



Erratum

Hunter Water Corporation
Annual Report 2011-12

On page 87, note 7 Breakdown of Landholdings 30 June 2012 should be reported as follows.

7 Breakdown of Landholdings 30 June 2012

Code description	Number of properties	Value \$m
1 Land fully utilised as an integral part of the Parent Entity's system	382	33.228
2 Land partly used with the unused residue required for future integral needs	2	0.097
3 Land not currently used but fully required for future integral needs	6	2.936
4 Land being partly used, the residue having potential for alternative use	32	24.254
5 Land with significant potential for alternative use	15	3.270
6 Land not currently used but potentially required for future integral needs	55	81.666
Total	492	145.451

As at 30 June 2012, the Entity held properties to the value of \$13.360m that were classified as "Held for Sale" and disclosed in note 10 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 at 30 June 2010.

Land holdings in Codes 1 to 4 have been re-valued to Fair Value based on existing use, whilst land holdings in Code 5 and 6 have been re-valued to Fair Value based on highest and best use.



HUNTER WATER CORPORATION

Annual Report 2011–12



Hunter Water Corporation

The Hunter Water Corporation 2011-12 Annual Report has been prepared in accordance with the relevant legislation for our shareholders the Hon. Barry O'Farrell and the Hon. Bruce Baird, MP, Treasurer, and for the information of the Hon. Gregory Stephen Pearce, MLC, Minister for Finance and Services.

Feedback

We welcome your 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. Printed copies are available on request by calling 1300 657 657.

Address: 36 Honeysuckle Drive, Newcastle NSW 2300

Telephone: 1300 657 657

Fax: 02 4949 9414

TTY: 131 450

Website: www.hunterwater.com.au

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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.



Certified Carbon Neutral, FSC Mixed Sources Certified, 55% recycled (30% pre-consumer, 25% post-consumer), ISO 14001 Environmental Certification, Elemental Chlorine Free.

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About this Annual Report

This Annual Report outlines Hunter Water's activities and performance from 1 July 2011 - 30 June 2012.

It covers highlights from the year as well as reports from our Board and Executive Management Team.

We have provided our financial reports, further statistical information and performance against regulatory frameworks. We also report on the activities of our subsidiary, Hunter Water Australia.

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Letter of Compliance

20 October 2012

Reference: HW2012-775
Telephone: 1300 657 657
Facsimile: 02 4949 9414

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

The Hon Michael Bruce Baird, MP
Treasurer
Parliament House
Macquarie Street
Sydney NSW 2000

The Hon Gregory Stephen Pearce, MLC
Minister for Finance and Services
Minister for the Illawarra
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Premier, Treasurer and Minister Pearce

We have pleasure in submitting the Hunter Water Corporation Annual Report 2011-12 for the financial year ended 30 June 2012, for presentation to the Parliament of New South Wales in accordance with the *Annual Reports (Departments) Act 1985*.

The 2011-12 Annual Report provides an overview of our key performance and highlights as well as the consolidated financial statements for Hunter Water Corporation, including our subsidiary company, Hunter Water Australia Pty Ltd.

Hunter Water will make the 2011-12 Annual Report available electronically at www.hunterwater.com.au following acceptance of this Annual Report in the Parliament of New South Wales.

Yours sincerely



Kim Wood
Managing Director



Terry Lawler
Chairman

Our Organisation

Who We Are

Hunter Water is a State Owned Corporation providing water and wastewater services to over half a million people in the Lower Hunter region. There are 230,140 properties connected to the water network and 218,459 connected to the wastewater network. Our total assets are valued at approximately \$2.9 billion.

Our area of operation covers 5,366km² with a population of 567,526 in the local government areas of Cessnock, Lake Macquarie, Maitland, Newcastle, Port Stephens, Dungog and small parts of Singleton.

We delivered on average 173 megalitres (one megalitre equals 1 million litres) of water per day in 2011-12. Our raw water storages are Grahamstown Dam (189,991 megalitre capacity), Chichester Dam (21,500 megalitres), Tomago Sandbeds (60,000 megalitres) and Anna Bay Sandbeds (16,024 megalitres).

We collect, treat and deliver drinking water to our customers and then transport, treat and dispose of the region's wastewater. Our water consistently meets quality guidelines for drinking water set by the National Health and Medical Research Council.

Our People

Approximatley 480 people were employed at Hunter Water during 2011-12 to deliver great results for the communities of the Lower Hunter. Our staff worked side by side with contractors, alliance members, stakeholders and the community to ensure a sustainable water future for our region.

Our History

The Hunter Water that exists today has had 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. We are governed under the *State Owned Corporations Act 1989* and in 1992 the Hunter District Water Board was corporatised under the Hunter Water Act 1991 and began trading as it is known today – Hunter Water Corporation.

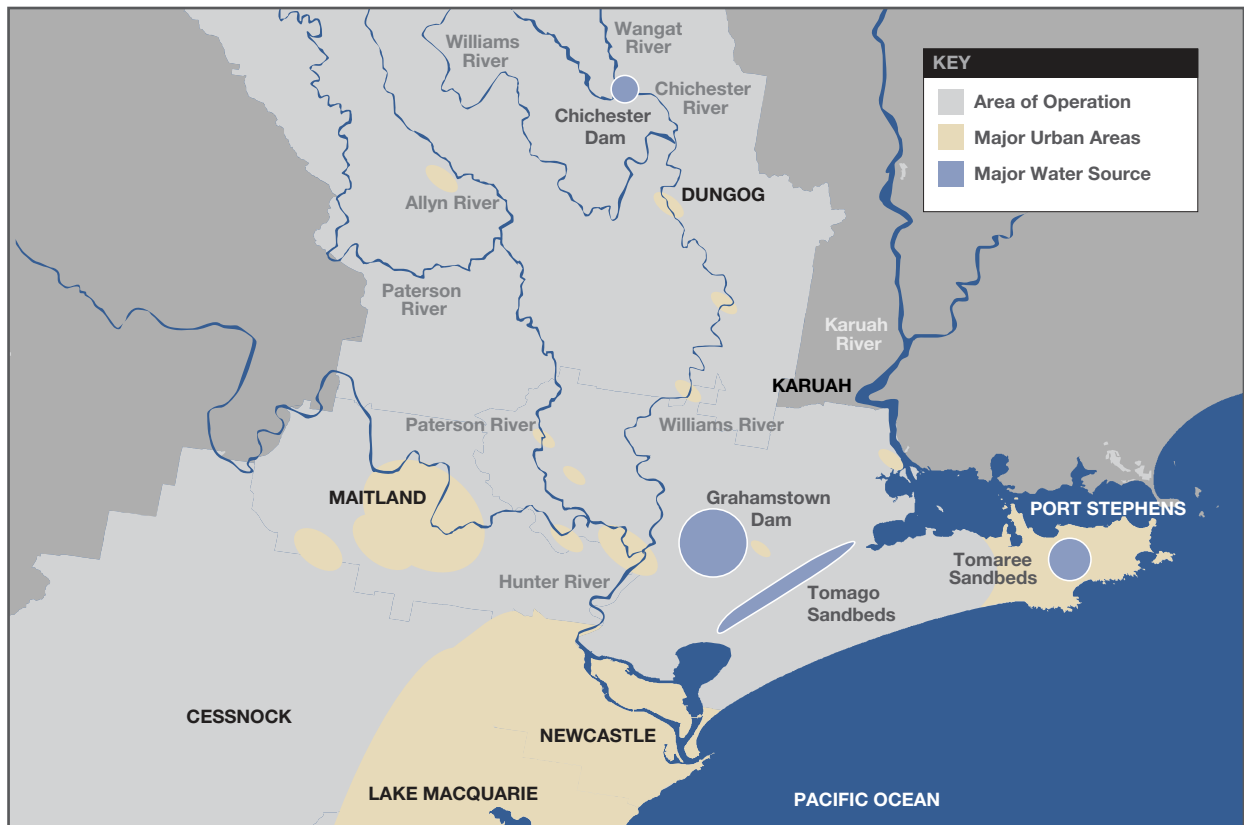
We are proud of our 120 year history of providing high quality water and wastewater services to the local community, our environmental stewardship, our record of leadership in water industry reform and the individual and collective contribution and achievements of our staff and partners.

Regulation

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

The first is the NSW Government's regulatory framework for metropolitan water utilities that protects consumers and the environment through a set of licences and other controls.

The second is the Statement of Corporate Intent that sets out the strategic objectives and business performance targets that are agreed with its shareholders, the NSW Government.



Our Vision and Values



Our Vision

Hunter Water's vision is to reduce the vulnerability of our water supply and meet the growing demand for services, while having a secure financial basis that maximises affordability. All the while meeting our environmental and social obligations, and retaining a high level of community trust.

That is, to be a truly sustainable water business.

We can realise that vision by focusing on four elements of our business:

- Satisfying our community.
- Being financially responsible.
- Having the right infrastructure and resources.
- Working within an effective governance framework.



Cessnock Reservoir works in progress.

Our Values

1. Working Safe

In everything we do we will ask, “what has to be done to ensure the safety of all involved?”. We will continuously seek better safety outcomes. Nothing is more important than working safely.

2. Right Solutions

We will plan and provide efficient solutions in order to meet the demand for water and wastewater services in our region. We will strive to avoid the twin evils of being too late or “gold plating”. We will seek out the most appropriate technologies, partners and delivery methods.

3. Financially Responsible

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

4. 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 capacity in the Lower Hunter.

5. 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 customers and serving those needs.

6. Respect for the Environment

We understand the importance to the community of meeting our environmental obligations. We take responsibility for those obligations and will seek ways to continuously improve our performance.

7. 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 believe in maintaining the highest levels of honesty and integrity in everything we do.

8. Continuous Improvement

We know that there is always a better way. We will challenge accepted ways of doing things and address tough issues. We believe in a better future.

9. Efficient Recovery

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



Highlights

Working Within an Effective Governance Framework

- As part of an initiative to strengthen governance, an accredited Quality Management System has been implemented for the Asset Creation process.
- Strong emphasis has been placed on safety and environmental compliance over the past year with specific training modules developed and rolled out to over 100 project management staff to further strengthen both areas. Audits were also utilised to verify compliance with the documented systems.
- An increased emphasis on corruption control and internal reporting awareness has seen the introduction of an e-learning module that was rolled out to all staff, as well as a refresh of the business ethics section of the Induction Program.
- A Corruption Risk Assessment was completed during 2011-12 in which all staff were invited to participate in an electronic survey. The results were refined over a series of workshops conducted across Hunter Water.

Having the Right Infrastructure and Resources

- Capital investment for the year comprised of a range of complex projects in categories of high voltage, industrial water reuse, wastewater treatment upgrades, security of water supply upgrades, replacement and rehabilitation programs. Mostly private sector design and construction resources were utilised to deliver the infrastructure program. Safety is always given the highest priority with a “zero harm and incident free” target.
- Drivers for this year’s infrastructure investment included safety, growth, regulatory, business and risk. Each project was carefully managed to ensure that the project objectives were achieved and that value for money was obtained. The community was consulted as part of the project delivery process.
- Recognising the need to provide more efficient service to the development community, over the past year the core activities supporting development assessment, network design review and servicing strategy assessment were centralised. The new Developer Services team now act as a single point of contact for developers and their design consultants improving overall service delivery. Our key challenge will be the timely access to network infrastructure supporting growth.

Being Financially Responsible

- Careful consideration was given to all capital expenditure with a total spend of approximately \$135 million for the year. Business cases were developed for new projects including analysis of the proposed expenditure to ensure value for money.
- Spend optimisation was undertaken on all large spend categories. A special energy optimisation team is also in place to identify and achieve savings on energy.

Satisfying our Community

- In an effort to drive improvement in service levels, our new Call Centre service is focused on call quality and first time resolution of customer enquiries. Recognising and addressing the needs of our customers is of key importance. Combined with having the right people with the right attitude serving our customers, this has been a success factor in achieving significant improvements in service level delivery to our customers.

Call responsiveness increased by 20%

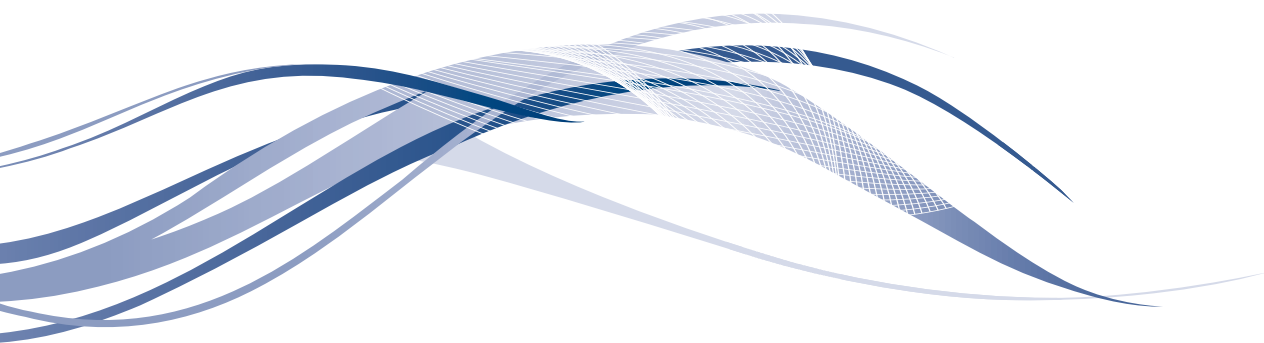
First contact resolution increased by 5%

Overall customer satisfaction with call centre service improved by 5%

- As part of our Water Efficiency Program, more than 3,000 water guzzling showerheads were exchanged for new water efficient models in 2011-12. This will ultimately save 59 million litres of water and save participating customers between \$50 and \$90 per year on their hot water bills.



Chairman and Managing Director's Report



This year marks 120 years of providing an essential service to our community. Hunter Water has a long and proud history of providing quality water, wastewater and drainage services throughout the Lower Hunter. We are committed to achieving our vision of becoming a truly sustainable water business. That is, by balancing the right infrastructure and resources, community satisfaction, financial responsibility, and strong and effective governance. Our aim is to ensure that Hunter Water remains strong and sustainable, and continues to provide real value and affordable essential services to the Lower Hunter for the next 120 years and more.

Ensuring the safety of our employees, contractors and the community remains our highest priority. The provision of safe and reliable drinking water drives us. Ensuring that sewage is safely transported away for effective treatment with minimal impact on the environment motivates us. The safe and efficient delivery of our largest ever four-year capital works program that will deliver the right infrastructure and resources for our growing community is on track for completion by the end of June 2013.

We have commenced the challenge of rebuilding community trust in Hunter Water following the cancellation of the Tillegra Dam project in 2010. This year, we have comprehensively engaged and involved our community and our customers in preparation for Hunter Water's 2012 price submission to the Independent Pricing and Regulatory Tribunal (IPART). We have consulted our stakeholders, and listened and learned from them. We have surveyed, conducted focus groups and undertaken telephone interviews to determine community expectations on affordability.

We understand that, from time to time, some of our customers experience difficulty in paying their bills. The introduction of an Account Assistance Program during the year is one way that we demonstrate our willingness to work with customers who are experiencing temporary financial hardship. We know that a responsible and compassionate response in time of financial difficulty is an important aspect of the way we do business here at Hunter Water.

Our efforts to improve sustainability have been recognised with the awarding of silver partnership status in the NSW Government Sustainability Advantage Program. Hunter Water has focused on water efficiency, energy efficiency, waste reduction, recycling, carbon accounting and overall sustainable business development. We have encouraged our customers and the community to continue to be water savers, and to reduce their water and energy consumption. We feel that the Lower Hunter community is better focused on working towards a sustainable water future than ever.

We are supporting the Metropolitan Water Directorate's leadership of the Lower Hunter Water Plan, providing research and information to assist the planning process. We are confident that the result of this work will be a better understanding of the best response to climate uncertainty and drought events. We will ensure that the community understands the potential solutions, costs and environmental outcomes of the options developed as part of the Lower Hunter Water Plan. We will seek community support in the future implementation of those plans.

As we await our next price path determination from IPART, we are confident that our 2012 Statement of Corporate Intent provides the right key vision, values and drivers for the coming five years.

We look forward to continuing to serve our community.

Terry Lawler
Chairman

Kim Wood
Managing Director

Corporate Governance

Corporate governance describes the system by which Hunter Water is directed and managed. It includes how we define and manage achievement of our objectives, how we manage relationships with our shareholders and how we communicate with our stakeholders, including our customers, employees, regulators and suppliers.

At Hunter Water we believe that establishment and adherence to good corporate governance encourages the Corporation to create value through achieving its objectives, providing accountability in actions and maintaining control of systems against any risks involved in its business.

Board Management

Under the *Hunter Water Act 1991*, our Board comprises 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 our Constitution and the State Owned Corporations Act 1989 upon the recommendation of the Board.

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

Details of our Board of Directors for 2011-12 are available on page 10 of this Annual Report.

Board Committees

The Board receives advice from a number of different areas, including Board Committees. A summary of the key functions for each Committee is listed here:

Audit and Risk Committee

This Committee assists the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, system of internal control, risk management framework and risk profile, audit process and the Corporation's process for monitoring compliance with laws, regulations and Corporation policy. The Internal Auditor, external auditors, Managing Director and other members of management are invited to attend Audit and Risk Committee meetings at the discretion of the Chair of the Committee.

In fulfilling its purpose, the Committee's 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.
- Oversee Hunter Water's fraud and corruption control policies and plans.

Risk management is an ongoing process essential to the vast majority of tasks performed at Hunter Water. We have internal controls in place to mitigate the risks faced by our business. Hunter Water's Internal Audit Group works to a risk based Internal Audit Plan designed to ensure that these controls operate continuously and effectively.

The Legal and Risk Group facilitates review and quarterly updates to the risk profile as part of the Enterprise Risk Management Framework. Regular reports are provided to this Committee on the results of both audits performed and risk profile updates.



Remuneration Committee

This Committee provides overall guidance and endorsement of strategies for succession planning of key management roles and endorsement of overall remuneration strategy. Commencing with the 2012-13 financial year, the functions of this Committee will be undertaken by the Corporate Governance Committee.

Corporate Governance Committee

This Committee oversees the strategic direction and business performance of the Corporation. Where appropriate and relevant in Hunter Water's circumstances, voluntary compliance is made with the principles and recommendations of the ASX Corporate Governance Council in the most recent edition of its ASX Corporate Governance Principles and Recommendations.

The Committee also fulfils the functions of a Nominations Committee, advising the Board on the effectiveness of the Board's composition in enabling it to discharge its responsibilities.

Capital Works Committee

This Committee assists the Board by providing strategic overview of the capital works and research and development programs. This includes provision of a strategic overview of our longer term capital program and the monitoring of progress and post-completion with major items of capital works as they are undertaken.

Community, Environment and Sustainability Committee

This Committee assists the Board in providing direction and monitoring of strategic plans and initiatives which may affect the sustainable use of resources and delivery of services arising from our operations in the context of the Corporation's trading, social and natural environment. The Committee helps to ensure we continue to maintain a proactive and strategic approach in relation to community, environment and sustainability.

Major Customers Committee

This Committee provides direction on strategic and commercial parameters associated with business dealings with major customers. In June 2012, it was decided to discontinue this committee with the functions to be undertaken by the full Board.

Out of Session Committee

This Committee has delegated authority to exercise the powers and authority of the Board, on matters outside the normal Board meeting process. All matters reviewed by this Committee are subject to full Board review at its next meeting. In June 2012 this Committee was discontinued with matters requiring attention outside normal Board meetings now considered by the full Board out of session.

Promotion of Ethical Behaviour

We are committed to maintaining an ethical culture. The primary means of sustaining this culture is the Code of Conduct, that sets out principles governing the conduct and behaviours of Hunter Water employees. We encourage employees to report suspected fraud, corruption, maladministration, and serious or substantial waste; and have a range of avenues and methods for reporting. These methods are in accordance with the requirements of the *NSW Public Interest Disclosures Act 1994*.

Records Management

We have an established Records Management Program that complies with the *NSW State Records Act 1998* and its regulations. We currently use HP TRIM as our electronic document management system, whilst maintaining hardcopy records as appropriate. We review and update our Records Management Program regularly to align more with our current digital environment.

In accordance with the *Government Information (Public Access) Act 2010*, the public has a right to access a wide range of information.



Our Board

At 30 June 2012

Our Board consists of the Managing Director and currently six non-executive, independent directors, one of whom is the Chairman, appointed by the Shareholders.

The Board oversees our policies, management and performance. It sets strategic direction for the Corporation and ensures we achieve our business and regulatory commitments.

Hunter Water's subsidiary company, Hunter Water Australia, has its own Board.

We have a strong corporate governance program that underpins our strategic objectives and commitment to our customers, shareholders and the community. The Board's Corporate Governance and Audit and Risk committees play a key role in setting our corporate governance culture.

KIM WOOD

BEng, DipEng,
MBA, MAICD, FAIM,
FIEAust, CPEng



Mr 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 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. 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.

TERRY LAWLER

B Com, FCA,
FAICD, FAIM



Mr Lawler was appointed as Chairman of Hunter Water Corporation in January 2012 and is also Chairman of Hunter Water Australia Pty Limited (Hunter Water Corporation's Controlled Entity). 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.

JEFF EATHER

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

**RICHARD
ALAN CHAPPEL**

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



Mr Chappel was appointed as a Director on 1 February 2004 and is 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.

**BARBARA
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.

Barbara 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. Barbara has a strong a business and marketing focus.

**SUSAN
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 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 Businessperson of the Year award in 2006.

**CRISTINA
CIFUENTES**

B Ec (Sydney),
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 a former Director of 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 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.

**STEPHEN
PHILLIPS
COMPANY SECRETARY**

ADipEng, GDipMgmt,
GDipACG, MBA,
MComLaw, JP,
FCIS, FCSA, FAICD



Stephen Phillips was appointed by the Board as Company Secretary in April 2012. He is also the Executive Officer overseeing strategy, governance and corporate services. Stephen has worked extensively within government and the private sector including local and internationally-listed companies. He has also served as a Director on various industry, government and NFP Boards including the Energy and Water Ombudsman of NSW (EWON) and is currently a Director of several privately-held companies.

Stephen's professional background spans Utilities (Water, Energy and Telecommunications), State and Local Government, Information Services, Technology Manufacturing and Professional Services. Stephen was previously General Manager Customers and Commercial Development for Hunter Water Corporation and also served as Company Secretary.

He is a Fellow of the Australian Institute of Company Directors (AICD), a Fellow of the Chartered Secretaries Australia (CSA), and a Fellow of the Institute of Chartered Secretaries and Administrators (ICSA). He is also a member of the Commercial Law Association of Australia (CLA) and the Law Council of Australia (International Law Section).

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 our operations through a number of regulatory bodies and instruments.

Operating Licence

Our Operating Licence is administered by the Independent Pricing and Regulatory Tribunal of NSW (IPART) and is issued by our Portfolio Minister.

The five year Operating Licence issued to Hunter Water in 2007 ended in June 2012. Hunter Water has a new Operating Licence which came into effect on 1 July 2012.

The Operating Licence is the overarching regulatory instrument. The 2007-12 Operating Licence set out operating responsibilities, system and service standards and customer rights. It also established frameworks for drinking water quality, infrastructure performance, environmental management and water supply and demand management. The Customer Contract also forms part of the Operating Licence. The new Customer Contract came in to effect on 1 July 2011.

IPART conducts an annual independent audit to assess our 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 available on IPART's website upon completion.

Our performance against the conditions set out in the 2007-12 Operating Licence is outlined throughout this Annual Report.

Pricing

Our overall pricing structure is periodically reviewed and determined by IPART. Our most recent price determination sets the prices for four years and came into effect in July 2009. The next price determination process commenced during 2011-12 and will come into effect from July 2013. The applicable pricing during 2011-12 is listed in the statistical information pages of this Annual Report.

Further details on pricing can be found on our website and information about the price determination process can be found on IPART's website.

Wastewater Systems

Since February 2012 the Environment Protection Authority has been responsible for the issue of licences under the *Protection of the Environment Operations Act 1997* for our wastewater pipe network, pumping stations and treatment systems. Prior to this time this 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 now solely issued under the *Water Management Act 2000*. Up until November 2011 some licences had been issued under the former *Water Act 1912*. Further information about water access licensing arrangements can be obtained from the NSW Office of Water website.

Drinking Water Quality

At Hunter Water, we supply high quality drinking water to our customers. The drinking water we supply 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.

Under our Operating Licence, we are required to comply with guidelines which provide a solid foundation for assessing drinking water quality.

We also work closely with NSW Health to ensure that all current and emerging issues associated with drinking water quality are identified and assessed.

