



ANNUAL REPORT

2017-18



Hunter Water

01 July 2017 - 30 June 2018

Hunter Water operates across the traditional country of the Awabakal, Birpai, Darkinjung, Wonaruah and Worimi peoples. We recognise and respect their cultural heritage, beliefs and continuing relationship with the land, and acknowledge and pay respect to Elders past, present and future.

ABOUT THIS REPORT

The Annual Report 2017-18 provides an overview of Hunter Water's activities and performance for the period 1 July 2017 to 30 June 2018.

It includes our Vision and Purpose, highlights from the year, financial reports, statistical information and the activities of former subsidiary company, Hunter Water Australia Proprietary Limited (HWA), of which the assets were divested in December 2014. Until HWA has been liquidated and deregistered, there remains a legislative obligation under the *Annual Reports (Statutory Bodies) Act 1984* (NSW) for the financial statements to be reported each year.

Past annual reports can be found at hunterwater.com.au/annualreport.

We welcome feedback on this report. Please email communications@hunterwater.com.au or write to: Public Affairs | Hunter Water | PO Box 5171 | HRMC NSW 2310

LETTER OF SUBMISSION

The Hon. Dominic Perrottet MP
Treasurer and Minister for Industrial Relations
Member for Hawkesbury
52 Martin Place
SYDNEY NSW 2000

The Hon. Victor Dominello MP
Minister for Finance, Services and Property
Member for Ryde
52 Martin Place
SYDNEY NSW 2000

Dear Treasurer and Minister Dominello

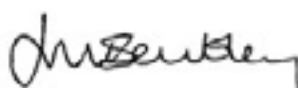
We are pleased to submit the Annual Report of Hunter Water Corporation (Hunter Water) for the financial year ended 30 June 2018 for presentation to the Parliament of New South Wales.

Our Annual Report 2017-18 was prepared in accordance with section 24A of the *State Owned Corporations Act 1989* and the *Annual Reports (Statutory Bodies) Act 1984*. The financial statements for 2017-18, which form part of the full report, have been submitted to and certified by the Auditor-General of New South Wales.

Yours sincerely




Terry Lawler AO
Chairman



Jim Bentley
Managing Director

THANK YOU FOR LOVING WATER WITH US



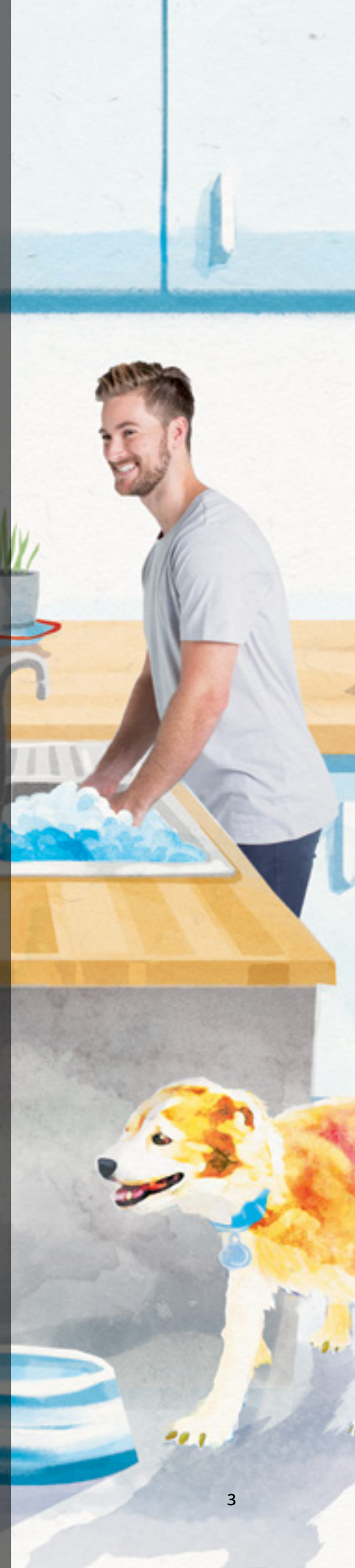
Over the past year, I have had the privilege of visiting the Lower Hunter several times. I'm proud to be the Portfolio Minister of Hunter Water, working together to drive important initiatives around water conservation and efficiency.

