691,262 |
| **Total Equity** | **1,584,198** | **1,560,932** | **2,072,292** | **1,589,707** | **1,563,359** | **2,068,401** |

## STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2012

| Economic Entity | Contributed Equity $'000 | Reserves $'000 | Retained Profits $'000 | Total Equity $'000 |
|---|---|---|---|---|
| **At 1 July 2012** | **100,000** | **816,286** | **644,646** | **1,560,932** |
| Net Profit for the Half Year From Continuing Operations | - | - | 23,211 | 23,211 |
| Other comprehensive income | - | (593) | 647 | 54 |
| Total comprehensive income for the half year | - | (593) | 23,859 | 23,265 |
| **Transaction with owners in their capacity as owners:** | | | | |
| Dividends provided for | - | - | - | - |
| **Balance at 31 December 2012** | **100,000** | **815,693** | **668,505** | **1,584,198** |
| **Balance at 1 July 2011** | **100,000** | **1,279,649** | **671,943** | **2,051,592** |
| Net Profit for the Half Year From Continuing Operations | - | - | 23,211 | 23,211 |
| Other comprehensive income | - | (2,510) | - | (2,510) |
| Total comprehensive income for the half year | - | (2,510) | 23,211 | 20,701 |
| **Transaction with owners in their capacity as owners:** | | | | |
| Dividends provided for | - | - | - | - |
| **Balance at 31 December 2011** | **100,000** | **1,277,139** | **695,154** | **2,072,292** |

## STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2012

| Parent Entity | Contributed Equity $'000 | Reserves $'000 | Retained Profits $'000 | Total Equity $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2012** | **100,000** | **816,286** | **647,072** | **1,563,359** |
| Net Profit for the Half Year From Continuing Operations | - | - | 26,294 | 26,294 |
| Other comprehensive income | - | (593) | 647 | 54 |
| Total comprehensive income for the half year | - | (593) | 26,941 | 26,348 |
| **Transaction with owners in their capacity as owners:** | | | | |
| Dividends provided for | - | - | - | - |
| **Balance at 31 December 2012** | **100,000** | **815,693** | **674,014** | **1,589,707** |
| **Balance at 1 July 2011** | **100,000** | **1,279,649** | **670,067** | **2,049,716** |
| Net Profit for the Half Year From Continuing Operations | - | - | 21,195 | 21,195 |
| Other comprehensive income | - | (2,510) | - | (2,510) |
| Total comprehensive income for the half year | - | (2,510) | 21,195 | 18,685 |
| **Transaction with owners in their capacity as owners:** | | | | |
| Dividends provided for | - | - | - | - |
| **Balance at 31 December 2011** | **100,000** | **1,277,139** | **691,262** | **2,068,401** |

## STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

| | Economic Entity | | Parent Entity | |
|---|---|---|---|---|
| | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 | 31-Dec 2012 $'000 | 31-Dec 2011 $'000 |
| **Cash Flow from Operating Activities** | | | | |
| Receipts from customers (inclusive of goods and services tax) | 142,879 | 134,291 | 133,208 | 128,372 |
| Payments to suppliers and employees (inclusive of goods and services tax) | (65,029) | (79,021) | (57,933) | (75,676) |
| | 77,850 | 55,270 | 75,275 | 52,696 |
| Dividends received | - | - | 6,893 | 3,558 |
| Interest received | 133 | 218 | 81 | 100 |
| Proceeds from environmental levy and developers | 4,515 | 3,140 | 4,515 | 3,140 |
| Borrowing costs | (42,220) | (31,867) | (42,319) | (31,927) |
| Income taxes paid | (8,080) | (5,909) | (6,772) | (4,888) |
| **Net Cash Flows from Operating Activities** | 32,198 | 20,852 | 37,673 | 22,679 |
| **Cash Flow from Investing Activities** | | | | |
| Purchases of property, plant and equipment | (70,694) | (78,732) | (71,332) | (79,717) |
| Proceeds from sales of property, plant and equipment | 4 | 554 | 4 | 554 |
| **Net Cash Flows from Investing Activities** | (70,690) | (78,178) | (71,328) | (79,163) |
| **Cash Flow from Financing Activities** | | | | |
| Proceeds from borrowings | 123,011 | 80,831 | 124,068 | 80,831 |
| Repayment of borrowings | (58,271) | (5,000) | (58,271) | (5,000) |
| Dividends paid | (20,820) | (16,600) | (20,820) | (16,600) |
| **Net Cash Flows from Financing Activities** | 43,920 | 59,231 | 44,977 | 59,231 |
| **Net Increase / (Decrease) in Cash Held** | 5,428 | 1,905 | 11,322 | 2,748 |
| Cash at beginning of financial period | 10,724 | 6,822 | 3,377 | 1,747 |
| **Cash at the End of the Financial Period** | **16,152** | **8,727** | **14,699** | **4,495** |

# NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with applicable 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 Corporation'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*. In preparing the financial statements, the accounting policies described below are based on the requirements applicable to for-profit Entity in these mandatory and statutory requirements.

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

*Historical cost convention*
The financial statements have been prepared on an accruals basis using the historical cost convention, except for the non-current physical assets which are shown at valuation, and assets held for sale which are measured at the lower of the carrying amount and fair value less selling costs.

*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 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 31 December 2012 and the results of the Parent Entity and Controlled Entity for the half 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.