Area of Regulation	Regulator/ Stakeholder	Regulatory Instrument/s
Pricing, operations, service standards, customer protections, drinking water quality	Independent Pricing and Regulatory Tribunal of NSW (IPART)	Operating Licence Price Determination Customer Contract
Obligation to shareholders	NSW Treasury	Statement of Corporate Intent
Wastewater licensing	NSW Environment Protection Authority (EPA)	Environment Protection Licences
Water extraction licensing	NSW Officer of Water (NOW) <i>Part of the NSW Department of Primary Industries</i>	Water Management Licences

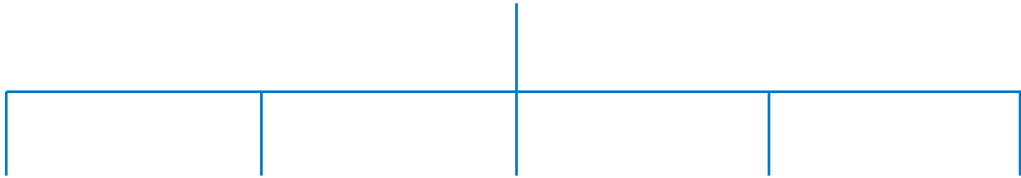
Our Organisational Structure



JIM KEARY
General Manager
Hunter Water Australia



KIM WOOD
Managing Director
Hunter Water Corporation



STEPHEN PHILLIPS
Executive Officer
Company Secretary

- Corporate Strategy and Regulation
- Marketing and Stakeholders
- Corporate Services
- Internal Audit
- General Counsel
- Human Resources
- Workplace, Health and Safety



DEAN TAYLOR
Executive Manager
Customer Services

- Billing and Collections
- Commercial Services
- Customer Contact
- Developer Services
- Technical Services



CHRIS TURNBULL
Chief Operating Officer

- Lower Hunter Water Plan
- Program Management Office
- Maintenance Services
- System Operations
- Planning
- Infrastructure Delivery



FIONA CUSHING
Chief Finance Officer

- Finance
- Procurement



JOANNE MARTIN
Chief Information Officer

- ICT Operations
- Business Improvement
- Technical Information
- Program Delivery
- Portfolio and Strategy

Right Infrastructure and Resources

Planning for Future Water Security

The Metropolitan Water Directorate within the Department of Finance and Services is leading a whole-of-government approach to develop the Lower Hunter Water Plan. This plan will consider a range of options to secure the water supply for the Lower Hunter, except the previously rejected Tillegra Dam.

The Lower Hunter was fortunate to escape the most recent drought that affected most of NSW but it is not immune. Solutions will be identified to improve water security for the region during drought and to meet the needs of our growing population.

The Metropolitan Water Directorate, in consultation with stakeholders and experts, will oversee quality control and review of data, modelling and options development, as well as lead portfolio development and analysis, community engagement and publication of the plan itself.

Solutions will be identified to improve water security for the region and to meet the needs of our growing population.

Hunter Water is providing research and information to support the planning process including modelling and technical investigations of specific options.

The Lower Hunter Water Plan will be developed in close consultation with the community and stakeholders to ensure the Metropolitan Water Directorate understands community expectations and needs in relation to water supply and developing the plan. This approach is consistent with the National Urban Water Planning Principles adopted by all Australian State governments.

A comprehensive community engagement plan is currently being developed that will provide opportunities for the community and stakeholders to provide input throughout the Plan's development, in line with the National Urban Water Planning Principles.

In June 2012 the NSW Government announced establishment of the Independent Water Advisory Panel which will provide independent expert advice on developing the Lower Hunter Water Plan, the Metropolitan Water Plan for greater Sydney and other metropolitan water planning matters.

The Panel comprises of experts in urban water planning, water resource management, hydrology and water

systems planning, the economics of urban water systems, community engagement and social research, environmental and natural resource management.

Sustainability Efforts Achieve Silver Status

In 2012 Hunter Water achieved silver partner status in the NSW Government's Sustainability Advantage Program.

The aim of the Program is to promote sustainability as the focus for government and industry partnerships and to assist NSW businesses invest, compete and grow sustainably. Hunter Water was one of the first organisations in the Hunter to join the Sustainability Advantage program five years ago in 2007.

Our silver partner status was awarded as a result of a range of work that we have delivered on water efficiency, energy efficiency, waste reduction, recycling, carbon accounting and overall sustainable business development over the past few years.

Progression requires considerable dedication and the provision of real, tangible results that make a substantial difference to our business and the region. The Sustainability Advantage Program has complemented our existing sustainability activities and the program has provided a good framework for benchmarking progress and achievements.



NSW Government Sustainability Advantage Program awards Hunter Water Silver Partner status, presented by The Hon. Robyn Parker, MP, Minister for the Environment.

Asset Creation Framework Achieves ISO Certification

During 2011 the Asset Creation Framework, a system that supports the development and delivery of capital infrastructure assets at Hunter Water, achieved ISO 9001 certification. This certification was awarded by an independent third party JASANZ accredited organisation that determined the Asset Creation Framework met all requirements of a Quality Management System.

The Framework has been developed with a focus on satisfying customer requirements and assessing areas for improvement. To maintain the certification improvement areas are identified via customer feedback and assessment, user feedback, management review and internal compliance audits, along with annual external audits.

Using the Asset Creation Framework to ensure consistency and quality for our customers the capital works program for 2011-12 delivered \$135 million in capital assets and \$488 million over the price path to date.

The certified framework was developed by the Program Management Office working closely with staff and senior managers. The Quality Certified Asset Creation Framework aligns with the Corporation's strategic business objectives and is the first step in Hunter Water attaining a corporate certified Quality Management System.

Recycled Water Initiative Achieves Significant Savings

Kooragang Industrial Water Scheme will be the largest recycled water project in the Lower Hunter when completed. Detailed design for the Scheme commenced in late 2011 and the contract for the design and construction of the advanced water treatment facility was awarded in March 2012. It is expected that the Scheme will be commissioned by December 2014.

Once commissioned, the Scheme will save 3,300 megalitres of potable water each year and will increase our recycling rate from around 9.5% to 15%. The emissions from the recycled water facility will be fully offset saving 3,900 tonnes of carbon emissions a year which is around 78 million black balloons.

This Scheme will provide significant environmental benefits, with dry weather effluent flows from Shortland Wastewater Treatment Works no longer discharged to the Hunter River when the advanced water treatment facility is operating.

The \$70 million scheme involves construction of an advanced water treatment facility at Steel River which will take effluent from the Shortland Wastewater Treatment Works and produce high quality recycled water. An eight kilometre pipeline to deliver the recycled water to users on Kooragang Island will be constructed. A water educational facility will also be constructed at the advanced water treatment facility to raise awareness within the community of sustainable urban water management, including recycled water, across the entire network of our operations.

This project is funded by Hunter Water and through the Australian Government's Water for the Future initiative through the *National Urban Water and Desalination Plan*.



Improved Emergency Management Communication

Hunter Water's commitment to emergency communication planning continues to play a vital part in our emergency preparedness and response.

We have developed an emergency response website communication tool in answer to lessons learnt from Australian and international essential service organisations' experiences communicating effectively with customers and the community during natural disasters.

Traditionally we relied on the media to convey emergency response information to the broader community. However, our customers have the expectation that they should be able to access information from a range of sources, including Hunter Water.

An online emergency response communication tool allows us to more effectively manage the information conveyed and improve the timeliness of its distribution to our customers and the community.

The tool is designed with flexibility in mind and can be configured as an incident alert for localised, short events on the Hunter Water website home page or can have a

link from the home page to a dedicated web page for larger and longer events that require the provision of ongoing information.

The information displayed on the home page provides the location, type and details of the service interruption. The tab-based web page provides comprehensive information and incorporates the use of Google Maps to plot incident locations, present latest updates, fact sheets, media releases and access to other government and non-government support websites.

In early December 2011 a simulated emergency management exercise was conducted at our Honeysuckle Head Office to train staff in emergency management and response procedures and processes.

The online tool was tested in this simulated environment and found to provide a valuable and timely method of conveying important messages to the public in times of emergency. The tool has also been used to convey key messaging to customers during recent minor operational water discontinuity events.

We will continue to review and update this tool to ensure our customers and the community are kept informed when service interruptions occur.



Working Together to Achieve a Smooth Transition

During 2011-12 Hunter Water worked collaboratively with NSW Fair Trading to transition the responsibility for regulation of plumbing and drainage. From 1 July 2012 NSW Fair Trading took the responsibility for the regulation of all onsite plumbing and drainage across NSW, while Hunter Water maintains responsibility for the protection of our assets.

To prepare for the transition, a series of briefing sessions were held to ensure that all staff had the necessary information to customers providing high levels of customer service to customers. All internal processes and procedures were modified to ensure a seamless transition for customers.

Industry briefing sessions were also held throughout our area of operations to ensure that plumbers and drainers had access to information regarding the change.

Hunter Water and NSW Fair Trading have committed to a Memorandum of Understanding to ensure that we continue to work together on plumbing related issues.

Cultivating a Continuous Improvement Culture

For the past 10 years Hunter Water has been involved with the University of Newcastle's Industry Scholarship Scheme. This partnership demonstrates our commitment to providing workplace experience for high-calibre university students who are recipients of the scholarships.

The students are from a variety of business areas and their placements with Hunter Water throughout their degrees allows them to gain hands-on experience and put their studies into practice as part of an active work environment.

The scholars are part of a broader development program for young professionals at Hunter Water which involves rotating them through different areas of the business for each of their placements. Their placements have a focus on project-based work to provide the opportunity for them to develop a range of skill sets.

Common feedback from Industry Scholars acknowledges the benefit of interaction with the workplace and the competitive edge this provides them.



University of Newcastle Industry Scholar, Catherine Richards, on placement with Hunter Water.

Satisfied Community



Hunter Water staff out in the community.

Involving the Community in Our Future Prices

Hunter Water's overall pricing structure is determined by the Independent Pricing and Regulatory Tribunal (IPART) which is an independent NSW government agency that sets prices for a range of government services including water, sewerage and drainage.

Our current prices were set by IPART in 2009 as part of a four year pricing structure which expires on 30 June 2013. IPART will review our costs and detailed pricing submission to set our prices for the next pricing period that begins in July 2013 and runs for four years.

We are committed to involving the community in the preparation of our price submission. We invited customers and the community to express their views on future water prices through a survey.

The aim of the research was to better understand our customers' and community's views on the issues of affordability, willingness to pay and service level standards. The research involved focus group meetings with a cross section of our customer base and stakeholder interviews and consultation with major customers. A brochure was sent to all Hunter Water customers that explained the price setting process and invited community participation in an online survey or to attend a local library information session. In addition, a telephone survey was also undertaken with a random sample of our customers.

The results of the survey were analysed and used to inform our pricing submission to IPART in September 2012.

Working in Partnership for Continuous Improvement

Hunter Water's commitment to building partnerships and providing superior customer service to our major customers has continued to develop through direct account management and collaborative working relationships.

We have worked closely with our major customers to obtain accurate water demand forecasts to support the price path determination and development of the Lower Hunter Water Plan. This approach has improved the accuracy of the forecast by including factors such as scaling of production and efficiencies in industrial water use which have not previously been considered.

We also completed a smart metering trial in March 2012 which saw eight major customers test the capability of data loggers attached to their main meters. The loggers provided information to effectively manage water usage and quickly identify leaks. The outcomes were very successful, conclusively demonstrating the value of this low-cost, reliable technology.

Helping Our Customers in Times of Hardship

Hunter Water's new Account Assistance Program was developed in consultation with key external stakeholders to address ongoing affordability issues faced by customers in the Lower Hunter.

We understand that many customers experience financial hardship, whether temporarily or ongoing. The Account

Assistance Program is available for customers who are at risk of non-payment of bills and ongoing debt due to financial hardship and provides ongoing case managed assistance.

We are assisting customers with payment plans, Payment Assistance Scheme vouchers, referral to financial and personal counsellors as well as providing basic advice on alternative external community services available. We will also hold interest on the account in line with the Customer Contract for those customers who are experiencing financial hardship.

This support service will continue to be implemented across Hunter Water, with an increased focus on proactive identification of hardship customers and ensuring that customers do not accrue unmanageable debt.

Taking Customer Service Delivery to a New Level

In July 2011 Hunter Water's Call Centre operations transferred to Maitland-based Sykes Australia to enable greater flexibility and improvement in the delivery of our customer services.

Our research shows that our customers want a high standard of service that is convenient and easy for them. Our customers also tell us that they like doing business with those who understand the place where they live.

Understanding our customers' needs, along with our commitment to provide value while meeting their growing expectations, was the key driver behind this service partnership decision which also ensured our Call

Centre operations remained in our geographical area of operations.

Since the successful transition of our Call Centre operations we have realised the benefits of this partnership, achieving improvements in customer satisfaction, first contact resolution and call responsiveness.

Helping Our Customers Save Water

Over the past year, Hunter Water implemented a number of highly successful water efficiency initiatives, aimed at helping customers save water and lessen their impact on the environment.

The Showerhead Exchange Program, which was run in partnership with Lower Hunter Councils, Ausgrid, the Australian Tax Office and The University of Newcastle, encouraged residents to swap their old water guzzling showerheads for a new water efficient model.

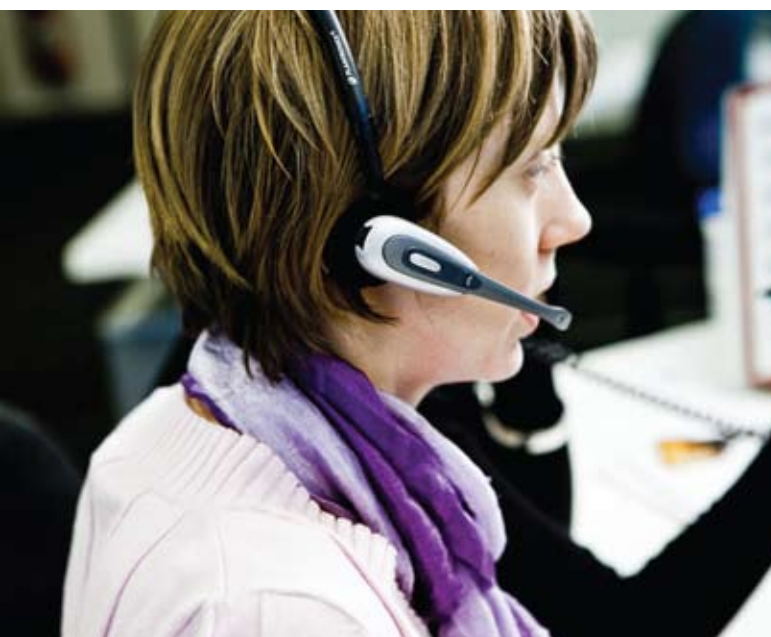
The program resulted in over 3,000 exchanges across the Lower Hunter and has provided an estimated saving of 29 million litres of water and 522 tonnes of greenhouse gases per year. With showers being one of the largest water and electricity users in the home, this program is an integral residential water efficiency and sustainability program, proactively assisting customers to reduce their carbon footprint.

We also worked in partnership with Newcastle City Council this year to install two drinking water stations to encourage drinking tap water and reduce the use of disposable plastic bottles.

The stations were installed along the popular walking and cycling tracks at the Stockton Foreshore Park and Dixon Park.

The Hunter Business Water Savers Program, delivered in partnership with the Hunter Business Chamber, aims to improve water efficiency in amenities and commercial kitchens for Hunter Water's business customers. During 2012, 27 medium and large businesses were involved with the program and between them, identified water savings of 39 million litres per annum.

As part of the Program, a water efficiency grant of up to \$10,000 was awarded to the business that could deliver the most innovative water efficiency saving idea for their business. The winner was the East Maitland Bowling Club who proposed to remove two existing water cooled woks to be replaced with air cooled woks. The Club also proposed to connect two 10,000 litre rainwater tanks to capture the total roof area above the bowling green and re-use for irrigation. The potential water savings for the project are estimated to be over 3 million litres per annum.



Delivering the Right Infrastructure

Successful performance levels have been achieved for Hunter Water's water and wastewater operational licence in 2011-2012, meeting all key system performance parameters without any significant or major crisis incidents. We are on track to deliver a four year capital investment program of around \$650 million by 2013.

Several highlights within this year's \$135 million infrastructure program include the Watermain Replacement Program, replacement of the Chichester Trunk Gravity Main in priority areas and working in partnership with the Hunter Treatment Alliance on wastewater treatment projects.

Watermain Replacement Program

Hunter Water is improving the water supply system by replacing aged and damaged watermains across our network. This work reduces the risk of pipe breaks and helps maintain good quality drinking water. Watermain replacement involves a number of important steps including monitoring our pipeline network; recommending specific watermains for replacement; planning, designing, constructing and then connecting the new watermain to the existing network; and restoring any disturbed surfaces as close as possible to their pre-existing condition.

Chichester Trunk Gravity Main

The Chichester Truck Gravity Main is a key Hunter Water asset. It is the only Hunter Water owned pipe to supply water to about 40,000 properties in the Maitland and Cessnock areas. This year, a 2.7 km section of the pipe was upgraded between Beresfield and Stoney Pinch Reservoir. This upgrade will ensure that we continue to meet the demand for water in these areas.

Wastewater Treatment Projects

In 2011-12 the Hunter Treatment Alliance celebrated three years of successful upgrade projects. Comprising of Hunter Water, Abigroup and CH2M Hill, the Alliance formed in 2009 to undertake \$240 million worth of wastewater treatment works upgrades over five years. So far the Hunter Treatment Alliance has delivered \$136 million of works at Branxton, Paxton, Boulder Bay, Burwood Beach and Toronto Wastewater Treatment Works. The upgrades have improved the effluent quality discharged from the plants and ensured that the plants can operate reliably and service future growth. Another \$30 million worth of projects are currently underway.

Burwood Clean Beaches Award

In December 2011, Hunter Water received a Highly Commended Water Conservation Award at the Keep Australia Beautiful Hunter Region Clean Beaches Awards.

We were recognised for delivering water quality improvements through previous upgrade works at the Burwood Beach Wastewater Treatment Works, and for engaging with the community and stakeholders in planning for future upgrades.

We have commenced further scientific investigations into the impact of discharges from Burwood Beach Wastewater Treatment Works into the marine environment. These studies will assist in the selection of sustainable long term wastewater management solutions for the Burwood Beach catchment in consultation with the community and regulators.



Burwood Beach Wastewater Treatment Works.

Strengthening Key Infrastructure

Hunter Water has adopted an integrated approach to maintaining and upgrading our assets. We are currently upgrading the backbone of the Newcastle wastewater system to improve its performance during wet weather.

This project has various components including upgrades to the Mayfield to Broadmeadow and Adamstown Wastewater Systems. Both projects were undertaken in 2011-12 to reduce the frequency of wet weather wastewater overflows and surcharges that had been affecting local residents and the environment.

Mayfield was identified as one of the priority areas for improving the performance of the wastewater system. This upgrade involved the construction of a new pumping station and a three kilometre pressure pipeline that extends from the new pumping station to Broadmeadow.

During wet weather, excess water in Mayfield's sewer network is now diverted to the new pumping station over weirs that have been constructed in the network. This upgrade has prevented a bottleneck of excess flows and enabled an effective bypass of flows out of Mayfield and into the main backbone of Newcastle's wastewater system.

Adamstown was also highlighted as a key priority to upgrade due to under-performance of the system in wet weather. A new gravity wastewater pipe system has also been built in residential streets of Adamstown that will connect to a new wastewater pumping station being built at West End Park. A new pipeline has been constructed to connect the pumping station to the horizontal directional drilling pipeline that was constructed in 2006 and connects directly to the Burwood Beach Wastewater Treatment Works.

Engaging With Our Community

Hunter Water has had a great year engaging with our community on a range of environmental and social awareness programs delivered through sponsorships, education, events and activities supported by the Community Funding Program.

Each year our Community Funding Program allows us to give back to local projects that address environmental, water and local community issues that align with our strategic objectives.

In the past year we continued our long standing affiliation with local community services including Hunter Surf Life Saving, Hunter Wetlands Centre Australia, Hunter Central Rivers Catchment Management Authority and Surfest.

Again, we teamed up with Newcastle's Honeysuckle Business District for the Leukaemia Foundation's World's



Employee, Cameron Black, shaving for a cure.

Greatest Shave fundraiser. This year our joint efforts raised an outstanding \$35,673, which placed us as the fifth highest fundraiser in the State.

Our employee funding program encourages staff to participate in community activities that reflect our core values. A number of staff participated in team events achieving great results in the Sparke Helmore Triathlon and adventure racing outdoor challenges.

Contributing to these important initiatives directly benefits the community through sustainability, environmental and social outcomes.

“With supporters like these we are able to provide our services free of charge to patients and continue to fund the important research into finding a cure for cancer.”

The Leukaemia Foundation's Hunter representative, Ms Peree Watson

Financial Statements



Company Particulars

Directors

Mr T Lawler Chairman (from 1 January 2012)

Mr R Robson Chairman (to 31 December 2011)

Mr K Wood Managing Director (from 14 November 2011)

Mr K Young Managing Director (to 29 July 2011)

Mr J Eather Deputy Chairman

Ms B Crossley

Mr R Chappel

Mr G Kennedy (to 31 December 2011)

Ms C Cifuentes

Ms S Ivens (from 1 April 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 2012.

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 (from 1 January 2012)
Mr	R	Robson	Chairman (to 31 December 2011)
Mr	K	Wood	Managing Director (from 14 November 2011)
Mr	K	Young	Managing Director (to 29 July 2011)
Mr	J	Eather	Deputy Chairman
Ms	B	Crossley	
Mr	R	Chappel	
Mr	G	Kennedy	(to 31 December 2011)
Ms	C	Cifuentes	
Ms	S	Ivens	(from 1 April 2012)

Information on Directors

T Lawler

B Com, FCA, FAICD, FAIM

Mr Lawler was appointed as Chairman of Hunter Water Corporation in January 2012 and is also Chairman of Hunter Water Australia Pty Limited (Hunter Water Corporation's Controlled Entity). 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.

R Robson

OAM, FAIM, FAICD, JP

Mr Robson was appointed as Chairman of Hunter Water Corporation on 1 August 1995 until he retired as Director and Chairman on 31 December 2011. Mr Robson was Chairman of Hunter Water Australia Pty Limited and was Chairman of the Regional Land Management Corporation Pty Ltd (prior to it being wound up). He is also a Director of Robson Health Care Pty Limited, Chairman of Australian Film and Pipe Pty Ltd, Chairman of Banlaw Pipeline Pty Ltd, Chairman of Cromford Pty Ltd, Chairman of CopperChem Pty Limited and Patron of Newcastle/Hunter Valley Rugby Union.

K Wood

BEng, DipEng, MBA, MAICD, FAIM, FIEAust, CPEng

Mr 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 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. 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 (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 has previously been Chairman of The University of Newcastle Foundation and a Director of The Heal for Life Foundation, 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. Barbara 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. Barbara has a strong a 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 is 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.

C Cifuentes

B Ec (Sydney), 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 a former Director of 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 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 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 Businessperson of the Year award in 2006.

K Young

B Eng, MBA, FIE Aust, CPENG, FAICD

Mr Young was appointed Managing Director on 19 July 2004 until 29 July 2011 when he left to take up an appointment as Managing Director with Sydney Water Corporation. Mr Young was also a Director of Hunter Water Australia Pty Limited until 29 July 2011. Mr Young has extensive experience working in consulting both in Australia and overseas and working for government utilities. Mr Young was previously Chairman of the Water Services Association of Australia whose members serve over 17 million Australians every day with water and wastewater services.

GT Kennedy

Mr Kennedy was appointed as a Director on 1 January 2006 and ceased his Directorship on 31 December 2011. Mr Kennedy is the Secretary of Newcastle Trades Hall Council and currently serves on the Hunter Economic Development Corporation. He is a Director of the Hunter Development Corporation, Chairman of Newcastle and Cardiff Panthers and a Director on the Group Board of the Penrith Panthers. Mr Kennedy holds positions on the Industry Development Centre (IDC) and Disability Advocacy Services Hunter and is the Chair of the IDC Human Resource Committee. He was previously the NSW President of the Communications Workers Union and has extensive experience in the communications area.

SG Phillips – Company Secretary

ADipEng, GDipMgmt, GDipACG, MBA, MComLaw, JP, FCIS, FCSA, FAICD

Mr Phillips was appointed by the Board as Company Secretary in April 2012. He has held senior and executive positions within government and private sector listed companies. He has also served as a Director on various industry, government and Not for Profit Boards including the Energy and Water Ombudsman of NSW (EWON).

Meeting of Directors

	Board Meetings				Committee Meetings	
	A	B	Audit & Risk		Corporate Governance	
			A	B	A	B
R Robson	5	6	2	2	1	1
T Lawler	6	6	3	3	2	2
K Wood	7	8	*	*	2	2
B Crossley	12	12	5	5	1	1
R Chappel	12	12	*	*	*	*
G Kennedy	5	6	*	*	*	*
J Eather	12	12	5	5	*	*
C Cifuentes	12	12	5	5	2	2
K Young	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 2012 was \$47.59m compared with \$33.96m for the previous year. An annual dividend of \$20.82m has been declared for the year ended 30 June 2012.