This work includes the campaign which aims to increase awareness of the community's water use and learn ways to conserve our most precious resource. I am also encouraged by the progress Hunter Water is making in reducing leakage across its network and the part Hunter Water is playing to save water.

These conservation and efficiency measures will help improve future sustainability and the resilience of the Lower Hunter's water supply. I'm excited about the direction Hunter Water is heading in.

The Hon. Don Harwin MLC

Minister for Resources
Minister for Energy and Utilities
Minister for the Arts
Vice-President of the Executive Council
Leader of the Government in the Legislative Council



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ABOUT US

We aspire to being valued by our partners for the part we play in delivering the aspirations for our region. We are working to enable sustainable growth, and the life our communities desire, with high quality, affordable services.

As a State Owned Corporation (SOC) Hunter Water provides drinking water, wastewater, recycled water and some stormwater services to a population of almost 600,000 people in homes and businesses across the Lower Hunter. Hunter Water was the first SOC to be proclaimed within New South Wales pursuant to the *State Owned Corporations Act 1989*.

We are proud of our humble beginnings, starting in the 1880s when water was first delivered to Newcastle from a temporary pumping station on the Hunter River at Oakhampton to Newcastle No 1 Reservoir. Like our region, we have grown considerably since then, and we are constantly looking for new ways to provide great services, enable good development and be a thought leader. We are committed to being a great employer that operates in an efficient and productive manner, enhancing the wellbeing of our employees.

The safety of Hunter Water's drinking water is our priority and is confirmed through an extensive monitoring programme. We have 68 sampling locations across our drinking water network and routinely test for a wide range of physical, chemical and biological characteristics at all stages of the supply system.

Our employees help deliver the life our communities desire, working closely with contractors, stakeholders and the community to manage an asset base of more than \$2.5 billion worth of water, wastewater and recycled water infrastructure. Together we are building our water resilience capabilities and ensuring a sustainable water future for the Lower Hunter.



459

FULL TIME EQUIVALENT
STAFF WORKING FOR
OUR COMMUNITY



126

YEARS
OF LOCAL
ACHIEVEMENTS

20,793



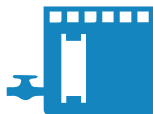
WATER QUALITY
TESTS IN THE
LABORATORY



1

NATIONALLY
RECOGNISED STATE
HERITAGE SITE

**78 water
RESERVOIRS**



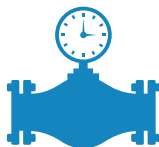
Storing water throughout our network



**5,115 km
SEWER MAINS**

Transporting sewage to our treatment works

**5,080 km
WATER MAINS**



Transporting water to people in the region



**441 wastewater
PUMP STATIONS**

Taking wastewater to our treatment plants

**72,522 million litres
SUPPLIED**



In 12 months to 19 April 2018



**276,685 million
LITRES**

Total capacity of Hunter Water's storages

A MESSAGE FROM OUR CHAIRMAN & MANAGING DIRECTOR



Dr Jim Bentley, Managing Director and Terry Lawler AO, Chairman

“Metropolitan cities succeed and perform best when all tiers of government collaborate and work together with business, industry and the community to deliver a shared vision.”

- *Greater Newcastle Metropolitan Plan 2018*

With record investment, the Lower Hunter, from the coal fields to the coast, is undergoing a substantial transformation. Private investment has been inspired by confidence-building public investment in infrastructure and services, leading to significant opportunities to improve the liveability of our cities and suburbs.