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

## c) Revenue recognition

Revenue is recognised when the entity has passed on control of the good, 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 31 December. 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) Contributions for capital works*
Contributions for capital works include Environmental Levy receipts and contributions from developers.

In accordance with Australian Accounting Interpretations 18, where physical asset contributions are received from developers in return for connection to a service delivery network, contributions are recognised as revenue and assets at their assessed fair value on receipt.

Cash contributions received from developers are recognised as revenue on receipt. Environmental levy receipts are considered revenue in nature and are shown at their cash value.

*(iii) Property sales*
Revenue is recognised on the signing of an unconditional contract of sale.

*(iv) Investment income*
Represents earnings on surplus cash invested in the Economic Entity's bank accounts and NSW TCorp Deposits.

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

(v) *Dividends*
Dividends are recognised as income when the right to receive payment is established.

**d) Income tax**
Hunter Water Corporation and its wholly-owned Australian Controlled Entity, Hunter Water Australia Pty Limited, are subject to the National Tax Equivalent Regime (NTER). An "equivalent" or "notional income tax" is payable to the NSW Government through the Office of State Revenue. The liability for income tax is primarily assessed in accordance with the Income Tax Assessment 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 tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

Current and deferred tax balances attributable to amounts recognised 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 agreements with the tax consolidated Entity are recognised as amounts receivable from or payable to other Entity in the group.

**e) Cash and cash equivalents**
For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within borrowings as 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.

**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.

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

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

**i) Property, plant and equipment**
*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.

In respect of system assets constructed by the Economic Entity for it's 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; and
- 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 accordance with AASB 123, 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 7.6% (8.3% at December 11).

*Valuation*
The Parent Entity has valued its non-current assets in accordance with AASB 116 *Property Plant and 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 system assets are 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, over a 5 year cycle by selecting assets according to a predetermined schedule of five sub asset 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))

When revaluing systems 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 owned by the Parent Entity is valued by registered valuers every 3 years. Land, upon which the Parent Entity's system assets are located, is valued at its value in use by the 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 reverses 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.

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

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

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

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

The estimated useful lives for each class of assets are as follows:

| **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** | 20-100 |

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 5 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 5 years).

**k) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows (cash generating units). The Economic Entity has assumed that one cash generating unit exists for the purposes of impairment due to the integrated nature of the systems in use. This cash generating unit excludes land & non-operational buildings as a market value exists for these assets.

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 of that previous revaluation 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 the reporting period 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. Additionally, all borrowing costs that have been assessed as eligible for capitalisation have been capitalised in line with AASB 123.

**o) Employee benefits**

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

Liabilities for salaries and wages including annual leave and vested sick leave as well as all unconditional employee benefits are recognised as current employee benefits in respect of employees' services up to the reporting date are recognised as current liabilities. They are measured at the nominal undiscounted carrying value. The provision for sick leave represents 50% of the value of untaken leave accrued by wages employees prior to 15 February 1993. This requirement to provide for untaken sick leave ceased from 15 February 1993 with amendments to the Industrial Relations Act 1991.

(ii) *Long service leave*

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

(iii) *Superannuation*
Employees of the Entity within the Economic Entity are members of either defined benefit superannuation funds or defined contribution superannuation funds. The defined benefit superannuation funds provide defined lump sum benefits based on years of service and final average salary. The defined contribution plan receives fixed contributions from the Economic Entity and the Economic Entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of the defined benefit plans is recognised in the Statement of Financial Position. It is measured as the present value of the defined benefit obligation at the reporting date less the fair value of the superannuation fund's assets at that date and any past service cost. Actuarial gains and losses are recognised in equity via the Statement of Comprehensive Income in the year in which they occur. The assessment of these liabilities and assets is undertaken by the funds' administrator, Pillar Administration. Contributions to the defined contribution fund are recognised as expenses as they become payable.

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

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

Receivables and payables in the 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.

**r) Foreign Currency Transactions and Balances**
Foreign currency transactions are translated into Australian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the Income Statement.

**s) Accounting Standards and Australian Accounting Interpretations Issued but not yet Operative**
Certain new accounting standards and interpretations applicable to Hunter Water Corporation and its Controlled Entity have been published that are not mandatory for the half year ended 31 December 2012 period. The Economic Entity and Controlled Entity' 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 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 January 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 Entity 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 2011-9 Presentation of items of other comprehensive income (effective 1 July 2012)

Under the revised presentation requirements Entity are required to separate items disclosed as Other Comprehensive Income (OCI) into two groups based on whether or not they may be recycled through the profit or loss in the future. Given the entity historically records only items that cannot be recycled (i.e. asset revaluation reserve movements), there is no expected impact on the Economic Entity.

(iv) AASB 10 and AASB 12 (effective 1 January 2013)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 and Interpretation 12. AASB 10 introduces a single definition of control. AASB 12 sets out the required disclosures for Entity reporting under AASB 10. There is no expected impact on the Economic Entity.

(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

(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.

## DIRECTORS DECLARATION

In accordance with a resolution of the Directors of the Parent Entity, Clause 14 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 7 to 18) exhibit a true and fair view of the financial position of Hunter Water Corporation and its controlled entity as at 31 December 2012, and transactions for the half 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
Chair

K Wood
Managing Director

Newcastle
February 2013