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 financial year profit result is unfavourable to budget by \$6.29m primarily due lower consumption of water by customers and higher depreciation expense partially offset by additional developer asset contributions.

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 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 Chairman

Mr T Lawler Director – 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 Parent Entity's external auditors; and
- Oversee the Parent Entity'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 now includes duties required by Treasury processes for a Board Nominations Committee. These changes were made effective from the Meeting of the Committee held 5 October 2011. At its meeting of 5 June 2012 the Committee further extended its functions to incorporate those of a remuneration committee.

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 Chair
Ms	B	Crossley	Director
Ms	C	Cifuentes	Director
Mr	K	Wood	Managing Director

Directors' Benefits

During or since the end of the year 30 June 2012 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

Newcastle 28 August 2012



K Wood

Managing Director

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 2012, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of 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 2012, 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 entity'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 entity'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.

Independent Auditor's Report

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 or consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of 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.



M T Spriggins
Director, Financial Audit Services

31 August 2012
SYDNEY

Income Statement for the Year Ended 30 June 2012

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenue					
Services	2	288,013	260,964	275,147	249,279
Other income	2	1	(384)	3,664	2,983
Total Revenue		288,014	260,580	278,811	252,262
Expenditure					
Operational costs	3	(119,927)	(107,071)	(114,101)	(101,910)
Depreciation and amortisation	4	(52,372)	(35,683)	(51,606)	(34,919)
Finance costs	4	(66,230)	(57,079)	(66,447)	(57,310)
Superannuation expense	4	(1,893)	(1,620)	(963)	(831)
Other	4	-	(25,163)	-	(25,163)
Total Operating Expenditure		(240,422)	(226,616)	(233,117)	(220,133)
Profit Before Income Tax Expense		47,592	33,964	45,694	32,129
Income tax expense	5(a)	(14,280)	(9,716)	(12,541)	(8,127)
Net Profit for the Year From Continuing Operations		33,312	24,248	33,153	24,002
Profit is attributable to:					
Members of the entity		33,312	24,248	33,153	24,002
Minority Interest		-	-	-	-
		33,312	24,248	33,153	24,002

The Income Statement should be read in conjunction with the accompanying notes on pages 36 to 70.

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit for the Year		33,312	24,248	33,153	24,002
Other Comprehensive Income					
Net increase/(decrease) in property plant and equipment revaluation reserve		(661,945)	506,761	(661,945)	506,761
Income tax relating to net (increase)/decrease in property plant and equipment revaluation reserve	5(c)	198,583	(151,662)	198,583	(151,662)
Actuarial gains/(losses) on defined benefits fund	24(f)	(56,727)	1,172	(50,381)	1,043
Income tax relating to actuarial (gains)/losses on defined benefits fund	5(c)	16,938	(352)	15,053	(313)
Total Other Comprehensive Income		(503,152)	355,919	(498,690)	355,829
Total Comprehensive Income for the Year		(469,840)	380,167	(465,537)	379,831
Total comprehensive income for the year is attributable to:					
Members of the entity		(469,840)	380,167	(465,537)	379,831
Minority Interest		-	-	-	-
		(469,840)	380,167	(465,537)	379,831

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 36 to 70.

Statement of Financial Position as at 30 June 2012

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current Assets					
Cash and cash equivalents	7	10,724	6,822	3,377	1,747
Trade and other receivables	8	42,188	45,481	43,763	46,405
Inventories	10	2,504	2,163	2,504	2,163
Assets held for sale	11	13,360	127	13,360	127
Total Current Assets		68,776	54,593	63,004	50,442
Non-Current Assets					
Other financial assets	9	-	-	900	900
Property, plant & equipment	12	2,891,250	3,474,468	2,897,753	3,478,929
Intangible assets	13	19,645	7,189	19,332	6,902
Total Non-Current Assets		2,910,895	3,481,657	2,917,985	3,486,731
Total Assets		2,979,671	3,536,250	2,980,989	3,537,173
Current Liabilities					
Trade and other payables	14	53,694	63,710	57,327	66,776
Current tax liabilities	15	4,800	3,536	4,800	3,597
Borrowings	16	75,072	19,018	75,072	19,018
Provisions	17	43,676	42,476	40,262	39,310
Total Current Liabilities		177,243	128,739	177,461	128,701
Non-Current Liabilities					
Borrowings	16	843,296	796,732	848,296	801,732
Provisions	17	104,341	49,920	93,807	45,373
Deferred tax liabilities	18	293,859	509,266	298,067	511,651
Total Non-Current Liabilities		1,241,496	1,355,918	1,240,170	1,358,756
Total Liabilities		1,418,739	1,484,658	1,417,631	1,487,457
Net Assets		1,560,932	2,051,592	1,563,358	2,049,716
Equity					
Contributed equity	19	100,000	100,000	100,000	100,000
Reserves	20(a)	816,286	1,279,649	816,286	1,279,649
Retained profits	20(b)	644,646	671,943	647,072	670,067
Total Equity		1,560,932	2,051,592	1,563,358	2,049,716

The Statement of Financial Position should be read in conjunction with the accompanying notes on pages 36 to 70.

Statement of Changes in Equity for the Year Ended 30 June 2012

Economic Entity	Notes	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total Equity \$'000
Balance at 1 July 2011		100,000	1,279,649	671,943	2,051,592
Net Profit for the Year From Continuing Operations		-	-	33,312	33,312
Other comprehensive income		-	(463,363)	(39,789)	(503,152)
Total comprehensive income for the year		-	(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	816,286	644,646	1,560,932
Balance at 1 July 2010		100,000	924,550	663,475	1,688,025
Net Profit for the Year From Continuing Operations		-	-	24,248	24,248
Other comprehensive income		-	355,099	820	355,918
Total comprehensive income for the year		-	355,099	25,068	380,166
Transaction with owners in their capacity as owners:					
Dividends provided for	6	-	-	(16,600)	(16,600)
Balance at 30 June 2011		100,000	1,279,649	671,943	2,051,592
Parent Entity					
	Notes	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total Equity \$'000
Balance at 1 July 2011		100,000	1,279,649	670,067	2,049,716
Net Profit for the Year From Continuing Operations		-	-	33,153	33,153
Other comprehensive income		-	(463,363)	(35,328)	(498,690)
Total comprehensive income for the year		-	(463,363)	(2,175)	(465,537)
Transaction with owners in their capacity as owners:					
Dividends provided for	6	-	-	(20,820)	(20,820)
Balance at 30 June 2012		100,000	816,286	647,072	1,563,359
Balance at 1 July 2010		100,000	924,550	661,935	1,686,485
Net Profit for the Year From Continuing Operations		-	-	24,002	24,002
Other comprehensive income		-	355,099	730	355,829
Total comprehensive income for the year		-	355,099	24,732	379,831
Transaction with owners in their capacity as owners:					
Dividends provided for	6	-	-	(16,600)	(16,600)
Balance at 30 June 2011		100,000	1,279,649	670,067	2,049,716

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 36 to 70.

Statement of Cash Flows for the Year Ended 30 June 2012

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		270,825	261,573	260,220	252,341
Payments to suppliers and employees (inclusive of goods and services tax)		(145,938)	(134,552)	(141,074)	(131,922)
		124,887	127,021	119,146	120,419
Dividends received		-	-	3,558	3,172
Interest received		440	539	207	346
Proceeds from environmental levy and developers		8,387	6,417	8,387	6,417
Borrowing costs		(56,559)	(45,235)	(56,781)	(45,466)
Income taxes paid		(12,900)	(17,581)	(11,285)	(15,022)
Net Cash Flows from Operating Activities	21	64,255	71,161	63,232	69,866
Cash Flows from Investing Activities					
Purchases of property, plant and equipment		(140,920)	(200,829)	(142,171)	(202,111)
Proceeds from sales of property, plant and equipment		600	2,992	600	2,993
Net Cash Flows from Investing Activities		(140,320)	(197,837)	(141,571)	(199,118)
Cash Flows from Financing Activities					
Proceeds from borrowings		106,869	359,236	106,869	359,236
Repayment of borrowings		(10,300)	(201,327)	(10,300)	(201,327)
Dividends paid	6	(16,600)	(34,100)	(16,600)	(34,100)
Net Cash Flows from Financing Activities		79,969	123,809	79,969	123,809
Net Increase / (Decrease) in Cash and cash equivalents					
Cash and cash equivalents at beginning of the year		6,822	9,691	1,747	7,190
Effects of exchange rate changes on cash		(2)	(2)	-	-
Cash and cash equivalents at End of the year	7(a)	10,724	6,822	3,377	1,747

The Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 36 to 70.

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 2012 were authorised for issue in accordance with a resolution of the Board on 28 August 2012.

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. 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 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 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 2012 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, 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 multiplying the number of days since the last reading date to 30 June by the historic average daily consumption for each property.

(ii) External sales

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

(iii) Contributions for capital works

Contributions for capital works includes 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.

(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 or NSW TCorp Deposits.

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. 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* 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 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.

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 or 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 three years 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; 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 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 8.16% (2011: 8.72%).

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, 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 owned by the Parent Entity is 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.

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

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

Depreciation

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

Class of Fixed Asset	Useful Life (years)
System Assets	
Sewer	
- Sewer mains	80-120
- Sewer Pump Stations	10-75
- Wastewater Treatment Works	10-60
Water	
- Water mains	100-150
- Water Chlorinators	15-50
- Water Pump Stations	10-60
- Water Resources	10-50
- Water Treatment Works	10-50
- Meters	15
Stormwater	100-150
Recycled Water	80-100
General support	
Fleet	3-10
General equipment	3-15
Buildings	25-75

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 and accumulated impairment losses.

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 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 to which they are incurred.

o) Employee Benefits

(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. Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

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.

(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 entities within the Economic Entity are members of either defined benefit superannuation funds or defined contribution superannuation funds. The defined benefit superannuation funds provide defined lump sum benefits based on years of service and final average salary. 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) 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 2012 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, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounts Standards arising from AASB 9 (effective from 1 January 2013)

This new standard currently applies from 1 January 2013, however as the IASB have delayed the application date of IFRS 9 to 1 January 2015 it is likely the AASB will make the equivalent amendment. 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 material impact on the Economic and Parent entity as the entities do not have any Available-for-Sale investments.

(ii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2011-2 Amendments to Australian Accounting Standards arising from reduced disclosure Requirements (effective from 1 January 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 entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2011-2 sets out the details of which disclosures in standards and interpretations are not required under tier 2 reporting.

The Economic Entity is a statutory state 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 entity.”

(iii) AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. This standard does not impact on the Economic or Parent Entity as they do not own investment properties.

(iv) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associated and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. This standard does not impact the Economic Entity as the Economic Entity is deemed to still have control under these revised standards of the Controlled Entity and it is likely that NSW Treasury will mandate consolidation as it currently does under AASB 126 Consolidated Financial Statements.

AASB 11 and AASB 128 do not impact the Economic or Parent Entity as they do not have interests in joint arrangements or associates.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Economic and Parent entity is not expected to affect any of the amounts recognised or disclosures made in the financial statements.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard will not affect the Economic Entity as it is not required to prepare separate financial statements.

(v) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Economic Entity does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The change in disclosures will be mainly in note 1 in regards to references to fair value.

(vi) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. NSW Treasury mandated recognition of actuarial gains and losses in other comprehensive income in 2011 and therefore this change has already been accounted for by the Economic and Parent Entities.

(vii) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements.

(viii) AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB extended relief from preparing consolidated financial statements in certain situations. NSW Treasury have mandated that the parent must prepare consolidated financial statements and therefore this change will have not impact on the Parent entity.

(iv) AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2013)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Economic and Parent Entities intend to adopt the new standard from 1 July 2012.

(v) AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle (effective 1 January 2013)

In June 2012, the AASB made amendments to a variety of accounting standards as a result of the annual improvements review. These changes included additional disclosure of comparative information which may be required to be disclosed by the Economic and Parent Entity in 2013-14.

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 Parent 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 75 year financial model, is highly 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) 75 years (2011: 77 years);
- Real discount rate (before tax) - 6.23% (2011: 7.51%);
- Growth rate – between -0.09% to 1.45% per annum for a period of 5 years (2011: -0.78% to 1.24% pa); and
- Opening written down value of Property, Plant and Equipment

Estimates of future revenues have been based on the final 2009 IPART determination which is applicable up to 30 June 2013 and expected water consumption. Beyond 2013 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 5.67% (calculated using IPART post tax WACC methodology). In the absence of approved future price increases after 1 July 2013, 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.

The estimate of future revenues was changed in 2011-12 to not include revenues that the entity would receive from future capital expenditure. The change in estimate increased the impairment of assets by \$398m. It is not expected that this change in estimate will have an impact on the impairment in future periods

Estimates of future expenditure have been based on the final 2012-13 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 highly sensitive to variations in the forecast expenditure and expected rate of return on these, impairment outcomes can vary greatly. Overall a conservative approach has been taken to minimise the risk of material differences attributable to the uncertainty in future periods.

ii) An estimated pre-tax weighted average cost of capital (WACC) has been used as the discount rate. Calculation of the discount rate applies the standard IPART pre tax WACC formula to the 10 year government bond rate. WACC includes a market determined rate that reflects the risks associated with operating the business. The risk-free component of WACC takes into consideration the forward looking long term average expected inflation.

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

Actuarial assumptions

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	2012	2011
Salary increase rate (excluding promotional increases)	2.50%	3.50%
Rate of CPI increase	2.50%	2.50%
Expected rate of return on assets	8.60%	8.60%
Discount rate	3.06%	5.28%

iii) Demographic Assumptions

The demographic assumptions at 30 June 2012 are those that were used in the 2009 triennial actuarial valuation. The triennial review report is available from the NSW Treasury website.

Note 2. Revenue

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Services					
Tariff - service charges		125,895	113,257	125,895	113,257
Tariff - usage charges		97,302	103,387	97,302	103,387
Other regulated income		5,390	5,690	5,390	5,690
		228,587	222,334	228,587	222,334
External sales		13,240	11,910	48	61
		13,240	11,910	48	61
Developer contributions - environmental charge		5,875	5,625	5,875	5,625
Developer contributions – cash		2,512	1,086	2,512	1,086
Developer contributions – assets		28,615	15,088	28,615	15,088
		37,002	21,799	37,002	21,799
Corporate services		30	1	354	161
Other		9,154	4,920	9,156	4,924
		9,184	4,921	9,510	5,085
		288,013	260,964	275,147	249,279
Other Income					
Interest income		441	535	209	342
Dividends		-	-	3,893	3,558
Gain/(loss) on disposal of assets		(438)	(917)	(438)	(917)
Foreign exchange gain/(loss)		(2)	(2)	-	-
		1	(384)	3,664	2,983
		288,014	260,580	278,811	252,262

Note 3. Operational Costs

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Employee-related costs		40,836	35,161	22,782	19,010
Maintenance expense					
Maintenance-related employee expenses		13,992	13,984	13,989	13,982
Other maintenance expenses		24,264	20,564	24,791	21,061
		38,256	34,548	38,780	35,043
Materials		4,893	5,134	2,762	3,565
Energy		12,666	9,717	12,302	9,384
Plant & vehicles		1,503	1,906	583	1,227
Contracts, property & other		11,320	11,261	36,479	33,444
Cost of external sales		10,453	9,344	413	237
		40,835	37,362	52,539	47,857
		119,927	107,071	114,101	101,910

Note 4. Profit Before Income Tax

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit before income tax includes the following specific net gains and expenses:					
Net gain/(loss) on disposal of					
Property, plant and equipment	2	(438)	(1,170)	(438)	(1,170)
Asset held for sale		-	253	-	253
Foreign exchange gain/(loss)	2	(2)	(2)	-	-
		(440)	(919)	(438)	(917)
Changes in restoration provision		(3)	95	(3)	95
Depreciation and Amortisation					
Amortisation	13 (b) & (c)	3,297	2,332	3,198	2,260
Depreciation	12 (b) & (c)	49,075	33,351	48,408	32,659
Total depreciation and amortisation expense		52,372	35,683	51,606	34,919
Other charges against assets					
Bad and doubtful debts - trade debtors	8	(4)	(245)	10	(259)
		(4)	(245)	10	(259)
Finance Costs					
Amortisation of discount/(premium) on loans		423	478	423	478
Long term borrowings - interest		50,529	42,832	50,529	42,832
Short term borrowings - interest		62	989	279	989
Net (Gain) / Loss on borrowings refinanced		62	491	62	491
Other interest expense		848	160	848	391
Government Guarantee Fee		16,415	12,588	16,415	12,588
Capitalised Finance Costs		(2,109)	(459)	(2,109)	(459)
		66,230	57,079	66,447	57,310
Rental expense relating to operating leases					
Minimum lease payments		3,484	3,296	1,825	1,721
Superannuation Expense/(Revenue):					
Superannuation revenue - defined benefits funds		(1,523)	(1,525)	(1,197)	(1,225)
Superannuation expense - contributions		3,416	3,145	2,160	2,056
		1,893	1,620	963	831
Other					
Developer contribution refunds		-	294	-	294
Tillegra - write-off of capital		-	24,869	-	24,869
		-	25,163	-	25,163

Note 5. Income Tax

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
(a) Income Tax Expense					
Current tax		15,578	13,325	13,959	11,726
Deferred tax		118	(3,645)	36	(3,575)
Under/(over) provided in prior years		(1,416)	36	(1,454)	(24)
		14,280	9,716	12,541	8,127

Deferred income tax (revenue)/expense included in income tax expense comprises:					
(Decrease)/increase in deferred tax liabilities		(1,325)	(3,577)	(1,352)	(3,490)
(Decrease)/increase in deferred tax assets		1,443	(68)	1,388	(86)

(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable

Profit before income tax expense		47,592	33,964	45,694	32,129
Subtract inter-company dividend income		-	-	(3,893)	(3,558)
Profit before income tax excluding dividend		47,592	33,964	41,801	28,571

Tax at Australian rate of 30% (2011 - 30%)		14,278	10,189	12,540	8,571
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:					
Entertainment non-deductible expenses		18	-	16	-
Non-deductible expenses		14	(509)	14	(420)
Australian owned R&D concession claim		(40)	-	(40)	-
		14,270	9,680	12,530	8,151

Under/(over) provision in prior years		10	36	10	(24)
		14,280	9,716	12,540	8,127

(c) Tax Expense/(income) Relating to Items of Comprehensive Income

Net increase/(decrease) in property plant and equipment	20(a)	198,583	(151,662)	198,583	(151,662)
Actuarial gains/(losses) on defined benefits fund		16,938	(352)	15,053	(313)
		215,521	(152,014)	213,636	(151,975)

(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	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening Balance		16,600	34,100	16,600	34,100
Add dividend declared at 20.8 cents per share (2011: 16.6 cents per share)		20,820	16,600	20,820	16,600
Less dividend paid at 16.6 cents per share (2011: 34.1 cents per share)		(16,600)	(34,100)	(16,600)	(34,100)
		20,820	16,600	20,820	16,600

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	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and on hand		4,359	2,625	3,377	1,747
Deposits at call		6,365	4,197	-	-
		10,724	6,822	3,377	1,747

Deposits at call are bearing interest rates between 3.5% and 4.7% (2011: 4.45% and 4.70%)

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		10,724	6,822	3,377	1,747
Balances per Statement of Cash Flows		10,724	6,822	3,377	1,747

Note 8. Trade and Other Receivables

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current					
Trade debtors		40,084	43,801	38,460	41,821
Allowance for Impairment		(276)	(280)	(276)	(266)
		39,808	43,521	38,184	41,555
Prepayments		2,103	1,714	1,686	1,292
Work In Progress		277	246	-	-
Dividend receivable		-	-	3,893	3,558
		42,188	45,481	43,763	46,405

(a) Movement in the allowance for impairment

Balance at beginning of year		280	525	266	525
Amounts written off during the year		(23)	(89)	(23)	(89)
Amounts recovered during the year		(24)	(202)	(9)	(202)
Increase/(decrease) in allowance recognised in Income Statement		43	46	42	32
Balance at end of year		276	280	276	266

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	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Non-current					
Shares in controlled entities - 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

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current					
Consumable stores at cost		2,504	2,163	2,504	2,163
		2,504	2,163	2,504	2,163

Note 11. Assets Held For Sale

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current					
Land held for sale		13,360	127	13,360	127
		13,360	127	13,360	127

Note 12. Property, Plant and Equipment

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

	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Work In Progress \$'000	Total \$'000
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Economic Entity

At 1 July 2010 - fair value

Gross carrying amount	2,949,791	23,087	148,364	41,122	276,642	3,439,006
Accumulated depreciation and impairment	(600,082)	(13,309)	-	(6,422)	-	(619,813)
Net carrying amount	2,349,709	9,778	148,364	34,700	276,642	2,819,193

At 30 June 2011 - fair value

Gross carrying amount	3,842,961	22,682	154,416	63,797	311,072	4,394,928
Accumulated depreciation and impairment	(870,553)	(12,884)	-	(37,023)	-	(920,460)
Net carrying amount	2,972,408	9,798	154,416	26,774	311,072	3,474,468

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	(870,553)	(12,884)	-	(37,023)	-	(920,460)
Net carrying amount	2,972,408	9,798	154,416	26,774	311,072	3,474,468

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	(774,406)	(14,743)	-	(37,422)	-	(826,571)
Net carrying amount	2,531,815	7,369	145,451	25,738	180,877	2,891,250

Parent Entity

At 1 July 2010 - fair value

Gross carrying amount	2,949,791	16,249	148,364	41,122	283,129	3,438,655
Accumulated depreciation and impairment	(600,082)	(10,621)	-	(6,422)	-	(617,125)
Net carrying amount	2,349,709	5,628	148,364	34,700	283,129	2,821,530

At 30 June 2011 - fair value

Gross carrying amount	3,842,961	15,723	154,416	63,797	319,429	4,396,326
Accumulated depreciation and impairment	(870,553)	(9,821)	-	(37,023)	-	(917,397)
Net carrying amount	2,972,408	5,902	154,416	26,774	319,429	3,478,929

	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Work In Progress \$'000	Total \$'000
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	(870,553)	(9,821)	-	(37,023)	-	(917,397)
Net carrying amount	2,972,408	5,902	154,416	26,774	319,429	3,478,929

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	(774,406)	(11,137)	-	(37,422)	-	(822,965)
Net carrying amount	2,531,815	3,362	145,451	25,738	191,387	2,897,753

(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 2011					
Net carrying amount 1 July 2010	2,349,709	9,778	148,364	34,700	2,542,551
Additions	140,226	2,287	5,905	68	148,486
Disposals	(2,719)	(1)	-	(175)	(2,895)
Transfers between classes	14	-	147	-	161
Revaluation: increments/(decrements)	245,396	69	-	(6,766)	238,699
Impairment	269,505	240	-	-	269,745
Depreciation expense	(29,723)	(2,575)	-	(1,053)	(33,351)
Net carrying amount 30 June 2011	2,972,408	9,798	154,416	26,774	3,163,396

	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Total \$'000
Parent Entity 30 June 2011					
Net carrying amount 1 July 2010	2,349,709	5,628	148,364	34,700	2,538,401
Additions	140,226	1,849	5,905	68	148,048
Disposals	(2,719)	(1)	-	(175)	(2,895)
Transfers between classes	14	-	147	-	161
Revaluation: increments/(decrements)	245,396	69	-	(6,766)	238,699
Impairment	269,505	240	-	-	269,745
Depreciation expense	(29,723)	(1,883)	-	(1,053)	(32,659)
Net carrying Amount 30 June 2011	2,972,408	5,902	154,416	26,774	3,159,500

(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 2012					
Net carrying amount 1 July 2011	2,972,408	9,798	154,416	26,774	3,163,396
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	0	271,737
Impairment	(924,225)	(1,406)	-	(9)	(925,640)
Depreciation expense	(45,708)	(2,387)	-	(980)	(49,075)
Net carrying amount 30 June 2012	2,531,815	7,369	145,451	25,738	2,710,373

	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Total \$'000
Parent Entity 30 June 2012					
Net carrying amount 1 July 2011	2,972,408	5,902	154,416	26,774	3,159,500
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	0	271,737
Impairment	(924,225)	(1,406)	-	(9)	(925,640)
Depreciation expense	(45,708)	(1,720)	-	(980)	(48,408)
Net carrying amount 30 June 2012	2,531,815	3,362	145,451	25,738	2,706,366

(d) Valuation Notes

The valuation of assets is based on the modern engineering equivalent replacement asset methodology (MEERA). The valuation of these assets is confirmed by application of a cash generating unit test (CGUT) based on the expected net cash flows to be generated discounted to their present value. The outcome of this test for 2011-12 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 \$928m was processed in 2011-12.

In 2011-12 the water resources assets were expertly revalued as at 30 June 2012 and the remainder of the property, plant & equipment asset base (excluding land, buildings and fleet assets) were indexed by the Australian Bureau of Statistics Construction CPI (1.86%).