As evidence of this transformation, Hunter Water assessed a record 2,208 development applications in the 2017-18 financial year. With a continued focus on delivering high quality services, Hunter Water decreased the average processing time for these applications from 23 days in August 2017 to 9.1 days in June 2018. In 2017-18, we implemented a new Certification of Developer Works Scheme, which has provided the development community with greater autonomy in the delivery of low risk works, and we are currently in the late stages of piloting a new online system to receive and process development applications, further increasing efficiencies and reducing unnecessary delays for the development sector. These improvements are just one element of our renewed customer service focus.

Leveraging strong collaborative partnerships will be fundamental to the growth transition of our region. Across the last 12 months, Hunter Water has built strong collaborative relationships with industry, government, academia, partner councils and, most importantly, our communities.

Working with our communities, Hunter Water launched its Love Water campaign in December 2017. Love Water is an innovative approach to

integrated water conservation based around learning together to challenge preconceptions about water usage and to promote sustainability. Love Water themes have been integrated within our expanded schools programme and have supported the launch of additional communication channels, with Hunter Water branching into social media platforms that are used by our customers, such as Facebook, Instagram, YouTube and LinkedIn.

Collaboration with our partners was also a focus of 2017-18. In March 2018, we joined Lake Macquarie Mayor Cr Kay Fraser and Chief Executive Morven Cameron, to sign a historic Partnership Agreement. As partners, we have been exploring opportunities to share resources and information to deliver key infrastructure projects and services more efficiently. This improved relationship will deliver dividends in years to come, further helping to improve the experience of our shared customers and ratepayers.

The 2017-18 financial year has not been without its challenges, with unusually dry conditions, and in the latter part, the commencement of a period of declared drought across the Hunter region. We were extremely encouraged by the positive response we received from our communities to the support we provided to those experiencing hardship due to the dry conditions. From support for the endangered egrets at Hunter Wetlands Centre at the end of summer, through to delivering more than one million litres of water to the farmers of the Upper Hunter in the new financial year, we have stood alongside our communities to provide assistance and support.

Financially, Hunter Water exceeded forecasts with a net profit after tax of \$55.7 million (up from \$54.7 million in 2016-17). The increase in income was primarily due to an increase in water usage charges (\$145.0 million, up from \$127.4 million in

2016-17) due to increased usage resulting from the prolonged dry conditions, and continued high developer contributed assets (\$32.4 million, largely consistent with \$33.1 million in 2016-17, and up from \$26.5 million in 2015-16).

The additional income from water usage tariffs and continued high developer funded infrastructure activity, allowed us to bring forward and deliver \$8.3 million in previously unbudgeted operational projects to help improve efficiency and service, and reduce business risk. In particular, we brought forward expenditure on projects that help reduce Hunter Water's network losses and improve environmental performance. We are particularly pleased to have seen a total decrease in real water losses of more than 17 per cent across the last two years (10.2 per cent reduction in 2017-18, in addition to a 7.7 per cent reduction in 2016-17). This result has been brought about by a major increase in active leak detection programmes, the deployment of smart technology in our network, and the relining of major reservoirs.

As part of the Love Water approach, we have been working closely with major customers to develop Water Efficiency Management Plans (WEMPs). During 2016-17, water efficiency activities identified a total of 513 megalitres in annualised leaks and water efficiency opportunities on major customer premises. Of these identified opportunities, working in partnership with major customers, we were able to realise 208 megalitres in actual savings, including 99 megalitres saved in local schools. Our Love Water initiatives for 2017-18 are documented in this Annual Report.

2017-18 was also a significant year for Hunter Water's capital programme, with a total of \$108.5 million in capital works delivered. This programme included upgrades to the Central Coast transfer pipeline (\$6.1 million) to allow increased water sharing between the Hunter and Central Coast regions, major upgrades to improve the reliability of Hunter Water's assets with investment in high voltage powerline upgrades (\$5.1 million), SCADA and telemetry network replacements (\$4.9 million and \$2.8 million, respectively) and the replacement of the aged Chichester Trunk Gravity Main crossing of the Hunter River (\$3.5 million). Hunter Water also delivered a Recycled Water Treatment Plant to service growth areas of Gillieston Heights and Chisholm (\$4.4 million) which will reduce demand on the potable water system. Wastewater network upgrades to service growth and reduce wastewater overflows were a significant portion of Hunter Water's capital programme, including the Maitland 14 Wastewater Pump Station (\$3.8 million) and wastewater network upgrades at Lochinvar (\$3.4 million), Elmore Vale and Wallsend (\$1.9 million), Boulder

Bay (\$1.8 million), Waratah West (\$1.2 million) and Dungog (\$1.0 million).