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 2010 - cost						
Gross carrying amount	1,124	25,022	580	961	-	27,687
Accumulated depreciation and impairment	(53)	(20,111)	(343)	(442)	-	(20,949)
Net carrying amount	1,071	4,911	237	519	-	6,738
At 30 June 2011 - cost						
Gross carrying amount	1,319	26,474	1,338	989	-	30,120
Accumulated depreciation and impairment	(54)	(21,749)	(605)	(523)	-	(22,931)
Net carrying amount	1,265	4,725	733	466	-	7,189
At 1 July 2011 - cost						
Gross carrying amount	1,319	26,474	1,338	989	-	30,120
Accumulated depreciation and impairment	(54)	(21,749)	(605)	(523)	-	(22,931)
Net carrying amount	1,265	4,725	733	466	-	7,189
At 30 June 2012 - cost						
Gross carrying amount	1,123	28,420	1,346	1,244	13,718	45,851
Accumulated depreciation and impairment	(53)	(24,523)	(849)	(781)	-	(26,206)
Net carrying amount	1,070	3,897	497	463	13,718	19,645

Parent Entity

At 1 July 2010 - cost

Gross carrying amount	1,124	24,472	580	859	-	27,035
Accumulated depreciation and impairment	(53)	(19,676)	(343)	(436)	-	(20,508)
Net carrying amount	1,071	4,796	237	423	-	6,527

At 30 June 2011 - cost

Gross carrying amount	1,319	25,773	1,338	887	-	29,317
Accumulated depreciation and impairment	(54)	(21,242)	(605)	(514)	-	(22,415)
Net carrying amount	1,265	4,531	733	373	-	6,902

At 1 July 2011 - cost

Gross carrying amount	1,319	25,773	1,338	887	-	29,317
Accumulated depreciation and impairment	(54)	(21,242)	(605)	(514)	-	(22,415)
Net carrying amount	1,265	4,531	733	373	-	6,902

At 30 June 2012 - cost

Gross carrying amount	1,123	27,616	1,346	1,142	13,718	44,945
Accumulated depreciation and impairment	(53)	(23,943)	(849)	(768)	-	(25,613)
Net carrying amount	1,070	3,673	497	374	13,718	19,332

(a) Reconciliations

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

Economic Entity 2011

	Easements	Software External	Software Internal	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net carrying amount 1 July 2010	1,071	4,911	237	519	6,738
Additions	88	1,877	772	-	2,737
Disposals	-	(116)	-	-	(116)
Transfers between classes	-	-	(14)	-	(14)
Impairment	106	51	-	19	176
Amortisation expense	-	(1,998)	(262)	(72)	(2,332)
Net carrying amount 30 June 2011	1,265	4,725	733	466	7,189

Parent Entity 2011

	Easements	Software External	Software Internal	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net carrying amount 1 July 2010	1,071	4,796	237	423	6,527
Additions	88	1,729	772	-	2,589
Disposals	-	(116)	-	-	(116)
Transfers between classes	-	-	(14)	-	(14)
Impairment	106	51	-	19	176
Amortisation expense	-	(1,929)	(262)	(69)	(2,260)
Net carrying amount 30 June 2011	1,265	4,531	733	373	6,902

(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:

Economic Entity 2012

	Easements	Software External	Software Internal	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net carrying amount 1 July 2011	1,265	4,725	733	466	7,189
Additions	188	3,689	8	420	4,305
Impairment	(383)	(1,722)	-	(165)	(2,270)
Amortisation expense	-	(2,795)	(244)	(258)	(3,297)
Net carrying amount 30 June 2012	1,070	3,897	497	463	5,927

Parent Entity 2012

	Easements	Software External	Software Internal	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Net carrying amount 1 July 2011	1,265	4,531	733	373	6,902
Additions	188	3,564	8	420	4,180
Impairment	(383)	(1,722)	-	(165)	(2,270)
Amortisation expense	-	(2,700)	(244)	(254)	(3,198)
Net carrying amount 30 June 2012	1,070	3,673	497	374	5,614

Note 14. Trade and Other Payables

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current					
Trade creditors		3,669	3,737	5,266	7,268
Deposits received for services		1,988	2,513	1,988	2,513
Accrued expenses		48,037	57,460	50,073	56,995
		53,694	63,710	57,327	66,776

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

Note 15. Current Tax Liabilities

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Provision for Income Tax Payable					
Opening Balance		3,536	6,370	3,597	5,470
Under/(over) provision for income tax in prior year		(1,415)	1,422	(1,454)	1,422
Amount paid relating to prior year		(2,122)	(7,793)	(2,143)	(6,892)
Amount payable for current year		15,578	13,325	14,174	11,726
Amount paid relating to current year		(10,777)	(9,788)	(9,374)	(8,129)
		4,800	3,536	4,800	3,597

Note 16. Borrowings

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Intercompany Loan		-	-	5,000	5,000
Other loans		918,368	815,750	918,368	815,750
		918,368	815,750	923,368	820,750
Represented By:					
Current		75,072	19,018	75,072	19,018
Non-current		843,296	796,732	848,296	801,732
		918,368	815,750	923,368	820,750

The Parent Entity has an overdraft facility with NSW TCorp which has a limit of \$10m (2011:\$10m)

The Economic Entity has a contingent loan facility with Commonwealth Bank of Australia \$0.3m which was not drawn down at 30 June 2012, a credit card facility with Commonwealth Bank of Australia \$0.2m which was not drawn down at 30 June 2012 and a purchase card facility with National Bank of Australia of \$0.860m which was not drawn down at 30 June 2012.

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 \$925m with NSW TCorp for the 2012 year (2011: \$885m), of which \$918m was used at 30 June 2012 (\$816m at 30 June 2011).

The Parent Entity has a loan of \$5m with the Controlled Entity.

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

Note 17. Provisions

	Notes	Economic Entity		Parent Entity	
		2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Current					
Dividends		20,820	16,600	20,820	16,600
Restoration		435	-	435	-
Rectification		875	152	875	152
Clarence Town Sewer Project		-	4,244	-	4,244
Other		-	430	-	430
Employee benefits - Short Term		6,354	6,635	4,818	5,203
Employee benefits - Long Term*		15,193	14,415	13,314	12,681
		43,677	42,476	40,262	39,310

Non Current

Restoration		140	578	140	578
Employee benefits		104,201	49,342	93,667	44,795
		104,341	49,920	93,807	45,373

*Employee benefits expected to be settled after 12 months		8,817	7,455	7,338	6,400
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Movements in Dividends Provision 2012

	Current	Current
Carrying amount 1 July 2011	16,600	16,600
Less: dividend paid	(16,600)	(16,600)
Add: dividend declared	20,820	20,820
Carrying amount at 30 June 2012	20,820	20,820

Movements in Restoration Provision 2012

	Current	Non Current	Current	Non Current
Carrying amount 1 July 2011	-	578	-	578
(Payments)/Receipts	-	-	-	-
Over/(under) provision adjustment 2012	435	(438)	435	(438)
Carrying amount at 30 June 2012	435	140	435	140

Movements in Rectification Provision 2012

	Current	Current
Carrying amount 1 July 2011	152	152
(Payments)/Receipts	723	723
Carrying amount at 30 June 2012	875	875

Movements in Clarence Town Sewer Project Provision 2012

	Current	Current
Carrying amount 1 July 2011	4,244	4,244
(Payments)/Receipts	(4,244)	(4,244)
Carrying amount at 30 June 2012	-	-

Note 18. Deferred Tax Liabilities

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>Amounts recognised in profit or loss</i>					
Tax bases without an asset carrying amount		(9)	(9)	(9)	(9)
Stock On Hand		751	(649)	751	(649)
Accruals		4,409	2,212	4,639	2,494
Provisions		(11,293)	(11,779)	(10,689)	(11,137)
Inventories		83	74	-	-
Prepayments		301	269	283	269
Land held for sale		38	38	38	38
Property, plant and equipment		(19,605)	(15,635)	(19,711)	(15,739)
		(25,325)	(25,479)	(24,698)	(24,733)
<i>Amounts recognised in the Statement of Comprehensive Income</i>					
Superannuation actuarial gains/(losses)		(30,225)	(13,169)	(26,644)	(11,530)
Revaluation of property, plant and equipment		349,409	547,914	349,409	547,914
		319,184	534,745	322,765	536,384
Total		293,859	509,266	298,067	511,651
Movements:					
Opening balance at beginning of year		509,266	362,282	511,651	364,698
Credited/(charged) to the Income Statement		(1,569)	(3,645)	(1,261)	(3,575)
Credited/(charged) to the Statement of Comprehensive Income		(215,521)	152,014	(213,636)	151,975
Add under provision for deferred tax in prior year		1,683	(1,385)	1,313	(1,447)
Closing balance at end of year		293,859	509,266	298,067	511,651

Note 19. Contributed Equity

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'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 2012 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

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
(a) Reserves					
Asset revaluation		816,286	1,279,649	816,286	1,279,649
		816,286	1,279,649	816,286	1,279,649

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

Asset Revaluation					
Balance at beginning of year		1,279,649	924,550	1,279,649	924,550
<i>Fixed asset revaluation increments from revaluations</i>					
System assets		270,203	245,396	270,203	245,396
General support		33	69	33	69
Buildings		0	(6,766)	0	(6,766)
Land		1,501	-	1,501	-
		271,737	238,699	271,737	238,699
<i>Fixed asset decrements from impairment</i>					
System assets		(924,225)	269,505	(924,225)	269,505
General support		(1,406)	240	(1,406)	240
Buildings		(9)	-	(9)	-
Intangible assets		(2,270)	176	(2,270)	176
		(927,910)	269,921	(927,910)	269,921
Tax effect - deferred tax liability on revaluation reserve		198,583	(151,662)	198,583	(151,662)
Less: assets held for sale tax effect		-	-	-	-
<i>Revaluation decrement of revaluation of:</i>					
Write-back of written down value of decommissioned assets		(5,773)	(1,859)	(5,773)	(1,859)
Transfer to retained profits with respect to decommissioned assets		-	-	-	-
<i>Available for sale reserve:</i>					
Balance at beginning of year		-	-	-	-
Valuation gain/(loss) recognised		-	-	-	-
Deferred tax arising on revaluation		-	-	-	-
		816,286	1,279,649	816,286	1,279,649
(b) Retained Profits					
Retained profits at the beginning of year		671,943	663,475	670,067	661,935
Net profit		33,312	24,248	33,153	24,002
Net income/(loss) recognised direct in equity		(39,789)	820	(35,328)	730
Dividends provided for		(20,820)	(16,600)	(20,820)	(16,600)
Retained profits at end of year		644,646	671,943	647,072	670,067

Note 21. Statement of Cash Flows

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>Reconciliation of profit after income tax to the net cash flows from operating activities</i>					
Net profit for the year from continuing operations		33,312	24,248	33,153	24,002
Net superannuation (income)/expense		(1,523)	(1,525)	(1,197)	(1,225)
Depreciation and amortisation		52,372	35,683	51,606	34,919
(Profit)/loss on sale of non-current assets		438	917	438	917
Tillegra - write-off of capital		-	24,869	-	24,869
Capital asset (non-cash) contributions		(28,615)	(15,088)	(28,615)	(15,088)
Net exchange differences		2	2	-	-
Change in operating assets and liabilities					
(Increase)/decrease in trade debtors		3,713	(814)	3,038	(987)
(Increase)/decrease in inventories		(340)	84	(340)	84
(Increase)/decrease in other operating assets		5,659	5,860	5,653	5,906
(Increase)/decrease in work in progress		(30)	(1)	-	-
Increase/(decrease) in trade creditors		(5,365)	(1,192)	(4,793)	(2,486)
Increase/(decrease) in other operating liabilities		5,211	6,998	5,206	6,999
Increase/(decrease) in provision for income taxes payable		1,264	(2,834)	1,203	(3,871)
Increase/(decrease) in net deferred tax liabilities (recognised on the Income Statement)		114	(5,031)	52	(3,024)
(Increase)/decrease in capitalised borrowing costs		(2,109)	(458)	(2,109)	(458)
Increase/(decrease) in other provisions		152	(557)	(63)	(691)
Net cash inflow from operating activities		64,255	71,161	63,232	69,866

Note 22. Contractual Commitments

(a) Capital Commitments

Aggregate capital expenditure contracted for at balance date but not recognised as liabilities:

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Payable within one year		53,904	55,382	56,972	56,507
Payable later than one year but not later than five years		40,379	1,100	41,442	1,100
Payable later than five years		-	-	-	-
		94,283	56,482	98,414	57,607

Note 23. Lease Expenditure Commitments

	Notes	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>Operating lease commitments in relation to operating leases not provided for and payable:</i>					
Within one year		3,568	3,335	1,925	1,844
Later than one year but not later than five years		5,865	5,751	2,343	2,210
Later than five years		2,577	3,556	83	81
		12,010	12,642	4,351	4,135
Representing:					
Cancellable operating leases		4,831	4,588	3,932	3,831
Non-cancellable operating leases		7,179	8,054	419	304
		12,010	12,642	4,351	4,135

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.

(b) Reconciliation of the present value of the defined benefit obligation

	Economic Entity		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Present Value of partly funded defined benefit obligations at the beginning of the year	158,909	157,750	141,399	139,911
Current service cost	1,535	1,713	1,386	1,525
Interest cost	8,158	7,949	7,250	7,043
Contributions paid by fund participants	1,009	993	879	859
Actuarial (gains)/losses	47,796	(1,162)	42,627	(841)
Benefits paid	(12,141)	(8,334)	(11,170)	(7,098)
Present value of partly funded defined benefit obligations at the end of the year	205,266	158,909	182,371	141,399

(c) Reconciliation of the fair value of fund assets

Fair value of Fund assets at the beginning of the year	110,778	106,923	97,381	93,625
Expected return on fund assets	9,233	8,939	8,097	7,813
Actuarial gains/(losses)	(8,931)	10	(7,754)	202
Employer contributions	1,984	2,247	1,736	1,980
Contributions paid by fund participants	1,009	993	879	859
Benefits paid	(12,141)	(8,334)	(11,170)	(7,098)
Fair value of Fund assets at the end of the year	101,932	110,778	89,169	97,381

(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	205,266	158,909	182,371	141,399
Fair value of fund assets at end of year	(101,932)	(110,778)	(89,169)	(97,381)
Subtotal	103,334	48,131	93,202	44,018
Net Liability/(Asset) recognised in Statement of Financial Position at end of year	103,334	48,131	93,202	44,018

(e) Expense/(income) recognised in Income Statement

Current service cost	1,536	1,712	1,386	1,525
Interest cost	8,158	7,948	7,250	7,043
Expected return on fund assets (net of expenses)	(9,234)	(8,939)	(8,098)	(7,813)
Expense/(Income) recognised	460	721	538	755

(f) Amounts recognised in the Statement of Comprehensive Income

Actuarial losses/(gains) recognised in year	56,727	(1,172)	50,381	(1,043)
Expense/(Income) recognised	56,727	(1,172)	50,381	(1,043)
Cumulative amount recognised in other comprehensive income				
Cumulative Expense/(Income) recognised	85,512	30,765	77,247	26,942

(g) Historical information

	\$'000				
	2012	2011	2010	2009	2008
SASS					
Present value of defined benefit obligation	45,691	41,510	40,008	36,881	34,704
Fair value of Fund assets	(24,573)	(27,852)	(27,158)	(25,850)	(28,473)
(Surplus)/Deficit in Fund	21,117	13,658	12,850	11,031	6,230
Experience adjustments - Fund liabilities	5,673	914	2,315	694	(1,381)
Experience adjustments - Fund assets	2,039	349	(212)	4,365	4,460
SANCS					
Present value of defined benefit obligation	7,275	6,866	6,687	6,394	6,212
Fair value of Fund assets	(2,072)	(2,878)	(2,775)	(2,925)	(3,809)
(Surplus)/Deficit in Fund	5,203	3,988	3,912	3,469	2,403
Experience adjustments - Fund liabilities	864	12	391	379	114
Experience adjustments - Fund assets	245	2	(17)	644	636
SSS					
Present value of defined benefit obligation	152,301	110,532	111,055	103,946	86,452
Fair value of Fund assets	(75,287)	(80,048)	(76,990)	(74,032)	(86,246)
(Surplus)/Deficit in Fund	77,014	30,484	34,065	29,914	206
Experience adjustments - Fund liabilities	41,259	(2,088)	4,667	14,940	(2,045)
Experience adjustments - Fund assets	6,647	(361)	260	16,640	14,136

(h) Fund Assets

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

	2012	2011
Australian equities	28.0%	33.4%
Overseas equities	23.7%	29.5%
Australian fixed interest securities	4.9%	5.7%
Overseas fixed interest securities	2.4%	3.1%
Property	8.6%	9.9%
Cash	19.5%	5.1%
Other	12.9%	13.3%

(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		
	SASS	SANCS	SSS
Actual return on fund assets – 2012	(38,194)	(16,549)	61,031
Actual return on fund assets – 2011	2,282	224	6,409

(l) Expected Contributions

	\$'000		
	SASS	SANCS	SSS
Expected employer contributions	981	315	789

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 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 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) 0.0X (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 2.5% (% 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 (2011: 8.3% pa)
- Expected rate of return on fund assets backing other liabilities of 7.3% pa (2011: 7.3% pa),
- Expected salary increase rate of 4.0% pa (2011: 4.0% pa),
- Expected rate of CPI increase of 2.5% pa (2011: 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 2012), and a deficit of \$22.38m was reported for the Economic Entity.

Economic Entity

	\$'000		
	2012		
	SASS	SANCS	SSS
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

	2011		
	SASS	SANCS	SSS
Accrued benefits	37,178	6,226	79,296
Net market value of Fund assets	(27,852)	(2,877)	(80,048)
Net (surplus)/deficit	9,326	3,349	(752)

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 \$11.38m (2011: \$12.51m).

Note 26. Contingent Liabilities

The Economic or Parent Entity do not have any contingent liabilities.

No significant claims for damages are being negotiated (2011: nil). This does not include matters covered by insurance.

Note 27. Auditors' Remuneration

		Economic Entity		Parent Entity	
	Notes	2012	2011	2012	2011
		\$'000	\$'000	\$'000	\$'000
Audit review of financial statements		249	146	214	122
Other audit fees		4	4	4	4
		253	150	218	126

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 (2011: 100%). Hunter Water Australia Pty Limited acquired assets and liabilities on 2 March 1998 of the Engineering Consulting, Water Treatment Consulting, Survey and 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.

(b) The following related party transactions occurred during the financial year

	Entity	Economic Entity		Parent Entity	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Transactions with Controlled Entities					
Sales					
- Contracts (Fleet etc)	HWA	-	-	220	184
- Consultancy Services	HWA	-	-	140	87
Total sales		-	-	360	271
Purchases					
Purchases - Consultancy services & contracts	HWA	-	-	24,029	20,776
Interest Paid	HWA	-	-	217	233
Dividend Received	HWA	-	-	3,558	3,172
Outstanding balances with Controlled Entities					
Receivables (excl GST)					
- Sales and purchases	HWA	-	-	1	76
- Tax funding agreements	HWA	-	-	766	211
- Dividend receivable	HWA	-	-	3,893	3,558
Total receivables		-	-	4,660	3,845
Payables (excl GST)					
- Sales and purchases	HWA	-	-	3,421	3,364
- Tax funding agreements	HWA	-	-	3,685	1,997
- Inter-company loan	HWA	-	-	5,000	5,000
- Interest Accrued on Intercompany Loan	HWA	-	-	15	20
Total payables		-	-	12,121	10,381
Other Transaction with Related Parties					
Purchases					
Consulting Services	Umwelt (Australia) Pty Ltd	2	50	2	50
	Lawler Partners Pty Ltd	5	-	5	-
Recruitment Services	Peoplefusion Pty Ltd	45	-	22	-
Membership & Subscription Fees	WSAA	150	194	138	194
	EWON	59	54	59	54
Sponsorships	University of Newcastle	208	-	194	-
	Hunter Valley Research Foundation	32	22	32	22

Purchases of Air Conditioning Maintenance Services	Church Air Conditioning	22	23	22	23
Sales					
University courses	University of Newcastle	10	-	-	-
Consulting Services	Hunter Development Corporation	35	-	-	-
	WSAA	28	-	-	-
Outstanding balances with Related Parties					
Receivables	Hunter Development Corporation	11	-	-	-

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 Entities under normal commercial terms and conditions no more favourable than those available to other parties.

The intercompany loan payable to Hunter Water Australia has a term of 10 years, interest is payable at an interest rate equivalent to that paid by the NSW Treasury Corporation 11AM Facility and is paid quarterly.

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 were:

Mr T Lawler	Chairman (from 1 January 2012)
Mr R Robson	Chairman (to 31 December 2011)
Mr K Wood	Managing Director (from 14 November 2011)
Mr K Young	Managing Director (to 29 July 2011)
Mr J Eather	Deputy Chairman
Ms B Crossley	
Mr R Chappel	
Ms C Cifuentes	
Ms S Ivens	(from 1 April 2012)
Mr G Kennedy	(to 31 December 2011)

(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:

Stephen Phillips	Hunter Water Corporation	General Manager Customer & Commercial Development (to 15 April 2012)
Stephen Phillips	Hunter Water Corporation	Executive Officer & Company Secretary (from 16 April 2012)
Dean Taylor	Hunter Water Corporation	General Manager System Operations (to 15 April 2012)
Dean Taylor	Hunter Water Corporation	Executive Manager Customer Services (from 16 April 2012)
Chris Turnbull	Hunter Water Corporation	General Manager Infrastructure Delivery (to 15 April 2012)
Chris Turnbull	Hunter Water Corporation	Chief Operating Officer (from 16 April 2012)
Joanne Martin	Hunter Water Corporation	General Manager People and Change (to 15 April 2012)
Joanne Martin	Hunter Water Corporation	Chief Information Officer (from 16 April 2012)
Fiona Cushing	Hunter Water Corporation	Acting Chief Financial Officer (from 16 April 2012)
Peter Dennis	Hunter Water Corporation	General Manager System Strategy & Sustainability (to 18 May 2012)
John O'Hearn	Hunter Water Corporation	General Manager Business Services (to 8 May 2012)
Sharon Smith	Hunter Water Corporation	General Manager Business Strategy & Communications (to 27 April 2012)
Jim Keary	General Manager	Hunter Water Australia Pty Limited

(c) Key Management Personnel Compensation

	Economic Entity		Parent Entity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Short term employee benefits	2,937	2,958	2,668	2,692
Long term employee benefits	795	69	785	59
Post employment benefits	1,069	361	1,019	314
	4,801	3,388	4,472	3,065

Note 31. Controlled Entities

Parent Entity:

Hunter Water Corporation

Controlled Entities

	Equity Holding	
	2012	2011
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 \$10m overdraft facility held with NSW TCorp has a floating rate.

To assist in management of interest rate risk, the Economic Entity has established "neutral" benchmark portfolios for liability management and set predetermined limits for variance in relation to the neutral benchmark for each type of debt that the Entity holds. This serves to restrict the Economic Entity's exposure to potential changes in the market value of the portfolio and movements in interest rates. The debt portfolio is adjusted with respect to operating within the benchmark constraints, reported by NSW TCorp on a monthly basis and monitored by management. The level of reinvestment of profits to reduce debt is subject to the performance of the Corporation and determined by the Board on a year by year basis. The current NSW Treasury dividend distribution policy allows for a dividend payment up to 70% of net operating profit after tax.

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	4.45	Eroding to zero	Eroding to zero
Post 1st December 2010 Fixed rate debt	4.63	6.25	3.75 to 8.75
CPI Linked debt	10.80	12.80	8.80 to 16.80

The weighted average interest rates are shown below:

Economic Entity

2012	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000
Financial assets					
Cash & cash equivalents	3.98%	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

The comparative information with regard to the 2011 year is as follows

2011		Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000
Financial assets					
Cash & cash equivalents	4.22%	6,807	-	15	6,822
Trade & other receivables	10.50%	-	11,170	34,311	45,481
Other financial assets	n/a	-	-	-	-
		6,807	11,170	34,326	52,303
Financial liabilities					
Borrowings	5.89%	8,294	807,456	-	815,750
Trade & other payables	n/a	-	-	63,710	63,710
		8,294	807,456	63,710	879,460

Parent Entity

2012		Floating Interest Rate \$'000	Fixed Interest 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

The comparative information with regard to the 2011 year is as follows:

2011		Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000
Financial assets					
Cash & cash equivalents	3.75%	1,739	-	8	1,747
Trade & other receivables	10.50%	-	11,170	35,235	46,405
Other financial assets	n/a	-	-	900	900
		1,739	11,170	36,143	49,052
Financial liabilities					
Borrowings	5.89%	8,294	812,456	-	820,750
Trade & other payables	n/a	-	-	66,776	66,776
		8,294	812,456	66,776	887,526

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Economic Entity				
If Interest rates are 100 basis points higher	105	22	229	(14)
If Interest rates are 100 basis points lower	(105)	(22)	(229)	14
Parent Entity				
If Interest rates are 100 basis points higher	105	22	229	(14)
If Interest rates are 100 basis points lower	(105)	(22)	(229)	14

(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) :

	2012		2011	
	USD \$'000	PNG \$'000	USD \$'000	PNG \$'000
Trade Receivables	-	-*	-	-
Bank	-*	-*	-*	-

* 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 on both an Economic Entity and Parent Entity basis 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 \$10m 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

2012	Carrying Amount \$'000	Total Contractual Cash flows \$'000	Within			Maturity Dates Over 5 Years \$'000
			1 Year \$'000	1-2 Years \$'000	2-5 Years \$'000	
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

Economic Entity

2011	Carrying Amount \$'000	Total Contractual Cash flows \$'000	Within			Maturity Dates Over 5 Years \$'000
			1 Year \$'000	1-2 Years \$'000	2-5 Years \$'000	
Trade & other payables	63,710	63,710	63,710	-	-	-
Borrowings	815,750	1,092,866	53,169	118,486	375,690	545,521
Total	879,460	1,156,576	116,879	118,486	375,690	545,521

Parent Entity

2012	Carrying Amount \$'000	Total Contractual Cash flows \$'000	1 Year \$'000	Within 1-2 Years \$'000	2-5 Years \$'000	Maturity Dates Over 5 Years \$'000
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

Parent Entity

2011	Carrying Amount \$'000	Total Contractual Cash flows \$'000	1 Year \$'000	Within 1-2 Years \$'000	2-5 Years \$'000	Maturity Dates Over 5 Years \$'000
Trade & other payables	66,776	66,776	66,776	-	-	-
Borrowings	820,750	1,097,847	53,150	118,486	375,690	550,521
Total	887,526	1,164,623	119,926	118,486	375,690	550,521

(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 and Controlled 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 balance sheet. All long term investments are held as government bonds with any of the appropriately rated (A+ or better) State Governments, and any short-term investments are held in a NSW Treasury (TCorp) at call deposit account. 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 the Commonwealth Bank. The Economic Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Economic Entity.

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 ^{1,2} \$'000	Past due but not impaired ^{1,2} \$'000	Considered Impaired ¹ \$'000	Total ^{1,2} \$'000	Past due but not impaired ^{1,2} \$'000	Considered Impaired ¹ \$'000
30- 90 days overdue	8,949	8,949	-	8,509	8,509	-
> 90 days overdue	6,343	6,067	276	6,173	5,897	276

1 Each column in the table reports gross receivables.

2 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 and the Entity's fixed interest-bearing liabilities are classified as held to maturity, and thus 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.

In accordance with AASB 7 Financial Instruments: Disclosures the following fair value measurement hierarchy has been adopted by the Entity.

(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); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the fair values of the Economic and Parent entity's assets and liabilities at 30 June 2011.

Economic Entity

	2012				2011			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets								
Cash and cash equivalents	10,724	-	-	10,724	6,822	-	-	6,822
Total Assets	10,724	-	-	10,724	6,822	-	-	6,822
Liabilities								
Borrowings	-	918,368	-	918,368	-	815,750	-	815,750
Total Liabilities	-	918,368	-	918,368	-	815,750	-	815,750

Parent Entity

	2012				2011			
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets								
Cash and cash equivalents	3,377	-	-	3,377	1,747	-	-	1,747
Total Assets	3,377	-	-	3,377	1,747	-	-	1,747
Liabilities								
Borrowings	-	923,368	-	923,368	-	820,750	-	820,750
Total Liabilities	-	923,368	-	923,368	-	820,750	-	820,750

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 31 to 70) exhibit a true and fair view of the financial position of Hunter Water Corporation and its Controlled Entity as at 30 June 2012, 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

Dated: 28 August 2012 Newcastle



K Wood
Managing Director



Statistical Information



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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 up to nine members (including the Managing Director) appointed by the voting shareholders (currently the NSW Premier and the NSW Treasurer). 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.

6.1.2 Current Committees and Memberships

Committee and membership	Corporate support and contact	Meeting frequency	Major areas coverage
Audit and Risk J Eather (Chair) T Lawler B Crossley C Cifuentes	A Fullick	Five meetings per year	To assist the Board in ensuring Hunter Water meets its financial, compliance and regulatory requirements across (but not limited to) the areas of financial, safety, environmental and engineering.
Corporate Governance T Lawler (Chair) J Eather C Cifuentes B Crossley K Wood	S Phillips	Four meetings per year and as required	To overview strategic direction and business performance of Hunter Water. The Committee also fulfills the functions of a Nominations Committee.
Community, Environment and Sustainability B Crossley (Chair) J Eather C Cifuentes K Wood S Ivens	D Taylor	Three meetings per year	To ensure Hunter Water continues to maintain a pro-active and strategic approach in relation to sustainable use of resources and delivery of services.
Capital Works A Chappel (Chair) J Eather K Wood C Cifuentes B Crossley	C Turnbull	Three meetings per year	To assist the Board by providing strategic overview of the Capital Works and Research and Development Programs.

6.1.3 Attendance of Directors at Hunter Water Corporation Committee Meetings

Committee and memberships

Member	Remuneration #		Environment		Capital works		Customers #		Out-of-Session #	
	A	B	A	B	A	B	A	B	A	B
T Lawler (from 1 Jan-12)	0	0	*	*	2	2	*	*	0	0
R Robson (to 31 Dec-11)	1	1	*	*	*	*	0	0	3	3
K Young (to 29 Jul-11)	*	*	0	1	*	*	0	0	1	1
K Wood (from 14 Nov-11)	0	0	2	2	2	2	*	*	0	0
B Crossley	1	1	3	3	*	*	0	0	*	*
A Chappel	*	*	*	*	4	4	0	0	*	*
G Kennedy (to 31 Dec-11)	*	*	1	2	2	2	0	0	*	*
J Eather	1	1	3	3	4	4	*	*	3	3
C Cifuentes	*	*	3	3	4	4	*	*	*	*
S Ivens (from 1 Apr-12)	*	*	*	*	*	*	*	*	*	*

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 during the 2011-12 reporting year

: Committee disbanded on 5 June 2012

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

6.1.4 Consultative Forum Membership and Attendance

The 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 2011-12 membership and attendance at the Consultative Forum was as follows:

Representative	Attendance at meetings held			
	15 Sep-11	21 Dec-11	15 Mar-12	14 Jun-12
Mr K Wood				✓
Mr D Taylor (acting as Managing Director)	✓			
Ms S Smith (acting as Convenor in place of K Wood)		✓	✓	
Cr H Johnston	✓	✓	✓	✓
Cr C Parker		✓		✓
Cr A Humphery	✓	✓	✓	✓
Cr W Harrison				✓
Cr G Edwards (representing Lake Macquarie City Council in place of Cr W Harrison)				
Cr J Nell	✓	✓	✓	✓
Prof G Kuzcera			✓	
Mr J Pauling		✓		✓
Ms I Berthold	✓	✓	✓	✓
Mr K McDonald	✓	✓	✓	✓
Ms C Gillard	✓	✓	✓	
Mr J McDougall		✓	✓	✓
Mr A Burns				
Mr R Banyard	✓	✓	✓	✓
Mr J Hopson			✓	✓
Mr O Nicholson (representing Williams River Water Users' Association in place of Mr J Hopson)		✓		

6.2 Employees

6.2.1 Executive Positions at 30 June 2012 (paid at equivalent of SES Level 1 or above)

Position	2007-08	2008-09	2009-10	2010-11	2011-12
Managing Director	1	1	1	1	1
Senior Executives	5	7	7	7	5
Number of roles filled by women	1	2	2	2	1

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

6.2.2 Performance Statement

Name	Position and Level	Total Remuneration Package	Performance Pay	Period in Position	Results
Kim Wood	Managing Director	\$430,000	N/A	14/11/2011-30/06/2012	Kim performed against agreed criteria.

6.2.3 Workforce Profile

	2007	2008	2009	2010	2011	2012
Males	318	311	318	315	325	326
Females	123	131	137	148	156	157
Total	441	442	455	463	481	483
Permanent	360	354	356	350	383	383
Temporary	31	35	48	56	47	32
Part-time	50	53	51	57	51	68
Total	441	442	455	463	481	483
Redundancies	3	7	10	3	1	7
Recruitment	54	55	54	25	57	74
Unplanned absences (%)	2.71	1.9	2.04	2.57	1.98	2.28

6.2.4 Trends in the Representation of EEO Groups ^[1]

Equal Employment Opportunity (EEO) target groups:

	Benchmark or Target	% of Total Staff ^[2]					
		2007	2008	2009	2010	2011	2012
Women	50%	28%	30%	30%	32%	32%	33%
Aboriginal people and Torres Strait Islanders	2.6%	0.90%	0.70%	0.70%	0.60%	0.62%	0.62%
People whose first language was not English	19%	5%	5%	4.80%	5.20%	4.80%	10%
People with a disability	N/A	4.80%	4.80%	4%	3%	2%	2%
People with a disability requiring work-related adjustment	1.1% (2011)	0.50%	0.50%	0.40%	0.40%	0.42%	0.42%

6.2.5 Trends in the Distribution of EEO Groups ^[1]

	Distribution Index ^{[1], [3]}						
	Benchmark or Target	2007	2008	2009	2010	2011	2012
Women	100	89	90	90	91	90	93
Aboriginal people and Torres Strait Islanders	100	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	N/A	N/A
People with a disability	100	N/A	N/A	N/A	N/A	N/A	N/A
People with a disability requiring work-related adjustment	100	N/A	N/A	N/A	N/A	N/A	N/A

Notes: Data from employees with a physical disability, Aboriginality 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 2012.

[2] Excludes casual staff.

[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 staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. 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 automatically calculated by the software provided by ODEOPE.

N/A displayed where there are less than 20 staff in a particular EEO group.

6.2.6 Multicultural Policies and Services Program (previously EAPS)

Policies and procedures of Hunter Water are implemented on a merit based philosophy.

All employees, customers and stakeholders have access to all services where required. In the areas of recruitment, selection, promotion, transfer, training, development and conditions of service, everyone is afforded opportunities on the basis of merit and efficiency. We continue to seek ongoing applications from people from culturally and linguistically diverse backgrounds and we are in the process of implementing an Aboriginal Employment Strategy to increase participation in the workplace.

Equal Employment Opportunity Statement

Hunter Water is committed to equal employment opportunity and affirmative action. In doing so, we aim 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. We also aim to promote equal employment opportunity for all employees, including members of minority and disadvantaged groups.

EEO and EAPS Statistical Analysis

Women

Although Hunter Water does not meet the benchmark in the number of women employed, we have steadily increased our figures over the last five years as shown by the distribution index. The general low number of women in our workforce can partly be explained by the industry we are in and the nature of work we perform. For example our field staff, who make up a quarter of our work base, engage in physically intensive labour which is not a popular choice for women looking to enter the workforce.

Aboriginal People and Torres Strait Islanders

As the requirement to provide information if you identify with the Aboriginal people and Torres Strait Islanders is not compulsory, Hunter Water believes that their figures are not a true representation of the workforce. We will continue to foster a merit based recruitment and selection process whereby people of an Aboriginal and Torres Strait Islander background are encouraged to apply and receive support in their application. We are also in the process of implementing an Aboriginal Employment Strategy to increase participation in the workplace.

People Whose First Language was Not English

We have seen an increase in the number of people whose first language was not English over the past twelve months employed by Hunter Water as we continue to attract quality, skilled candidates from diverse backgrounds. We will continue to foster a merit based recruitment and selection process whereby people whose first language was not English are encouraged to apply and receive support in their application.

People With a Disability

The distribution index shows we have remained favourable.

People With a Disability Requiring Work-Related Adjustment

An unfavourable trend in this area can be identified. We will continue to adopt our selection based on merit strategy and policy.

6.2.7 Employee Safety Performance

	2007-08	2008-09	2009-10	2010-11	2011-12	Change %
Lost time frequency rates	2.47	1.1	9.3	3.85	0	-100%
Total hours lost	2,204	2,044	5,436	2,802	1,189	-136%
Lost time injuries	2	1	9	4	0	-100%
Minor injuries	68	24	17	18	14	-29%
Prosecutions	0	0	0	0	0	0

6.2.8 Overseas Travel Commenced During 2011-12: Hunter Water Corporation

Name	Destination City, Country	Departure Date	Duration (days)	Reason for travel
D Taylor	Lae, Papua New Guinea	29-Jan-12	5 Days (29/1/12 - 2/2/12)	Consultancy
P Dennis	Suzhou, China	2 trips 10-Jan-12 and 19-Mar-12	3 Days (10/1/12 - 12/1/12) 3 Days (19/3/12 - 21/3/12)	To participate in an Australian China Environmental Development Partnership (under AUSAID) Lake Tai Project
M Conner	Seoul, South Korea	3-Dec-11	10 Days (3/12/11 - 12/12/11)	To participate in the Australia-Korea Next Generation Leaders Program.

6.3 Customer and Service Performance

6.3.1 Customer Base

Customer	Number of Properties 2011-12	Income Raised 2011-12 \$m Actual
Residential	175,940	148.39
Multi-residential	38,407*	21.98
Commercial	9,068	25.82
Industrial	985	12.35
Bulk supply	2	0.03
Other	5,738**	15.26
Total	230,140	223.82

* Includes total number of individual flats

** Includes some Hunter Water properties from which no revenue is raised

6.3.2 Rainfall Received (Millimetres) - 12 Months Ending 19 April 2012

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
Long term average years of record	1,121 147	1,044 45	1,270 85

6.3.3 Water Supplied (Megalitres) - 12 Months ending 19 April 2012

Source	2009	2010	2011	2012
Chichester	24,342	27,462	25,277	22,113 [^]
Tomago	1,935	4,262	0	0
Grahamstown	37,472	35,971	40,398	38,921
Total major sources	63,749	67,695	65,675	61,035
Anna Bay	2,735	2,148	1,572	1,444
Lemon Tree Passage	834	707	761	714
Total	67,319[^]	70,550[^]	68,008[^]	63,193[^]

[^] Note: Above figures for Anna Bay include water supplied from the Glovers Hill and the Anna Bay Water Treatment Plants. Total includes losses from Dungog Water Treatment Plant. The 2011 value for Grahamstown includes process water used at Grahamstown Water Treatment Plant.

6.3.4 Water Consumption (Megalitres) - 12 Months ending 19 April 2012

	2009 ML	2009 %	2010 ML	2010 (%)	2011 ML	2011 (%)	2012 ML	2012 (%)
Domestic	37,199	55%	38,463	55%	37,087	55%	34,911	55%
Non-domestic	20,445	30%	21,081	30%	21,068	31%	19,225	30%
Bulk supply	161	0%	2,316	3%	315	0%	11	0%
Total consumption	57,805	86%	61,860	88%	58,470	86%	54,147	86%
Authorised (HWC own use)	1,378	2%	1,156	2%	2,226	3%	2,058	3%
Apparent losses	1,244	2%	1,283	2%	1,255	2%	1,168	2%
Real losses	6,891	10%	6,250	9%	6,058	9%	5,820	9%
Gross non-revenue generating	9,513	14%	8,689	12%	9,539	14%	9,046	14%
Total supply	67,318		70,549		68,009		63,193	

Note: The 2011 and 2012 value includes process water used at Grahamstown Water Treatment Plant.

6.3.5 Water System Incidents

Incident / solution	2007-08	2008-09	2009-10	2010-11	2011-12
Poor pressure	87	144	132	115	56
Pump problem	1	2	5	4	5
Seepage	260	243	152	201	332
Main flush	638	733	692	690	692
Main repair	1,422	1,590	1,553	1534	1246
Hydrant defect	811	765	901	745	716
Valve defect	244	250	264	249	231
Repair pathcock / maincock	2,845	2,794	3,008	2875	2711
Meter defect	280	358	458	525	518
Service defect repaired by HWC's operations staff	1,406	1,695	1,769	1664	1507
Service defect repaired by Private Plumber	551	633	735	640	727
Complaint unconfirmed	262	275	314	430	408
Other	1,493	1,520	1,572	1667	1536
Tap rewashers	89	92	96	69	85
Trunkmain repairs	2,927	3,812	3,597	3012	2725
Total	13,136	14,906	15,248	14,420	13,495

6.3.6 Water Transport System Reliability

	2007-08	2008-09	2009-10	2010-11	2011-12
Main breaks per 100kms main - Trunkmains included in length of mains	30.3*	32.6*	32	31.2	25.2
Discoloured water complaints per 1000 properties connected (tenancy)	2.2	2.7	3.3	1.9	2.1

*Note: Water breaks include all breaks, bursts and leaks in all diameter mains in the reporting period. It excludes those in the service connection to internal plumbing. It does not completely exclude those minor repairs to above ground mains that can be fixed without shutting down the main (as in NWI and IPART definitions) as these repairs could not be identified in the current system, depending on job call off.

6.3.7 Water Supply Continuity 2011-2012: Properties Affected by Water Supply Interruption*

Total interruption	Planned	Unplanned
≤1 hour (≤ 60min)	5,003	11,533
>1 and ≤5 hours (>60 & ≤ 300min)	12,581	33,813
>5 and ≤12 hours (>300 & ≤720min)	2343	1,824
>12 and ≤24 hours (>720 & ≤1440min)	0	33
>24 hours (>1440min)	0	9

*Note: Figures reported are in line with NWI and IPART guidelines where each interruption is reported separately according to the time band and job status.

6.3.8 Wastewater System Incidents

Incident / solution	2007-08	2008-09	2009-10	2010-11	2011-12
Chokage cleared - main	2,200	1,948	2,745	2,773	2,116
Chokage cleared - branch	2,155	1,923	2,131	2,665	1,969
Private plumbers job *	547	471	541	547	536
House drains cleared	2	0	1	0	3
Storm overflow	394	179	50	232	310
Gravity sewer break	43	36	19	25	28
Rising main break	42	33	27	32	37
Pump station malfunction	13	12	20	13	16
Vacuum sewer jobs	78	38	26	63	58
Pump effluent line	8	9	3	5	8
No work required	163	140	120	135	122
Complaint unconfirmed	163	172	191	212	276
Charge job **	0	5	1	2	0
Other	1,182	852	742	853	838
Total	6,990	5,818	7,217	7,557	6,317

*Note: Problem in customer's private drains or fittings.

**Note: 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	2,232	4,792	47
	Number of property breaks and chokes	Number of wastewater properties	Ratio of property breaks and chokes per 1000 properties
Total	2,035	218,459	9.3

6.3.10 General Statistics

Water	2007-08	2008-09	2009-10	2010-11	2011-12
Population in area [1],[2]	522,415	527,557	533,874	560,603	567,526
Population supplied with water [1]	510,703	515,695	521,736	539,364	539,909
Properties where water is available [3]	228,312	231,266	233,509	236,369	237,164
Properties connected to water (metered) [3]	220,597	222,454	224,845	227,695	230,140
Capacity of major sources (ML)	288,000	288,000	288,000	288,000	288,000
Total supply from sources (ML) [4]	67,244	67,181	70,609	67,100	62,275
Average day net supply (ML) [4]	183.7	184.1	193.4	183.8	170.2
Maximum day net supply (ML) [4]	279.3	308.5	337.2	317.4	240.8
Maximum week net supply (ML/day) [4]	237.5	284.4	273.4	298.3	212.2
Minimum day net supply (ML) [4]	113	121.2	105.6	120.4	136.2
Average consumption per residential tenement (kl/annum)	177.4	179.6	183.8	174.8	162.9
5 year rolling average consumption [5]	196.2	190.6	188.0	182.0	176.4
Watermains laid during year (km)	82.7	157.3	73.9	58.03	58.28
Watermains abandoned during year (km)	25.3	33	32.4	21.24	24
Watermain length revisions during the year (km)	-2.6	5.2	6.8	2.62	-0.9
Total watermains in service (km)	4,692.54	4,821.96	4,856.64	4,898.05	4930
Length of watermain per connected property (m)	21.2	21.68	21.6	21.51	21.42
Water supplied free of charge: charitable, public & miscellaneous purposes (kl)	398,089	483,778	379,740	423,194	415,704
Water supplied free of charge: dollar value (\$)	458,402	504,863	647,830	708,891	789,838
Wastewater	2007-08	2008-09	2009-10	2010-11	2011-12
Population supplied with water & sewer [1]	491,136	495,963	501,000	519,858	516,726
Properties where sewer is available [3]	217,065	219,764	221,726	224,986	227,690
Properties connected to sewer [3]	208,662	211,015	213,023	215,748	218,459
Sewermain laid during the year (km)	39.7	74.9	50	68.23	65.06
Sewermain abandoned during the year (km)	7.7	4.8	10	0.43	3.52
Total sewermain in service (km)	4555.6	4625.6	4667	4,729.97	4,792
Length of sewermain per liable property (m)	21.8	21.9	21.9	21.02	21.04
Sewer service supplied free of charge: dollar value (\$)	106,424	109,535	114,700	107,775	109,205
Drainage	2007-08	2008-09	2009-10	2010-11	2011-12
Properties liable [3]	66476	66,969	67,404	67,938	68,387

Dissection of population - June 2012 [1]

Region	2011-12		
	Population in Area	Served Water	Served Sewer
Newcastle	159,214	157,474	155,647
Lake Macquarie	203,845	197,929	191,308
Maitland	73,010	70,147	67,870
Cessnock	53,514	46,229	42,001
Port Stephens	69,181	64,450	58,864
Dungog	8,762	3,427	942
Sub total	567,526	539,656	516,632
Singleton (Part Branxton)	-	168	94
Great Lakes (East Karuah/Alicetown)	-	85	-
Total	567,526	539,909	516,726

	2007-08	2008-09	2009-10	2010-11	2011-12
Ratio of properties connected to water and sewer, and water only [6]	96.90%	96.90%	96.70%	96.40%	95.70%

[1] Population figures from 2011-12 have used Estimated Resident Population from the Australian Bureau of Statistics. Population prior to this is based on data from the 2006 Census.

[2] Population in area for 2011-12 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] Includes 5 main local Government areas only

Financial	2007-08 \$m	2008-09 \$m	2009-10 \$m	2010-11 \$m	2011-12 \$m
Total Tariff Revenue (includes service & usage charges & other regulated income)	162.53	174.56	217.57	222.33	228.587
Capital Indebtedness - external	414.6	522	662.65	815.75	918.37

Staffing	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Salaried	279	295	300	296	332	318
Wages	108	108	101	100	97	99
Engineers	52	50	54	67	52	65
Total	439	453	455	463	481	482

6.3.11 Waste Statement

Hunter Water has undertaken a number of initiatives during 2011-12 to reduce waste and encourage the use of recycled materials. This has included waste management audits that have resulted in substantial improvements including the development of a long term contract for spoil management that will see up to 90% of spoil reused rather than sent to landfill.

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 \$42.188m.

	Jun 12 \$m	Jun 11 \$m
Tariff Income - billed	17.072	15.365
Tariff Income - unbilled	16.171	20.082
Sundry Debtors	3.089	3.369
Net GST Receivable from ATO	2.725	4.419
Community Service Obligations	0.843	0.566
Prepayments	2.103	1.714
Miscellaneous Debtors	0.461	0.246
	42.464	45.761
Less Provision for Doubtful Debts	0.276	0.280
	42.188	45.481

Information regarding the major categories follows.

- A** *Tariff Income – unbilled* – This item is an estimate of water and sewer usage for properties up to the reporting date that has been accrued.
- B** *Net GST Receivable from ATO* - The Economic Entity is liable to pay GST on all taxable acquisitions. For the Parent Entity GST is only collected on a few taxable revenue items (eg 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 2012 (inclusive of accruals) and included in receivables was \$2.725m.
- 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 (CSOs). 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 2011-12 were for tariff rebates given to pensioners and exempt properties, churches. The 2011-12 claim and cash received were as follows:

	Amount claimed \$m	Cash received \$m	Outstanding (prepayment) \$m
Pensioner rebate	11.116	10.281	0.835
Exempt properties	1.685	1.677	0.008
Total	12.801	11.958	0.843

The amount owing of \$0.843m represents the June 12 rebates unclaimed at year end of \$0.660 and an outstanding June 11 rebate of \$0.183m.

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 12 \$m	Jun 11 \$m
Cash at bank	4,359	2,625
T-Corp deposits	6,365	4,197
	10,724	6,822
Interest earned	0.441	0.535
Average Interest (on average monthly investment balance)	3.98%	4.22%

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

3 Fixed Assets - Property Plant and Equipment

	Jun 12 \$m	Jun 11 \$m
Opening written down book value	3,163.396	2,542.551
Less - depreciation charge	(49.075)	(33.351)
Less - disposals	(6.805)	(2.895)
Add - additions	241.378	133.399
Add - externally funded assets	28.615	15.088
Add - transfers between classes	(13.233)	0.161
Revaluation - Increment	271.738	238.699
(Impairment) / impairment reversal	(925.640)	269.745
Total property, plant and equipment	2,710.373	3,163.396

The total assets of \$2,710m represent a decrease of \$453m from the June 2011 balance.

4 Intangible Assets

	Jun 12 \$m	Jun 11 \$m
Opening written down book value	7.189	6.738
Less - amortisation charge	(3.297)	(2.333)
Less - disposals	-	(0.116)
Less - transfers between classes	-	(0.014)
Add - additions	4.305	2.738
(Impairment) / impairment reversal	(2.270)	0.176
Total intangible assets	5.927	7.189

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

Due to the high level of expertise required to effectively manage financial liabilities, the Parent 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 2011-12 the current capital value of the Parent Entity's financial liability portfolio increased by \$103m.

The Parent 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 2012 was 5.71%.

Parent Entity's Financial Liability Portfolio is as follows:

	Jun 12 \$m	Jun 11 \$m
Number of loans	29	26
Face value	917.171	820.562
Net premium / discount on Loans	1.197	(4.812)
Current capital value	918.368	815.750
Market capital value	1,007.585	845.666
Come and go facility	-	-

Interest bearing liabilities included in the Statement of Financial Position are:

Current	75.072	19.018
Non current	843.296	796.732
	918.368	815.750

Debt maturity profile

Come and go Facility	-	-
Within 1 year	75.072	19.018
Between 1-5 years	347.035	344.055
Over 5 years	496.261	452.677
	918.368	815.750

6 Employee Provisions

At 30 June 2012 the liability for Employee Provisions totalled \$125.748m representing an increase \$55.356m during the year and comprised:

	Jun 12 \$m	Jun 11 \$m
Long service leave	16.060	15.626
Defined-benefit superannuation	103.334	48.131
Accrued sick / annual leave	6.354	6.635
	125.748	70.392

These liabilities are split on the Statement of Financial Position into:

	Jun 12 \$m	Jun 11 \$m
Current	21.547	21.050
Non current	104.201	49.342
	125.748	70.392

As a result at 30 June 2012 the Economic Entity's superannuation portfolio was under-funded in total by \$103.334m. At 30 June 2011 the portfolio was under-funded by \$70.392m. The significant increase in the liability is due to the decrease in the ten year government bond rate.

Note the Long Service Leave 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 2012

Code description	Number of properties	Value \$m
1 Land fully utilised as an integral part of the Parent Entity's system	389	52.374
2 Land partly used with the unused residue required for future integral needs	2	0.097
3 Land not currently used but fully required for future integral needs	53	65.326
4 Land being partly used, the residue having potential for alternative use	32	24.254
5 Land with significant potential for alternative use	16	3.400
Total	492	145.451

As at 30 June 2012, the Entity held properties to the value of \$13.360m that were classified as "Held for Sale" and disclosed in note 10 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 at 30 June 2010.

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

8 Property Disposals

There were four parcels of land disposed of during the financial year. Total proceeds of \$0.504m were received at settlement. These properties were no longer required for operational purposes by the Parent Entity. The proceeds from the sale of this property have been reinvested in the Economic Entity's operations and access to documents relating to the disposal of the land can be obtained under the *Government Information (Public Access) Act 2009*.

9 Material Capital Expenditure Contracts as at 30 June 2012 (GST-inclusive)

(Contracted for at balance date but not provided for)

Contract number	Contract description	Committed amount \$m
CG370001	Wastewater Treatment Program Alliance	61.418
CG153236	Adamstown Wastewater Transfer Upgrade	5.168
	Construction of Lochinvar Reservoir	3.578
CP295008	Construction of Cessnock Reservoir	3.529
CP295007	Cessnock Water Supply Upgrade	2.573
	Upgrade of High Voltage Assets	2.119
CG153235	Mayfield to Broadmeadow Wastewater Transfer Upgrade	2.076
CP312504	Grahamstown Water Treatment Plant Switchroom Upgrade	1.925
CG369203	Aberglassyn Wastewater System Upgrade	1.236
CG169128	Cogeneration System at Cessnock Wastewater Treatment Works	1.066
CP298306	Construction of Watermains at Rutherford	1.049
CG366502	Construction of Clarence Town Wastewater Collection and Transportation System	0.957
CG360503	Watermain Replacements	0.844
CS0246	LAN Refresh	0.549
CG299203	Construction of Stormwater Detention at Cardiff	0.523
CG299405	Construction of Cockle Creek Watermain	0.418
CG159815	Construction of Tarro to Shortland Trunk Watermain	0.337
CG359803	Upgrade Cardiff Wastewater Pump Station	0.305
CP303804A	Electrical Upgrade Cardiff South Water Pump Station	0.297
CG122814	Upgrade Kurri Kurri Wastewater Treatment Works	0.244
	Throsby Creek Stabilisation	0.205
CP310700	Caves Beach Sewer Upgrade	0.203
	Other commitments less than \$0.200m	3.664
Total		94.283

6.4.2 Operating Program

Economic Entity

A summary of actual and budgeted results for 2011-12 and comparisons with 2010-11 results and budget is as follows:

	Actual 2011-12 \$'000	Budget 2011-12 \$'000	Actual 2010-11 \$'000	Budget 2010-11 \$'000
Income				
Net tariff Income	228,587	250,552	222,334	238,305
Interest on investments	441	501	535	425
Profit (Loss) on sale of assets	(438)	-	(917)	-
External sales	13,240	13,253	11,910	12,076
Contributions from capital works	37,002	21,202	21,799	16,913
Other (including non-regulated income)	9,182	2,772	4,919	2,582
Total income	288,014	288,280	260,580	270,301
Expenditure				
Operating expenses	121,820	126,069	133,854	110,247
Depreciation & amortisation	52,372	41,356	35,683	39,072
Interest payable	50,446	51,258	44,950	42,510
Financial charges	15,784	15,711	12,129	17,615
Total expenditure	240,422	234,394	226,616	209,444
Profit before tax	47,592	53,886	33,964	60,857

Operating Program 2012-13 Economic Entity

	Budget 2012-13 \$'000
Income	
Net tariff income	264,674
Interest on investments	445
Profit (Loss) on sale of assets	(3,500)
External sales	15,273
Contributions from capital works	25,561
Non-regulated income	3,503
Total income	305,956
Expenditure	
Operating expenses	134,631
Depreciation & amortisation	50,389
Interest payable	54,509
Financial charges	18,058
Total expenditure	257,587
Operating profit before tax	48,369

Five Year Financial Summary and Ratio Analysis

1 Statement of Financial Position (Economic Entity)

	2011-12 \$m	2010-11 \$m	2009-10 \$m	2008-09 \$m	2007-08 \$m
Current assets cash & cash equivalents	10.7	6.8	9.7	5.2	16.9
Trade and other receivables	42.2	45.5	44.4	41.3	37.8
Inventories	2.5	2.2	2.2	2.3	2.0
Assets held for sale	13.4	0.1	2.9	-	0.8
Total Current Assets	68.8	54.6	59.2	48.8	57.6
Non-current assets					
Fixed assets	2,910.9	3,481.7	2,825.9	2,594.8	2,111.7
Investments / other	-	-	11.0	7.5	7.3
Total non-current assets	2,910.9	3,481.7	2,836.9	2,602.3	2,119.0
Total Assets	2,979.7	3,536.3	2,896.1	2,651.1	2,176.6
Current liabilities					
Trade and other payables	53.7	63.7	61.3	58.0	27.8
Borrowings	75.1	19.0	145.9	75.2	1.1
Provisions	43.7	42.5	63.3	63.5	58.2
Current tax liabilities	4.8	3.5	6.4	1.9	1.9
Total Current Liabilities	177.2	128.7	276.9	198.6	89.0
Non-current liabilities					
Borrowings	843.3	796.7	516.8	446.7	413.5
Provisions / other	398.2	559.3	414.4	386.8	268.5
Total non-current liabilities	1,241.5	1,356.0	931.2	833.5	682.0
Total liabilities	1,418.7	1,484.7	1,208.1	1032.1	771.0
Net Assets	1,560.9	2,051.6	1,688.0	1,619.0	1,405.6
Capital and retained earnings					
Issued capital	100.0	100.0	100.0	100.0	100.0
Asset revaluation reserve	816.3	1,279.7	924.6	865.9	645.3
Accumulated funds	644.6	671.9	663.4	653.1	660.3
Total equity	1,560.9	2,051.6	1,688.0	1,619.0	1,405.6

2 Income Statement (Economic Entity)

Trading Operations	2011-12 \$m	2010-11 \$m	2009-10 \$m	2008-09 \$m	2007-08 \$m
Revenue:					
- Tariff	228.6	222.3	217.6	174.6	162.5
- Other	22.0	17.4	15.2	22.8	40.9
- Operating costs	119.9	107.1	100.3	91.4	113.0
Gross Margin	130.7	132.6	132.5	106.0	90.4
Other income:					
- Investments	0.4	0.2	0.3	0.7	1.6
Other expenditure:					
- Financing charges	66.2	57.1	47.4	32.3	26.2
- Depreciation and amortisation	52.4	35.7	36.5	34.7	30.6
- Other	-	26.3	-	-	-
Profit before superannuation adjustment and contributions for capital works	12.5	13.7	48.9	39.7	35.2
Superannuation expense	-1.9 ⁽¹⁾	-1.6 ⁽¹⁾	-3.6 ⁽¹⁾	-2.8 ⁽¹⁾	-1.7 ⁽¹⁾
Profit before contributions for capital works	10.6	12.1	45.3	36.9	33.5
Contribution for capital works	37.0	21.9	20.7	25.1	38.5
Net profit	47.6	34.0	66.0	62.0	72.0

⁽¹⁾ Movement in superannuation liabilities, excluding actuarial gains/(losses), due to a change in accounting policy mandated by NSW Treasury in May 2009 for the 2008-09 reporting period, including the restatement of 2007-08 results.

Financial Ratios

Profit included in calculating ratios is Profit before superannuation adjustments and contributions for capital works.

	2011-12	2010-11	2009-10	2008-09	2007-08
A - Gross Profit %	52.15	55.32	56.92	53.69	44.44
B - Working capital	0.39	0.42	0.21	0.25	0.65
C - Cash ratio	0.06	0.05	0.04	0.03	0.19
D - Equity to total liabilities	1.00	1.38	1.40	1.57	1.78
E - Interest cover (times)	1.29	1.77	2.09	2.51	3.23
F - Return on equity (%)	1.68	1.77	6.40	5.39	4.71
G - Real rate of return (%)	2.70	2.76	3.67	2.75	2.83
H - Return on total net assets (%)	0.80	0.67	2.90	2.44	2.53

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.

Gross Profit

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

Working Capital

- B. Working Capital is calculated as current assets divided by current liabilities and provides an indication of liquidity and capacity to realise current assets to meet current commitments.

Cash Ratio

- C. Cash Ratio is calculated as current investments divided by current liabilities and is similar to the working capital ratio in that it provides an indication of liquidity.

Equity to Total Liabilities

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

Interest Cover

- E. Interest Cover is calculated as funds from operations plus interest expense and financial charges divided by interest expense and financial charges. This ratio provides an indicator of the ability to meet interest commitments. This ratio shows that the Corporation is achieving profits sufficient to cover financing costs, however, it has significantly decreased from last year as a result of higher financing expenses due to increased borrowings.

Return on Equity

- F. Return of Equity (ROE) is calculated as operating profit divided by the sum of Issued Capital and Retained Profits. ROE for 2011-12 is 1.68%, which is lower than last year due to lower operating profit (as this excludes capital contributions).

Real Rate of Return

- G. Real Rate of Return (RRR) is calculated as operating profit plus net interest plus financial charges divided by written down book value of infrastructure assets and works in progress and reflects the implicit rate of return generated from operating activities. For inter-agency comparison purposes the Water Services Association of Australia (WSAA) utilises a RRR in order to capture the major economic indicators of commercial performance, ie capital costs, recurrent costs and revenue. The rate of return 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 2.70%.

Return on Total Net Assets

- H. Return on Total Net Assets (ROTNA) 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 2011-12 ROTNA is 0.80%.

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 2011-12 prices were set by IPART in July 2009 as part of a four-year price determination applying from July 2009 to 30 June 2013. The water service prices set by IPART were reduced from 1 March 2011 as a result of the decision not to proceed with Tillegra Dam. The table below separately shows for 2010-11 the reduced water service prices applying from 1 March 2011.

Water service charge (\$) pipe size	Meter equivalent	2011-12		2010-11			
		Main prices All cycles	Dungog only	Main prices		Dungog only	
				Bill cycles 1 & 2 (a)	Bill cycle 3 (b)	Bill cycles 1 & 2 (a)	Bill cycle 3 (b)
20mm	1.00	\$18.84	\$76.87	\$27.39	\$6.28	\$71.37	\$28.37
25mm	1.56	\$29.45	\$120.11	\$42.80	\$9.82	\$111.52	\$44.32
32mm	2.56	\$48.24	\$196.80	\$70.12	\$16.09	\$182.71	\$72.62
40mm	4.00	\$75.38	\$307.49	\$109.56	\$25.14	\$285.50	\$113.47
50mm	6.25	\$117.77	\$480.44	\$171.19	\$39.28	\$446.09	\$177.29
65mm	10.56	\$199.05	\$811.96	\$289.32	\$66.38	\$753.89	\$299.63
80mm	16.00	\$301.51	\$1,229.94	\$438.25	\$100.56	\$1,141.98	\$453.87
100mm	25.00	\$471.12	\$1,921.78	\$684.77	\$157.12	\$1,784.35	\$709.17
150mm	56.25	\$1,060.00	\$4,324.01	\$1,540.74	\$353.53	\$4,014.79	\$1,595.64
200mm	100.00	\$1,884.46	\$7,687.13	\$2,739.08	\$628.49	\$7,137.40	\$2,836.70
250mm	156.25	\$2,944.46	\$12,011.15	\$4,279.83	\$982.02	\$11,152.19	\$4,432.34
300mm	225.00	\$4,240.03	\$17,296.06	\$6,162.95	\$1,414.11	\$16,059.16	\$6,382.57
350mm	306.25	\$5,771.15	\$23,541.87	\$8,388.46	\$1,924.76	\$21,858.30	\$8,687.39

(a) Bill cycles 1 and 2 cover the billing periods from 1 July 2010 to 28 February 2011.

(b) Bill cycle 3 is the period from 1 March 2011 to 30 June 2011. The charge for this period is reduced due to removal of Tillegra Dam costs from the prices.

Water Usage Charge (metered properties only) (\$/kL)	2011-12		2010-11	
	Main prices	Dungog only	Main prices	Dungog only
Tier 1 (≤ 50,000 kL)				
Filtered water	\$1.90	\$1.90	\$1.71	\$1.71
Unfiltered water	\$1.45	\$1.45	\$1.31	\$1.31
Tier 2 - Filtered water (> 50,000 kL)				
Kurri Kurri	\$1.87		\$1.69	
Lookout	\$1.73		\$1.58	
Newcastle	\$1.69		\$1.54	
Seaham - Hexham	\$1.49		\$1.37	
South Wallsend	\$1.77		\$1.61	
Tomago - Kooragang	\$1.44		\$1.32	
Dungog - charges only for water sourced from Chichester Dam within Shire		\$1.44		\$1.32
All other locations	\$1.90		\$1.71	
Gosford-Wyong Water Usage Charges (\$/kL)*	\$1.33		\$1.29	

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

Sewer

(Note: Sewer charges are same for HWC & Dungog) Sewer Service Charge (\$) (metered & unmetered)

Residential properties:	Meter equivalent	2011-12		2010-11	
		Main prices	Dungog only	Main prices	Dungog only
20mm	1.00	\$521.25	\$521.25	\$489.36	\$489.36
25mm	1.56	\$814.45	\$814.45	\$764.64	\$764.64
32mm	2.56	\$1,334.40	\$1,334.40	\$1,252.78	\$1,252.78
40mm	4.00	\$2,085.00	\$2,085.00	\$1,957.47	\$1,957.47
50mm	6.25	\$3,257.82	\$3,257.82	\$3,058.54	\$3,058.54
65mm	10.56	\$5,505.70	\$5,505.70	\$5,168.93	\$5,168.93
80mm	16.00	\$8,340.00	\$8,340.00	\$7,829.85	\$7,829.85
100mm	25.00	\$13,031.24	\$13,031.24	\$12,234.14	\$12,234.14
150mm	56.25	\$29,320.32	\$29,320.32	\$27,526.84	\$27,526.84
200mm	100.00	\$52,125.00	\$52,125.00	\$48,936.60	\$48,936.60
250mm	156.25	\$81,445.30	\$81,445.30	\$76,463.44	\$76,463.44
300mm	225.00	\$117,281.23	\$117,281.23	\$110,107.34	\$110,107.34
350mm	306.25	\$159,632.79	\$159,632.79	\$149,868.32	\$149,868.32

Non-residential properties:

20mm	1.00	\$1,042.50	\$1,042.50	\$978.73	\$978.73
25mm	1.56	\$1,628.91	\$1,628.91	\$1,529.26	\$1,529.26
32mm	2.56	\$2,668.80	\$2,668.80	\$2,505.56	\$2,505.56
40mm	4.00	\$4,170.00	\$4,170.00	\$3,914.93	\$3,914.93
50mm	6.25	\$6,515.63	\$6,515.63	\$6,117.08	\$6,117.08
65mm	10.56	\$11,011.41	\$11,011.41	\$10,337.86	\$10,337.86
80mm	16.00	\$16,680.00	\$16,680.00	\$15,659.71	\$15,659.71
100mm	25.00	\$26,062.50	\$26,062.50	\$24,468.30	\$24,468.30
150mm	56.25	\$58,640.62	\$58,640.62	\$55,053.68	\$55,053.68
200mm	100.00	\$104,249.99	\$104,249.99	\$97,873.20	\$97,873.20
250mm	156.25	\$162,890.61	\$162,890.61	\$152,926.86	\$152,926.86
300mm	225.00	\$234,562.47	\$234,562.47	\$220,214.68	\$220,214.68
350mm	306.25	\$319,265.58	\$319,265.58	\$299,736.66	\$299,736.66

Multi premises (residential) - i.e. flats and units

Per each residential property located in a multi premises (minimum charge)*	\$340.98	\$340.98	\$320.12	\$320.12
Sewer usage charge - Non-residential only (\$/kL) (metered only)	\$0.65	\$0.65	\$0.63	\$0.63

*Note: 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 (\$) (HWC only)	2011-12	2010-11
Residential	\$82.30	\$78.38
Non-residential:		
Small (< 1,000m ²) or low impact	\$82.30	\$78.38
Medium (1,001 - 10,000m ²)	\$148.76	\$141.68
Large (10,001 - 45,000m ²)	\$946.22	\$901.19
Very Large (> 45,000m ²)	\$3,006.32	\$2,863.29

Recycled water (mandatory schemes) - HWC Only

	2011-12	2010-11
Gillieston Heights		
Service charge (20mm base \$/year)	\$22.41	\$21.77
Usage charge (\$/kL)	\$1.43	\$1.27
Chisholm		
Service charge (20mm base \$/year)	\$22.41	\$21.77
Usage charge (\$/kL)	\$1.43	\$1.27

	2011-12		2010-11	
	Main Prices	Dungog Only	Main Prices	Dungog Only
Backlog & other sewerage services				
Environmental improvement charge (EIC) (\$) (same for HWC & Dungog)	\$34.86	\$34.86	\$33.86	\$33.86
Clarence Town sewer charge (\$) (Dungog only)		\$112.69		\$109.47

Exempt service

	Meter equivalent	2011-12		2010-11			
		Main prices All cycles	Dungog only	Main prices		Dungog only	
				Bill cycles 1 & 2 (a)	Bill cycle 3 (b)	Bill cycles 1 & 2 (a)	Bill cycle 3 (b)
Exempt proportion		0.41	0.41				
Water service - exempt							
20mm	1.00	\$7.71	\$31.45	\$11.20	\$2.57	\$29.19	\$11.60
25mm	1.56	\$12.05	\$49.14	\$17.51	\$4.02	\$45.62	\$18.13

Note: For pipe sizes greater than 25mm, the standard water service charges apply (refer above).

Sewer service - exempt

	Meter equivalent	2011-12		2010-11	
		Main prices	Dungog only	Main prices	Dungog only
20mm	1.00	\$212.24	\$212.24	\$199.26	\$199.26
25mm	1.56	\$331.09	\$331.09	\$310.85	\$310.85
32mm	2.56	\$543.33	\$543.33	\$510.11	\$510.11
40mm	4.00	\$848.96	\$848.96	\$797.04	\$797.04
50mm	6.25	\$1,326.50	\$1,326.50	\$1,245.38	\$1,245.38
65mm	10.56	\$2,241.25	\$2,241.25	\$2,104.19	\$2,104.19
80mm	16.00	\$3,395.84	\$3,395.84	\$3,188.16	\$3,188.16
100mm	25.00	\$5,306.00	\$5,306.00	\$4,981.50	\$4,981.50
150mm	56.25	\$11,938.50	\$11,938.50	\$11,208.38	\$11,208.38
200mm	100.00	\$21,224.00	\$21,224.00	\$19,926.00	\$19,926.00
250mm	156.25	\$33,162.50	\$33,162.50	\$31,134.38	\$31,134.38
300mm	225.00	\$47,754.00	\$47,754.00	\$44,833.50	\$44,833.50
350mm	306.25	\$64,998.50	\$64,998.50	\$61,023.38	\$61,023.38
Pensioner rebate (same for HWC & Dungog)		\$239.00	\$239.00	\$227.00	\$227.00

6.4.4 Statement of Corporate Intent (SCI)

The annual Statement of Corporate Intent (SCI) specifies commercial performance targets agreed by Hunter Water and its voting shareholders. These targets are in turn driven down through Hunter Water in business unit budgets.

The SCI performance targets for the 2011-12 financial year and the actual results are as follows:

	2011-12 SCI Target \$m	2011-12 Actual \$m
Operating Profit before Income Tax Expense	53.9	47.6
Income Tax Expense	16.3	14.3
Net Debt	890.7	918.4

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. The current management agreement with NSW T-Corp commenced on 1 December 2010. Prior to that date, NSW T-Corp held only an advisory role. At 30 June 2012 key statistics on Hunter Water's debt portfolio were as follows:

	Actual 2011-12	Target 2011-12
Current capital value \$	918,367,528	890,700,000
Average cost of debt %	7.50	7.85
Duration (years):		
Pre-Dec 2010 nominal debt	4.45	Eroding to zero
Post-Dec 2010 nominal debt	4.63	3.75 to 8.75
Inflation linked debt	10.81	8.80 to 16.80

6.4.6 Credit Card Certification

Usage of corporate credit cards is in accordance with Hunter Water Policy, Premier's Memoranda and Treasurer's Directions.

6.4.7 Major Acquisitions over \$0.5 million for 2011-12 Annual Report

Project	2010/11 Expenditure (\$m)
Wastewater Treatment Works Upgrade (includes treatment plants at Branxton, Burwood Beach, Boulder Bay, Paxton, Clarence Town, Toronto, Edgeworth, Dora Creek, Kurri Kurri, Shortland & Farley)	33.17
Mayfield to Broadmeadow Wastewater Upgrade	8.68
Adamstown Wet Weather Pump Station	6.66
Morpeth Wastewater Transportation Upgrade	3.53
Edgeworth / Cardiff Wastewater Pump Station Upgrade	3.38
Kooragang Recycled Water Project	3.06
Williamstown / Raymond Terrace Wastewater Transportation Scheme	3.00
Wallsend Water Pump Station Upgrade	2.94
Chichester Trunk Gravity Watermain	4.79
Cessnock Water Distribution Upgrade	2.31
Fletcher Trunk Main Upgrade	2.17
Other Major Acquisitions (mostly made up of replacements in Hunter Water's Water and Sewer Networks)	41.81
Total Expenditure	115.51

6.4.8 Hunter Water Undertook 304 Consultancies from 1 July 2011 to 30 June 2012

Consultants over \$50,000

Consultant	Project	Cost
Engineering		
Aurecon Australia Pty Ltd	Mayfield to Broadmeadow Wastewater System Upgrade - Post Design Advice	\$113,272
BMT WBM Pty Ltd	Derivation of Williams River Flow Datasets	\$51,670
Department of Public Works	Scope Development of Surface Water Options for Lower Hunter Water Plan - Native Dog Creek Dam	\$163,807
Douglas Partners Pty Ltd	Clarence Town Effluent re-use - Installation of Ground Water Monitoring Wells	\$62,400
Downer EDI Engineering Pty Ltd	Upgrade of Hunter Water Corporation High Voltage Assets	\$139,311
Elton Consulting Group P/L	Research Into Community Engagement within the Lower Hunter	\$54,010
Evans & Peck Pty Ltd	Farley Stage 2 Upgrade - Independent Estimator	\$86,500
Evans & Peck Pty Ltd	Kooragang Island Water Scheme TOC Independent Estimator	\$79,946
GHD Pty Ltd	Belmont 6 Rising Main - Options Assessment	\$52,228
GHD Pty Ltd	CTGM Reliability Strategy Business Case	\$58,463
GHD Pty Ltd	Farley Stage 1 Wastewater System Upgrades - Concept Design	\$299,264
GHD Pty Ltd	Lochinvar Water Pump Station - Detail Design	\$162,360
GHD Pty Ltd	Morpeth Stage 3 Wastewater Storage Upgrades - Options Assessment and Concept Design	\$302,649
GHD Pty Ltd	Swansea Wastewater Network Stage 2 Upgrades - Concept Design Detailed Design and Tender Documentation	\$159,900

Consultant	Project	Cost
Engineering		
Hunter Land Development P/L	Williamtown Wastewater Transfer Scheme - Concept and Detail Design	\$1,596,555
Hunter Water Australia P/L	Boulder Bay WWTW Upgrade Asset Information	\$50,580
Hunter Water Australia P/L	Condition Assessment Program 2011/12	\$61,881
Hunter Water Australia P/L	Condition of Lookout to Belmont Trunk Watermains	\$111,645
Hunter Water Australia P/L	Grahamstown WTP Stage 111 Upgrade - Concept Design and EIA	\$112,000
Hunter Water Australia P/L	HWC-HWA - Spa - Asset Management Program 2011/12	\$68,481
Hunter Water Australia P/L	Interim Drought Management Plan - Water Freighting Investigation	\$100,863
Hunter Water Australia P/L	Inflow / Infiltration Program of Works - Management	\$99,963
Hunter Water Australia P/L	Newcastle Wastewater Transport System Upgrade - Stage 2 - Servicing Strategy	\$57,132
Hunter Water Australia P/L	Preliminary Engineering Concept, Deep Tomago Groundwater Upper Limit \$61220.00. HWA Contact: Clara Laydon	\$62,420
Hunter Water Australia P/L	Water Treatment Plant Residuals Strategy - Project Management	\$54,490
Hunter Water Australia P/L	2011/12 Trunkmain Condition Assessment Program - HWA Secondment of Abraham Mahilraj	\$78,477
Hunter Water Australia P/L	Secondment of David Perry to Water Resources	\$59,913
Hunter Water Australia P/L	Secondment of Matt Chambers - Asset Standards Engineer Relief	\$67,321
Hunter Water Australia P/L	South Wallsend to Cockle Creek - Reliability Assessment	\$62,081
Hunter Water Australia P/L	Various Sewer Rising Main Condition Assessments 2011-12	\$67,577
Hunter Water Australia P/L	Wallsend to North Lambton Trunkmain Condition Assessment - Stage 1	\$56,377
Hunter Water Australia P/L	Wallsend to North Lambton Condition Assessment Stage 2	\$54,371
Hunter Water Australia P/L	Wet Weather Sewage Overflow Customer Protection Stage 1	\$56,465

Consultant	Project	Cost
Engineering		
PDM Management Services P/L	Capital Projects Program	\$67,660
Primatec QDA Pty Ltd	Phase 1 - Automation and Control Reliability Upgrade for Dungog Water Treatment Plant	\$88,480
RPS Australia East P/L	Aberglasslyn WWS Stage 2 Upgrade - Aboriginal Heritage Investigations and Assessment	\$106,258
Sinclair Knight Merz	Tomago Groundwater Model- Final Calibration & DATA Production	\$62,400
Sinclair Knight Merz	Cessnock Water Supply Upgrades - Stage 2b - Design	\$217,732
Sinclair Knight Merz	Cessnock Water Supply System Upgrade Stage 1b - Concept & Detailed Design	\$121,358
Sinclair Knight Merz	Design of PRV Pits in Argenton and Redhead	\$80,605
Sinclair Knight Merz	Grahamstown to Lemon Tree Passage Drought Management Pipeline and Booster Pump Station Options Assessment	\$86,010
Sinclair Knight Merz	Hunter River Catchment Effluent Management Master Plan	\$155,837
Sinclair Knight Merz	Identification and Assessment of Recycled Water Opportunities For the Lower Hunter Water Plan	\$324,000
Sinclair Knight Merz	Karuah WWTW UV Disinfection Upgrade Strategy, Concept Design & EIA	\$152,794
Sinclair Knight Merz	Water Loss Project - Secondment of Dean Palmer	\$123,710
Worley Parsons (Patterson Britton)	Maitland North Rothbury Water Supply Upgrade - Stage 4 - Concept Design & EIA	\$62,478
Worley Parsons (Patterson Britton)	Windella Reservoir - Detail Design & Tender Documentation	\$108,266
Worley Parsons (Patterson Britton)	Maitland North Rothbury Stage 4 Water Supply Upgrade -package B & C - Detailed Design & Tender Documentation	\$67,948
Environmental		
Bio-Analysis Pty Ltd	Aquatic Macrophyte Resurvey of Grahamstown Dam	\$55,350
Bio-Analysis Pty Ltd	Fish Assemblage Survey of Grahamstown Dam Including Stomach Content Analysis of Selected Fish Samples	\$68,860
Eco Logical Australia Pty Ltd	Carbon Offsetting Advice - Lower Hunter Recycled Water initiative	\$102,514
Total consultants over \$50,000	(51 consultancies)	\$6,716,628

Consultants Less Than \$50,000

Category	Number	Cost
Engineering	198	\$3,092,700
Environmental	23	\$209,821
Finance	5	\$37,034
Information Technology	20	\$134,849
Legal	0	\$0
Organisational Review	6	\$135,104
Training	1	\$17,850
Total consultants under \$50,000	(253 consultancies)	\$3,627,359
Total consultants	(304 consultancies)	\$10,343,987

6.4.9 Research and Development

During 2011-12 Hunter Water undertook and collaborated on research and development on nine 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, the Water Research Centre, the University of New South Wales, Water Quality Research Australia and the University of Technology Sydney. 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 Hunter Water's operations.

Continuing Projects	\$
1. SSS Various Research and Development Projects	114,955
2. Burwood Beach Anaerobic Digestion Trials with Eudiometer	60,984
3. Burwood Beach UV Disinfection System Pilot Study Planning	42,224
4. Burwood Beach Anaerobic Digestion Trials	27,430
5. Lower Hunter Water Plan Research - Model Refinement - development	25,556
6. Grahamstown Adaptive Management Strategy – Sediment Nutrient Sources Investigation	25,000
7. University of Newcastle study on Actinomycetes	25,000
8. Biological Filtration for Removal of Algal	10,000
9. Monitoring Organic Matter in Drinking Water Systems	3,315

6.4.10 Donations and Sponsorship

To Government Organisations

Organisation	Description	Type	Amount
Hunter-Central Rivers Catchment Management Authority	Williams River brochure competition	Grant	\$1,500
Hunter-Central Rivers Catchment Management Authority	Upper Hunter catchment crawl	Grant	\$4,000
Hunter-Central Rivers Catchment Management Authority	Waterwatch	Sponsorship	\$25,000
Hunter New England Health	Crunch & Sip program	Grant	\$20,000
Nelson Bay Town Management	Sculptures by the Bay	Grant	\$3,000
Newcastle University Sport	Healthier Schools Program	Grant	\$10,000
Lake Macquarie City Council	Community Event	Grant	\$2,000
NSW Office of Water	Corporate sponsorship	Sponsorship	\$8,000
Rathmines Primary School	Irrigation System	Grant	\$1,500
Rutherford Technology High School	Aquaponics	Grant	\$5,000
Southlakes Carers	Community Garden	Grant	\$2,000
Southlake Community Services	Rain Water tank	Grant	\$2,000
St Pius X High School	Water Quality improvement	Grant	\$5,000
Total			\$89,000

To Non-Government Community Organisation

Organisation	Description	Type	Amount
Alison Court Aged Persons Units	Minimise the flush project	Grant	\$3,000
Adventure Racing Teams	Employee participation	Employee funding	\$1,500
Anglican Care	Water Wise project	Grant	\$3,000
Camp Quality	Donation	Charity	\$3,000
Climate Action Newcastle	Smart Energy Expo	Grant	\$1,000
Dungog Film Festival	Green Films Project	Grant	\$7,000
Dungog Pedalfest	Pedalfest	Grant	\$4,000
Dungog Memorial bowls, Sport and Recreation Club	Water efficiency project	Grant	\$2,000
Engineers Australia	Corporate sponsorship	Sponsorship	\$4,000
Hunter Surf Life Saving	Corporate sponsorship	Sponsorship	\$40,000
Hunter Water Corporation vs Hunter Water Australia cricket	Employee participation	Employee funding	\$1,000
Hunter Valley Research Foundation	Corporate sponsorship	Sponsorship	\$10,000
Hunter Water Twilight Nine Golf Club	Employee participation	Employee funding	\$1,500
Hunter Wetlands Centre	Corporate sponsorship	Sponsorship	\$15,000
Hunter Wetlands Centre	Envirothon Challenge	Grant	\$3,000
YMCA- Kurri Kurri Aquatic Centre	WaterWise	Grant	\$8,000
Macquarie Preschools Cooperative	Water Saving	Grant	\$1,000
Newcastle Ramblers Bushwalking Club	Improved Assets	Grant	\$1,000
Newcastle Hunter Dragon Boat Club	Community events	Grant	\$1,000
Ocean Swims	Employee participation	Employee funding	\$1,500
Surfest	Corporate sponsorship	Sponsorship	\$15,000
Surfers for Autism	Donation	Charity	\$500
Sparke Helmore Triathlon	Employee participation	Employee funding	\$1,500
Total Agricultural College	Scholarship	Grant	\$5,000
Total Field Days	Community Event	Grant	\$5,000
Together Today	Corporate sponsorship	Sponsorship	\$10,000
Trees in Newcastle	Costal Revegetation	Grant	\$4,000
Water Aid Australia	Donation	Charity	\$6,100
Wesley Mission	Donation	Charity	\$3,830
Total			\$162,430

6.4.11 Payment Performance

Invoices Paid on Time Within Each Quarter

Quarter	Total Invoices Paid on Time			
	Target No. %	Actual No. %	Paid on time \$	Total Invoices Paid within Quarter \$
September	95%	95%	\$65,554,413	\$69,594,888
December	95%	92%	\$56,784,873	\$60,411,065
March	95%	91%	\$55,557,263	\$60,119,709
June	95%	91%	\$68,127,168	\$75,275,346

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	\$65,554,413	\$3,164,227	\$623,885	\$73,802	\$178,561	\$69,594,888
December	\$56,784,873	\$2,779,362	\$542,062	\$140,408	\$164,360	\$60,411,065
March	\$55,557,263	\$3,722,294	\$511,290	\$141,433	\$187,430	\$60,119,709
June	\$68,127,168	\$6,588,795	\$444,988	\$48,823	\$65,572	\$75,275,346

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 Cost of Producing Annual Report

In accordance with statutory requirements, Hunter Water notes that the estimated external production costs for the 2011-12 Annual Report was \$20,600 (ex-GST).

6.4.13 Significant Audit Matters

Hunter Water Corporation 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 matter was raised by the Audit Office in their Client Service Report for the year ended 30 June 2012.

1. Formal project plan for Tillegra

The Audit Office has recommended the creation a formal project plan in relation to land purchased for the Tillegra Dam which is no longer proceeding. It is recommended that the project plan documents the risks and options for future use of the Corporation's Tillegra land holdings. Hunter Water Corporation is in the process of completing a formal project plan, a tender will be awarded for the Tillegra Land Use Strategy by the end of September 2012, with the strategy expected to take one year to complete. From this point a Land Release Strategy will then be completed.

6.5 Legislation

6.5.1 Right to Information

During 2011-12, Hunter Water received six formal *Government Information (Public Access) Act 2009* 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.

During the past year, Hunter Water has conducted a community survey, focus groups and stakeholder interviews on how Hunter Water can better-engage with the public. The community is most interested in the following topics:

- Water pricing
- Water saving initiatives
- Water quality
- Environment works
- Water planning
- Community education

Information regarding these topics is regularly updated on our website, and communicated to our customers via these other methods:

- 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 has also proactively released information during 2011-12 on Environment Protection Authority Pollution Monitoring Data, water storage levels, Hunter Water’s history timeline and our Independent Pricing and Regulatory Tribunal pricing submission.

Table A: Number of applications by type of applicant and outcome*

	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	0	0	0	0	0	0	0	0
Private sector business	1	1	0	0	0	0	0	0
Not for profit organisations or community groups	2	1	0	0	0	0	0	0
Members of the public (application by legal representative)	1	1	1	0	0	0	0	0
Members of the public (other)	2	1	0	0	0	0	0	0

*More 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 Table B.

Table B: Number of applications by type of application and outcome

	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)	5	4	1	0	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

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

Table C: 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

Table D: Conclusive Presumption of overriding public interest against disclosure: matters listed in schedule 1 of the Act

	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	1
Executive council information	0
Contempt	0
Legal Professional Privilege	1
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

*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 Table E.

Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act

	Number of occasions when application not successful
Responsible and effective government	1
Law enforcement and security	1
Individual rights, judicial processes and natural justice	4
Business interests of agencies and other persons	2
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

*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 Table D.

Table F: Timeliness

	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	6
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
Total	6

Table G: 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 the Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

Table H: 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

The *Work Health and Safety Act 2011*, the Work Health and Safety Regulation 2011 and the associated Codes of Practice took effect in 1 January 2012. The new Act and Regulation have replaced the OH&S Act 2000 and the OH&S Regulation 2001. Hunter Water's Work Health and Safety policy, procedures and systems have been amended and the necessary changes have been implemented to reflect the requirements of the new legislation. The Manager Work Health and Safety will continue to monitor the new Codes of Practice as they are released to ensure continued compliance.

In November 2011, legislation was passed to amend the *Protection of the Environment Operations Act 1997*. This had implications for how Hunter Water reports environmental incidents. These new requirements have been successfully implemented in Hunter Water's operating procedures and documentation.

6.6 Public Interest Disclosures

Reporting period: Jan 2012 - Jun 2012

Number of public interest disclosure received by your public authority	0
Number of public officials who made public interest disclosures to your public authority	0
Of public interest disclosures received, how many were primarily about:	
Corrupt conduct	0
Maladministration	0
Serious and substantial waste	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
Have you established an internal reporting policy?	Yes
Has the head of your public authority 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 Major Capital Works in Progress

Project	Cost	Commenced	Status
Adamstown Wet Weather Pump System	\$15m	Jun-11	Underway
Boulder Bay Wastewater Treatment Works Stage 2 Upgrade	\$25.5m	May-10	Nearing completion
Branxton Irrigation Water Scheme	\$3m	Feb-11	Complete
Branxton Wastewater Treatment Works Upgrade	\$48.3m	Nov-09	Complete
Cardiff Wastewater Pump Station Upgrade	\$4m	Nov-10	Completed
Cessnock Water Supply Upgrade Stage 1B – Reservoir and Lead-in Mains	\$20m	Oct-10	Underway
Chichester Gravity Trunkmain Upgrade (Beresfield to Stoney Pinch Reservoir)	\$13m	May-11	Nearing completion
Chichester Gravity Trunkmain Upgrade (Tarro to Shortland)	\$20m	May-10	Nearing completion
Clarence Town Sewage Scheme	\$12.5m	Dec-08	Complete
Dungog Clear Water Tank	\$12m	Mar-10	Complete
Edgeworth Wastewater Treatment Works Upgrade	\$2.7m	Oct-10	Complete
Maitland North Rothbury Water Distribution Stage 3	\$10m	Jun-11	Underway
Mayfield to Broadmeadow Wastewater System Upgrade	\$16m	May-11	Complete
Morpeth Wastewater System Upgrade	\$15m	Jun-10	Complete
Raymond Terrace Wastewater System Upgrade	\$5m	Apr-11	Nearing completion
Shortland Wastewater System Upgrade	\$10m	Jun-11	Complete
Toronto Wastewater Treatment Works Upgrade	\$10m	Mar-11	Nearing completion
Wallsend Water Pump Station Upgrade	\$4m	May-10	Nearing completion
Windale Wastewater System Upgrade	\$5m	Oct-10	Complete

Note: Status is at 30 June 2012.

Definitions:

Underway: Design commenced.

Nearing completion: Due for completion by 30 Dec 2012.

Complete: Practical completion achieved, in operation.

Hunter Water Australia

About Us

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

Mr Terry Lawler, Chairman of Hunter Water, Chairs HWA's Board. Other Directors as of 30 June 2012 are Mr Alan Chappel (Director, Hunter Water), Mr Jeff Eather (Director, Hunter Water) and Mr Kim Wood (Managing Director, Hunter Water).

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

What We Do

The company specialises in:

- Operation of water and wastewater treatment plants
- Providing operations support services and systems
- Water and wastewater planning and investigations
- Process, mechanical, electrical, and structural design of water and wastewater treatment plants 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



Mt St John Wastewater Purification Plant won the Engineers Australia Townsville Regional Project of the Year Award 2012.

Financial Performance

The net profit after tax for the year ending 30 June 2012 amounted to \$5,559,207. This was a good financial result. All key objectives were met except for safety, where there were two lost time injuries 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 management system is well underway and targeted for completion in 2012-13.



Hunter Water Australia's Head Office in Newcastle, NSW.

Our Work

HWA's services fall in three main areas – operations and partnering, consultancy and laboratory services. Each of these areas performed well in the 2011-12 financial year.

Operations and Partnering

HWA is a market leader in water and wastewater process design and operational management support. It has many long standing operational partnering and twinning arrangements with councils and water agencies – currently, its experienced team handles infrastructure management and operations for 25 water and wastewater treatment plants and is integral to supporting the operation of many other treatment plants. HWA works closely with its clients to assist with solving specific problems, training operators and improving capabilities.

During 2011-12, HWA 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.

HWA continues to focus on working closely with regional Australian communities to assist them in dealing with the issues they face.

Consultancy

HWA'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, HWA specialists were involved in a range of projects throughout Australia. The most significant project successfully completed in 2012 was the Mt St John Wastewater Purification Plant.

The Mt St John Wastewater Purification Plant serves Townsville City Council in northern Queensland. It is a full biological nutrient removal plant that can service 106,000 people, and the project won the Engineers Australia Townsville Regional Project of the Year Award 2012. The new plant will play an important role in protecting the Great Barrier Reef from pollution.

The key roles played by HWA in delivering this project successfully and under budget include preparing the strategic concept plan, environmental negotiations, process design, commissioning, provision of knowledge management system for operations and ongoing project support.

Laboratories

Hunter Water Laboratories is based at Warabrook in Newcastle and it is one of the best high-quality environmental testing facilities in Australia tailored to efficiently meet the strict testing regimes of urban water supply and wastewater systems. It also caters for the demanding testing regimes of the mining industry. The laboratories carry out water, wastewater, biosolids and environmental water quality monitoring and do legionella testing for air conditioning. Expertise in sampling, chemical, organics and microbiological analysis of waters is the core



Hunter Water Laboratories offers high-quality environmental testing services.

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 American Public Health Association Standard Methods and Australian Standards. The laboratory is NATA accredited to conduct over 80 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 and this is being used as a 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 lots of different challenges.



Hunter Water Australia provides a range of specialist technical, management and operational services to water agencies, councils, and industry.

Hunter Water Australia Financial Statements



Company Particulars

Directors

Mr T Lawler Chairman

Mr K Wood

Mr R Chappel

Mr J Eather

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

Hunter Water Australia Pty Limited
Financial Statements for the Year Ended 30 June 2012

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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 2012.

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 T Lawler Chairman (Appointed 16 March 2012)

Mr K Wood (Appointed 16 February 2012)

Mr RA Chappel

Mr J Eather

Mr R Robson Chairman (Resigned 22 December 2011)

Mr K Young (Resigned 28 July 2011)

Information on Directors

T Lawler B. Com, FCA, FAICD, FAIM

Mr Lawler was appointed as the Chairman of the Board in March 2012 and is also the Chairman of Hunter Water Corporation.

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, MAICD, FAIM, FIEAust, CPEng

Mr Wood was appointed as a Director in February 2012 and is also the Managing Director of Hunter Water Corporation.

Mr Wood 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. He 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.

R Chappel BE (Civil), Dip T & R P, Hon FIE Aust, FTSE

Mr Chappel was appointed as a Director on 26 July 2007 and is also a Director of Hunter Water Corporation. He is a former 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.

J Eather B.Com, CPA, FCIM, MAICD

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

Meetings of Directors

Board Meetings	Number of meetings attended	Number of meetings held during the time the Director held office
T Lawler	4	4
K Wood	5	5
R Chappel	12	12
J Eather	12	12
R Robson	6	6
K Young	1	1

Principal Activities

The principal activities of the Company in 2011-12 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 2012 was \$5,559,207 compared with a net profit after tax of \$5,069,746 for the previous year.

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

Dividends Paid

During the year, a dividend was paid to the Shareholder of \$3,558,109 that was declared at 30 June 2011.

Subsequent Events

On 27 July 2012, Directors declared a dividend of \$6,892,910 which will be paid to the Shareholder during 2012-13.

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 2012.

True and Fair View

The financial statements and notes give a true and fair view of the financial position as at 30 June 2012 and the performance for the financial year ended 30 June 2012.

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 114.

Directors' Benefits

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

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

Code of Conduct

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

Environmental Regulations

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, or of a State or Territory law.

Signed in accordance with a resolution of the Directors of Hunter Water Australia Pty Limited.



Mr. T. Lawler Chairman



Mr. R. Chappel Director

Dated: 28 August 2012 Newcastle



Auditor's Independence Declaration



To the Directors
Hunter Water Australia Pty Limited

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 2012, 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 "M T Spriggins". The signature is written in a cursive style.

M T Spriggins
Director, Financial Audit Services

21 August 2012
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 2012, 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 2012 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.

Independent Auditor's Report

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 21 August 2012, would be in the same terms if provided to the directors as at the time of this auditor's report.



M T Spriggins
Director, Financial Audit Services

31 August 2012
SYDNEY

Income Statement for the Year Ended 30 June 2012

	Notes	2012 \$	2011 \$
Income			
Services	2	37,519,360	33,720,064
Other income	2	778,416	727,676
Total income		38,297,776	34,447,740
Expenses	3	(30,353,061)	(27,186,293)
Profit before income tax		7,944,715	7,261,447
Income tax on profit	4	(2,385,508)	(2,191,701)
Profit for the year		5,559,207	5,069,746
Attributable to:			
Members of the parent entity		5,559,207	5,069,746
		5,559,207	5,069,746

The Income Statement should be read in conjunction with the accompanying notes on pages 121 to 148.

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Notes	2012 \$	2011 \$
Profit For The Year		5,559,207	5,069,746
Other Comprehensive Income:			
Superannuation actuarial gains/ (losses)		(6,345,667)	129,141
Income tax on superannuation actuarial gains/ (losses)		1,903,700	(38,742)
Other Comprehensive Income For The Year Net Of Tax		(4,441,967)	90,399
Total Comprehensive Income For The Year		1,117,240	5,160,144

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 121 to 148.

Statement of Financial Position as at 30 June 2012

	Notes	2012 \$	2011 \$
Current assets			
Cash and cash equivalents	6	7,346,559	5,069,916
Trade and other receivables	7	8,433,494	8,361,182
Total Current Assets		15,780,053	13,431,098
Non-current assets			
Plant & equipment	8	4,007,401	3,896,787
Intangible assets	9	313,192	286,461
Investments	10	5,000,000	5,000,000
Deferred tax assets	11	3,684,710	1,997,002
Total Non-Current Assets		13,005,303	11,180,251
Total assets		28,785,356	24,611,349
Current liabilities			
Trade and other payables	12	2,481,743	2,656,804
Current tax liabilities	13	765,514	211,119
Provisions	14	3,414,713	6,724,353
Total Current Liabilities		6,661,970	9,592,276
Non-current liabilities			
Provisions	14	402,316	434,779
Underfunded Defined Benefit Super	15	10,132,085	4,112,548
Total Non-Current Liabilities		10,534,401	4,547,327
Total liabilities		17,196,371	14,139,603
Net assets		11,588,985	10,471,746
Equity			
Contributed equity	16	900,010	900,010
Retained profits		10,688,975	9,571,736
Total equity		11,588,985	10,471,746

The Statement of Financial Position should be read in conjunction with the accompanying notes on pages 121 to 148.

Statement of Changes In Equity for the Year Ended 30 June 2012

	Notes	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
		Retained Profits \$	Contributed Equity \$	Total \$
Balance at 1 July 2010		7,969,700	900,010	8,869,710
Profit for the year		5,069,746	-	5,069,746
Other comprehensive income:				
Superannuation actuarial gains/ (losses)		129,141	-	129,141
Income tax on superannuation actuarial gains/ (losses)		(38,742)	-	(38,742)
Total other comprehensive income		90,399	-	90,399
Total comprehensive income for the year		5,160,144	-	5,160,144
Transactions with owners in their capacity as owners	5	(3,558,109)	-	(3,558,109)
Balance at 30 June 2011		9,571,736	900,010	10,471,746

The Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 121 to 148.

Statement of Cash Flows for the Year Ended 30 June 2012

Cash flows from operating activities	Notes	2012 \$	2011 \$
Receipts from customers (inclusive of GST)		41,174,709	37,573,164
Payments to suppliers and employees (inclusive of GST)		(33,276,100)	(29,108,533)
		7,898,609	8,464,631
Interest received		454,370	424,690
Income taxes paid		(1,615,120)	(2,558,919)
Net cash flows from operating activities	17	6,737,859	6,330,402
Cash flows from investing activities			
Purchases of property, plant and equipment		(903,083)	(586,925)
Proceeds from sales of property, plant and equipment		-	-
Net cash flows from investing activities		(903,083)	(586,925)
Cash flows from financing activities			
Dividends paid	5	(3,558,109)	(3,171,559)
Net cash flows from financing activities		(3,558,109)	(3,171,559)
Net increase / (decrease) in cash held		2,276,667	2,571,918
Cash at beginning of financial period		5,069,916	2,500,207
Effects of exchange rate changes on cash		(24)	(2,209)
Cash at the end of the Financial Year	6	7,346,559	5,069,916

The Statement of Cash Flows should be read in conjunction with the accompanying notes on pages 121 to 148.

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 2012 was authorised for issue in accordance with a resolution of the Board on 28 August 2012.

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* and Part 3 of the *Public Finance & Audit Act 1983*.

The financial statements also incorporate financial reporting requirements specified in the Public Finance and Audit Regulation 2010.

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*.

The accounting policies applied are based on the requirements applicable to for-profit entities on these mandatory or statutory requirements.

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 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 1 section (I) Impairment of assets below).

Depreciation

Depreciation is calculated using the straight line method on all plant and equipment at rates calculated to allocate their cost, net of their residual values, over their estimated useful lives. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

Class of asset	Useful life
Computers	2 to 5 years
Support assets	3 to 10 years
Leasehold Improvements	40 years

H. Intangible Assets

Intangible assets consist of software and other intangible assets. Research expenditure is recognised as an expense as incurred.

Software assets are classified as intangible assets and are amortised over one to three years. Other intangible assets consist of access fees for high speed internet services and are amortised over 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. Dividends

Provision is made for any dividend declared by the Directors of the Company on or before the end of the financial year but not distributed at balance date.

N. Goods and Services Tax

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

Receivables and payables in the 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.

O. 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.

P. Accounting Standards and Australian Accounting Interpretations Issued But Not Yet Operative

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. NSW Treasury have mandated that the Company may not early adopt any of these new standards and interpretations. The Company's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounts Standards arising from AASB 9 (effective from 1 January 2013)

This new standard currently applies from 1 January 2013, however as the IASB have delayed the application date of IFA 9 to 1 January 2015 it is likely the AASB will make the equivalent amendment. 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 material impact on the Company as the Company does not have any Available-for-Sale investments.

(ii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2011-2 Amendments to Australian Accounting Standards arising from reduced disclosure Requirements (effective from 1 January 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 entities in Australia. The only difference between the tier 1 and tier 2 requirements is that tier 2 requires fewer disclosures than tier 1. AASB 2011-2 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 statutory state 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) AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. This standard does not impact on the Company as it does not own investment properties.

(iv) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associated and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. This standard does not impact the Company as the Company does not hold any controlled entities.

AASB 11 and AASB 128 do not impact the Company as it does not have interests in joint arrangements or associates.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard by the Company is not expected to affect any of the amounts recognised or disclosures made in the financial statements.

AASB 127 is renamed Separate Financial Statements and is now a standard dealing solely with separate financial statements. Application of this standard will not affect the Company as it is not required to prepare separate financial statements.

v) AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Company does not use fair value measurements. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

(vi) Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. NSW Treasury mandated recognition of actuarial gains and losses in other comprehensive income in 2011 and therefore this change has already been accounted for by the Company.

vii) AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 Related Party Disclosures. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements.

Note 2. Income

Services	2012 \$	2011 \$
Sale of services	37,519,360	33,720,064
	37,519,360	33,720,064
Other income		
Interest from controlling entity	216,931	232,504
Interest from financial institutions	232,389	193,251
Superannuation Income	326,130	300,313
Other	2,966	1,608
	778,416	727,676
Total income	38,297,776	34,447,740

Note 3. Expenses

Profit before tax includes the following net gains and expenses:	2012 \$	2011 \$
A. Expenses		
Employee related expenses (see note B. below)	18,899,621	17,005,127
Project and contract outlays	6,183,245	5,397,751
Motor vehicles (excluding minimum lease payments)	627,161	482,923
Minimum lease payments	1,634,662	1,570,544
Information technology and communications	543,758	553,707
Foreign currency loss/(gain)	1,926	2,315
Loss/(gain) on disposal of assets	69	72
Bad debts - trade receivables	298	2,071
Other	1,711,345	1,393,229
	29,602,085	26,407,739
Depreciation and amortisation		
Amortisation - intangibles	98,374	72,202
Depreciation - property, plant & equipment	667,295	692,912
	765,669	765,113
Other charges against assets		
Doubtful debt provision - trade receivables	(14,693)	13,440
Total expenses	30,353,061	27,186,293
B. Employee related expenses		
Salaries	15,656,294	14,039,379
Employee benefits	1,739,138	1,610,172
Superannuation relating to Defined Benefit Schemes	248,145	266,674
Superannuation relating to Defined Contribution Plans	1,256,044	1,088,902
	18,899,621	17,005,127

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

	Notes	2012 \$	2011 \$
A. Income tax expense			
Current tax		4,073,215	1,831,377
Deferred tax	11	(1,687,707)	355,463
Under/(over) provided in prior years		-	4,861
		2,385,508	2,191,701
B. Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax and financial instrument fair value movements		7,944,715	7,261,447
Tax at the Australian rate of 30%		2,383,414	2,178,434
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Sundry items		2,094	8,406
		2,385,508	2,186,840
Under/(over) provision in prior years		-	4,861
		2,385,508	2,191,701
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	11	1,903,700	(38,742)
		1,903,700	(38,742)

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 23). 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

	2012 \$	2011 \$
Opening balance	3,558,109	3,171,559
Add dividend declared	-	3,558,109
Less dividend paid	(3,558,109)	(3,171,559)
	-	3,558,109

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

Note 6. Cash and Cash Equivalents

	2012 \$	2011 \$
Cash at bank and on hand	981,100	873,053
Deposits at call	6,365,459	4,196,863
	7,346,559	5,069,916

Deposits at call are bearing an interest rate of 3.45% at 30 June 2012 (2011: between 4.70% and 3.45%)

Bank Overdraft Facility

The Company has a bank overdraft facility available to the extent of \$200,000. As at 30 June 2012 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.

Refer also to Note 29 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Note 7. Trade and Other Receivables

Current	2012 \$	2011 \$
Trade debtors	5,367,754	4,889,702
Allowance for Impairment	-	(14,784)
Other current receivables	705	5,141
Prepayments	416,819	422,109
Work in Progress	2,224,138	1,906,820
Security Deposits	1,500	2,200
Accrued Income	408,082	1,130,447
Accrued Interest	14,496	19,546
	8,433,494	8,361,182

Details regarding credit risk, liquidity risk and market risk including financial assets that are either past due or impaired are disclosed in Note 29.

Note 8. Plant and Equipment

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

	Computers	Support Assets	Leasehold Improvements	Total
At 1 July 2010				
Gross carrying amount	1,708,108	3,902,470	1,227,205	6,837,783
Accumulated depreciation	(816,830)	(1,827,309)	(43,251)	(2,687,390)
Net carrying amount	891,278	2,075,161	1,183,954	4,150,393
At 30 June 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

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:

Reconciliation - Computers	2012 \$	2011 \$
Net carrying amount at start of the year	763,739	891,351
Additions	320,212	229,327
Disposals	(69)	(73)
Depreciation expense	(309,655)	(356,866)
Net carrying amount at end of the year	774,227	763,739

Reconciliation - Support Assets	2012 \$	2011 \$
Net carrying amount at start of the year	1,979,779	2,075,088
Additions	456,416	210,041
Depreciation expense	(326,940)	(305,351)
Net carrying amount at end of the year	2,109,255	1,979,779

Reconciliation - Leasehold Improvements	2012 \$	2011 \$
Net carrying amount at start of the year	1,153,269	1,183,954
Additions	1,350	-
Depreciation expense	(30,701)	(30,686)
Net carrying amount at end of the year	1,123,918	1,153,269

Note 9. Intangible Assets

Intangible assets comprise the following at cost:

At 1 July 2010	Software	Other	Total
Gross carrying amount	549,877	101,823	651,700
Accumulated amortisation	(435,556)	(5,028)	(440,584)
Net carrying amount	114,321	96,795	211,116

At 30 June 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

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:

Reconciliation - software	2012 \$	2011 \$
Net carrying amount at start of the year	193,743	114,322
Additions	125,105	147,556
Amortisation expense	(94,299)	(68,136)
Net carrying amount at end of the year	224,548	193,743

Reconciliation - other		
Net carrying amount at start of the year	92,718	96,794
Amortisation expense	(4,074)	(4,074)
Net carrying amount at end of the year	88,644	92,718

Note 10. Investments

Non current	Notes	2012 \$	2011 \$
Loan with parent entity	22	5,000,000	5,000,000
		5,000,000	5,000,000

Also refer to Note 29 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

Note 11. Deferred Tax Assets

The balance comprises temporary differences attributable to:

Non current	2012 \$	2011 \$
Amounts Recognised In Profit & Loss		
Doubtful debts	-	4,435
Work in Progress	(606,476)	(501,328)
Workers Compensation prepayment	(18,441)	-
Employee benefits	4,405,865	2,591,532
Other operating expenditure payable	8,940	7,350
Depreciation	(105,756)	(105,019)
Unrealised tax foreign currency loss	578	32
	3,684,710	1,997,002

Amounts recognised in other comprehensive income		
Superannuation actuarial gains/(losses)	1,903,700	(38,742)
	1,903,700	(38,742)

Movements		
Opening balance at 1 July	1,997,002	2,352,465
Credited/(charged) to the Income Statement	1,687,708	(355,463)
Closing balance at 30 June	3,684,710	1,997,002

Note 12. Trade and Other Payables

Current	2012 \$	2011 \$
Trade creditors	1,547,530	1,741,911
Other creditors	731,662	679,165
Income in advance	202,551	235,728
	2,481,743	2,656,804

Details regarding credit risk, liquidity risk and market risk including maturity analysis of above payables are disclosed in Note 29.

Note 13. Current Tax Liabilities

Provision for income tax payable	2012 \$	2011 \$
Opening balance	211,119	895,058
Add under provision for income tax in prior year	-	4,861
Less amount paid relating to prior year	(211,120)	(899,919)
Add amount payable for current year	2,169,515	1,870,119
Less amount paid relating to current year	(1,404,000)	(1,659,000)
	765,514	211,119

Note 14. Provisions

Current	2012 \$	2011 \$
Employee benefits - short term	1,535,930	1,431,653
Employee benefits - long term	1,878,783	1,734,591
Dividend provided	-	3,558,109
	3,414,713	6,724,353
Non-current		
Employee benefits	402,316	434,779
	402,316	434,779

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 \$1,576,754 at 30 June 2012 (30 June 2011: \$1,535,492) are expected to be settled after 12 months from reporting date.

Note 15. Other Non-Current Liabilities

Non-current	Notes	2012 \$	2011 \$
Provision for underfunded defined benefit superannuation	19	10,132,085	4,112,548
		10,132,085	4,112,548

Note 16. Contributed Equity

	2012 \$	2011 \$
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

	2012 \$	2011 \$
Profit for the Year	5,559,207	5,069,746
Depreciation and amortisation	765,669	765,113
Superannuation Income	(326,130)	(300,313)
(Profit)/loss on sale of non-current assets	69	72
Net exchange differences	1,926	2,315

Change in operating assets and liabilities

(Increase)/decrease in trade debtors	(479,954)	1,753,894
(Increase)/decrease in work in progress	(317,318)	(1,258,091)
(Increase)/decrease in deferred tax assets	215,993	316,721
(Increase)/decrease in other operating assets	723,056	(110,727)
Increase/(decrease) in trade creditors	(175,061)	641,874
Increase/(decrease) in inter-company tax payable	554,395	(683,939)
(Decrease)/increase in other provisions	216,006	133,737
Net Cash Flows From Operating Activities	6,737,858	6,330,402

Note 18. Commitments

Lease Commitments

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

	2012 \$	2011 \$
Within one year	1,493,616	1,355,224
Later than one year but not later than five years	3,201,021	3,218,556
Later than five years	2,267,231	3,158,977
	6,961,868	7,732,757

Representing:

	2012 \$	2011 \$
Cancellable operating leases	817,146	687,060
Non-cancellable operating leases	6,144,722	7,045,697
	6,961,868	7,732,757

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):

	2012 \$	2011 \$
Within one year	1,028,099	975,596
Later than one year but not later than five years	2,849,392	2,911,125
Later than five years	2,267,231	3,158,976
	6,144,722	7,045,697

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 2012 superannuation position:

Member numbers	SSS	SASS	SANCS	2012	2011
Contributors	3	10	13	26	30
Deferred benefits	2	-	-	2	2
Pensioners	11	1	-	12	11
Pensions fully commuted	5	-	-	5	4

Superannuation position	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Accrued liability	17,901,988	4,274,899	718,075	22,894,962	17,509,406
Estimated reserve account balance	(9,770,727)	(2,667,773)	(324,376)	(12,762,877)	(13,396,857)
	8,131,262	1,607,125	393,698	10,132,085	4,112,549

Future service liability	(391,761)	(680,492)	(283,113)	(1,355,366)	(1,128,612)
Net (asset)/liability to be recognised in statement of financial position	8,131,262	1,607,125	393,698	10,132,085	4,112,549

C. Reconciliation

	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Present value of partly funded defined benefit obligations at beginning of the year	13,291,555	3,524,458	693,393	17,509,405	17,839,393
Current service cost	31,827	88,070	29,923	149,820	187,739
Interest cost	689,479	183,880	34,441	907,800	905,033
Contributions by fund participants	71,949	58,664	-	130,613	133,236
Actuarial (gains)/losses	4,554,566	520,102	93,618	5,168,287	(320,470)
Benefits paid	(737,387)	(100,276)	(133,301)	(970,964)	(1,235,524)
Present value of partly funded defined benefit obligations at end of the year	17,901,988	4,274,899	718,075	22,894,962	17,509,407

	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Fair value of fund assets at beginning of the year	10,427,337	2,541,725	427,795	13,396,857	13,297,391
Expected return on fund assets	881,091	219,902	34,612	1,135,605	1,126,410
Actuarial gains/(losses)	(974,555)	(166,562)	(36,263)	(1,177,380)	(191,329)
Employer contributions	102,292	114,319	31,534	248,145	266,674
Contributions by fund participants	71,949	58,664	-	130,613	133,236
Benefits paid	(737,387)	(100,276)	(133,301)	(970,964)	(1,235,524)
Fair value of fund assets at end of the year	9,770,727	2,667,773	324,376	12,762,876	13,396,858

	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Present value of partly funded defined benefit obligations at end of year	17,901,988	4,274,899	718,075	22,894,962	17,509,407
Fair value of fund assets at end of the year	(9,770,727)	(2,667,773)	(324,376)	(12,762,877)	(13,396,858)
Subtotal	8,131,262	1,607,125	393,698	10,132,085	4,112,549
Net Liability/(Asset) recognised in statement of financial position at end of year	8,131,262	1,607,125	393,698	10,132,085	4,112,549

D. Expense Recognised in the Income Statement

Components recognised in income statement	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Current service cost	31,827	88,070	29,923	149,820	187,739
Interest cost	689,479	183,880	34,441	907,800	905,033
Expected return on fund assets (net of expenses)	(881,091)	(219,902)	(34,612)	(1,135,605)	(1,126,410)
Expense/(income) recognised	(159,785)	52,048	29,752	(77,985)	(33,638)

E. Expenses Recognised In The Statement Of Comprehensive Income

	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Actuarial (gains)/losses	5,529,121	686,664	129,882	6,345,667	(129,141)

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
	10,938,429

G. Fund Assets

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

	30-Jun-12	30-Jun-11
Australian equities	28.0%	33.4%
Overseas equities	23.7%	29.5%
Australian fixed interest securities	4.9%	5.7%
Overseas fixed interest securities	2.4%	3.1%
Property	8.6%	9.9%
Cash	19.5%	5.1%
Other	12.9%	13.3%

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 \$	2012 \$	2011 \$
Actual return on fund assets	17,803	3,906	(1,651)	20,057	1,095,966

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	4.0% pa
Expected rate of CPI increase	2.5% pa

The demographic assumptions at 30 June 2012 are those that will be used in the 2009 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 2012 and 2011 for the Company are:

- State Superannuation Scheme 1.60X (multiple of member contributions)
- State Authorities Superannuation Scheme 1.90% (% of member salary)
- State Authorities Non-Contributory Superannuation Scheme 2.5X (multiple of member contributions)

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.

2011: 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 3.5% pa, and an inflation rate of 2.5% pa.

The following is a summary of the 30 June 2012 financial position of the Fund calculated in accordance with AAS 25 Financial Reporting by Superannuation Plans:

Surplus/ deficit	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Accrued benefits	9,255,399	3,355,346	574,895	13,185,640	13,059,956
Net market value of fund assets	(9,770,727)	(2,667,773)	(324,376)	(12,762,877)	(13,396,857)
Net (surplus)/deficit	(515,328)	687,573	250,519	422,763	(336,901)

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 \$	2012 \$
Present value of defined benefit obligation	17,901,988	4,274,899	718,075	22,894,962
Fair value of fund assets	(9,770,727)	(2,667,773)	(324,376)	(12,762,877)
(Surplus)/ deficit in Fund	8,131,262	1,607,125	393,698	10,132,085
Experience adjustments				
- Fund liabilities	4,554,566	520,102	93,618	5,168,287
Experience adjustments				
- Fund assets	974,555	166,562	36,263	1,177,380

	2011 \$	2010 \$	2009 \$	2008 \$
Present value of defined benefit obligation	17,509,406	17,839,393	16,851,460	14,252,029
Fair value of fund assets	(13,396,857)	(13,297,391)	(13,181,995)	(14,528,458)
(Surplus)/ deficit in Fund	4,112,549	4,542,002	3,669,465	(276,429)
Experience adjustments				
- Fund liabilities	(320,470)	536,958	2,138,637	(135,987)
Experience adjustments				
- Fund assets	191,329	672,737	2,242,204	1,758,786

Expected Contributions	SSS \$	SASS \$	SANCS \$	2012 \$	2011 \$
Expected employer contributions	115,118	111,462	32,315	258,895	268,653

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 2012.

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 2015, 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	2012 \$	2011 \$
Audit review of financial reports (exclusive of GST)	35,000	24,500
	35,000	24,500

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 quarterly at market rates.

A. Controlling Entity

Transactions With Controlling Entity

Sales	2012 \$	2011 \$
Contracts Consultancy Services	24,029,269	20,776,461

Purchases		
Contracts	219,997	183,790
Consultancy Services	139,539	87,498
Total Purchases	359,536	271,288
Interest Received	216,931	232,504
Dividends Paid	(3,558,109)	(3,171,559)

Outstanding Balances at Year End	2012 \$	2011 \$
Receivables		
Sales and purchases	3,421,475	3,363,953
Tax funding agreements	3,684,710	1,997,002
Inter-company loan	5,000,000	5,000,000
Inter-company loan - interest	14,496	19,546
Total receivables	12,120,681	10,380,501

Payables		
Sales and purchases	1,500	76,060
Tax funding agreements	765,514	211,119
Dividend payable		3,558,109
Total payables	767,014	3,845,288

B. Related Entity/Party

Transactions With Related Entities	Entity	2012 \$	2011 \$
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	27,600	-
Total sales		72,983	-

Purchases			
Superannuation contributions	First State Super	1,329,420	1,218,546
Project consultancy services	GHD	58,793	-
Labour hire	People Fusion	21,401	-
Scholarship fees	University of Ncle	14,140	-
Membership fees	Water Services Association of Aust	11,225	-
Total purchases		1,434,979	1,218,546

Outstanding balances at year end	Entity		
----------------------------------	--------	--	--

Receivables			
Engineering consultancy	Hunter Development Corp	10,612	-
11am cash account	TCorp	6,365,459	4,196,863
Total receivables		6,376,071	4,196,863

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	T	Lawler	Chairman (Appointed 16 March 2012)
Mr	K	Wood	(Appointed 16 February 2012)
Mr	R	Chappel	
Mr	J	Eather	
Mr	R	Robson	Chairman (Resigned 22 December 2011)
Mr	K	Young	(Resigned 28 July 2011)

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

	2012 \$	2011 \$
Short term employee benefits	1,670,117	1,133,478
Long term employee benefits	54,975	44,005
Post employment benefits	275,939	197,397
	2,001,031	1,374,880

Note 24. Management Consultants Fees

	2012 \$	2011 \$
Management consultants paid or payable	73,642	68,475

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 are derived from the parent entity, Hunter Water Corporation.

Note 27. Events Occurring After Balance Date

On 27 July 2012, Directors approved a \$6,892,910 dividend which will be paid in the 2012-13 financial year.

No other 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 64 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. Management does not expect either of these counterparties to fail to meet its obligations.

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

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

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

Exposure to Credit Risk

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

	Note	2012 \$	2011 \$
Cash and cash equivalents	6	7,346,559	5,069,916
Trade Receivables	7	5,792,538	6,032,252
Investments - non-current	10	5,000,000	5,000,000
		18,139,097	16,102,169

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

	2012 \$	2011 \$
Domestic	5,317,926	4,874,918
Papua New Guinea	49,828	-
	5,367,754	4,874,918

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

	2012 \$	2011 \$
Controlling entity	3,355,540	2,569,901
Other Government entity	1,516,999	1,351,511
Incorporated entity (Proprietary or Public Company)	494,113	941,197
Unincorporated entity or sole trader	1,102	12,309
	5,367,754	4,874,918

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:

	2012		2011	
	Gross \$	Impairment \$	Gross \$	Impairment \$
Not past due	5,018,126	-	4,357,401	-
Past due 2 to 6 months	237,864	-	422,289	-
Past due 6 to 12 months	70,788	-	57,101	(14,784)
Past due more than one year	40,976	-	52,911	-
	5,367,754	-	4,889,702	(14,784)

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

	2012 \$	2011 \$
Movement In Allowance for Impairment		
Balance at 1 July	(14,784)	-
Amounts recovered during the year	14,784	-
Increase/(decrease) in allowance recognised in profit or loss		(14,784)
Balance at 30 June	-	(14,784)

All trade receivables at 30 June 2012 are expected to be collected.

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

B. Liquidity Risk

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

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains a \$200,000 bank overdraft that is unsecured. Interest would be at the rate of 9.98% per annum for an overdraft up to \$200,000 and then 15.08% for an overdraft above that (2011: 10.64% and 15.74% respectively).

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

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	-

2011	Carrying amount \$	Contractual cash outflows \$	3 months or less \$	4 months or more \$
Trade and other payables	1,722,591	1,722,591	1,722,591	-
	1,722,591	1,722,591	1,722,591	-

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 the United States.

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.

	2012		2011	
	\$ PGK	\$ USD	\$ PGK	\$ USD
Trade receivables	49,828	-	-	-
	49,828	-	-	-

Currency Risk Sensitivity Analysis

A 10 percent strengthening of the Australia dollar against the following currencies at 30 June 2012 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 2011

	2012		2011	
	Profit or (loss) \$	Equity \$	Profit or (loss) \$	Equity \$
Papua New Guinea Kina	1,906	1,906	-	-
	1,906	1,906	-	-

A 10% weakening of the Australian dollar against the above currencies at 30 June 2012 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 9.98% per annum for an overdraft up to \$200,000 and then 15.08% for an overdraft above \$200,000 (2011: 10.64% and 15.74% respectively).

At the reporting date the interest rate profile of the Company's interest bearing financial instruments were:

Variable rate instruments	2012 \$	2011 \$
Financial assets	12,344,801	10,068,400
	12,344,801	10,068,400

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 2011.

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 2011.

2012	Profit or (loss) 1% increase \$	Equity 1% increase \$
Variable rate interest rates	123,448	123,448
	123,448	123,448

2011	Profit or (loss) 1% increase \$	Equity 1% increase \$
Variable rate interest rates	100,684	100,684
	100,684	100,684

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 2012 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 T Lawler
Chairman



Mr R Chappel
Director

Dated: 28 August 2012

Newcastle





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SEND A MESSAGE:

Address

PO Box 5171, HRMC NSW 2310

Email

enquiries@hunterwater.com.au

Website

www.hunterwater.com.au

COME TO THE COUNTER:

Newcastle

36 Honeysuckle Drive

Speers Point

12 Main Road

Maitland

285 High Street