To cater for growth and increasing environmental and regulatory requirements, Hunter Water forecasts further increases to its capital works investments in coming financial years. To continue to drive innovation, improve capability and to reduce safety risk in the delivery of this increased investment, Hunter Water has implemented a Programme and Project Management partnership with major international management and consultancy firm WSP, which commenced at the start of the 2018-19 financial year.

Across the financial year, we continued to work with our employees to advance the safe, resilient and innovative corporation our region deserves to have. The safety and wellbeing of our employees, suppliers and communities remains our utmost priority. At the end of financial year, the Total Reportable Injury Frequency Rate was 11.89, against an industry benchmark of 15.0, and total lost hours had reduced to 370, compared with 1,053 lost hours in 2016-17. This improvement has been a result of our increased focus on preventative work health and safety management.

Our annual employee engagement survey results indicate the strong connection our staff have with our vision and direction. In the latest results, finalised at the start of the current financial year, 96 per cent of Hunter Water's employees identified a strong connection to the organisation's values and purpose and 94 per cent identified a strong teamwork culture. The results also indicate significant increases in the cross unit collaboration score (10 percentage point increase) and the use of technology score (seven percentage point increase). These scores demonstrate strong progress gains in previous areas of traditional underperformance.

The employee engagement survey additionally identified work required to improve internal processes, policies and procedures. In the current financial year, we are continuing work with our employees and their representatives to streamline processes and remove barriers to progress, with the end goal of being a better employer and improving customer service.

Looking to the year ahead, we will continue to learn with our customers and communities to Love Water and promote conservation. We will continue to develop strong relationships and work with our partners as we deliver on our strategic objectives and aspirational goals, and we will prepare our next pricing submission to the Independent Pricing and Regulatory Tribunal.

Terry Lawler AO, Chairman
Jim Bentley, Managing Director



Hunter Water's approach to water planning is to use what we have better, more efficiently and, importantly, value it much more.

A key element of our integrated approach to water conservation is how we engage and learn with our communities to conserve our most precious resource. Simply, we want to Love Water.

Historically, Hunter Water's water conservation campaigns were promoted through predominantly one-way communication channels such as the website, broadcast media and advertising. The impact in terms of reach, engagement and behaviour change was not measured, and it is difficult to determine how successful they were.

Hunter Water has re-positioned its brand under the banner 'Love Water' to better align with conservation, sustainability and broader community engagement around working and learning together, rather than the 'policing' of water.

Love Water aims to spark curiosity around how we use water and evoke an emotional connection to our most precious resource. This encourages water wise behaviour. Rather than communicating the Water Wise Rules, we want to engage more deeply with our community to encourage behavioural change.

Love Water is more than a conservation campaign; it is also a means of communicating why our communities can have confidence in the quality of drinking water and the health of our beaches, and

BECAUSE WATER IS PRECIOUS

Love Water aims to spark curiosity and value around how we use water and evoke an emotional connection to our most precious resource.

it is the common thread through all aspects of our new approach to community engagement.

The Love Water campaign was launched in late December 2017 on our social media platforms and rolled out to other channels using interactive content, specifically our water use calculator, to engage our community about water and its value.

This preceded a prominent media campaign involving partnerships with local television, radio and print networks, which have continued into 2018-19. The key conservation messages are also evident in our editorial media programme, community events, sponsorships and stakeholder partnerships.

Our organisation's passion for water has been enthusiastically led by our employees who have been the face of our Love Water messaging to the community through our campaign collateral, including television commercials, social media and outdoor advertising channels.

We have been encouraged by early results of our campaign: within the first month of launching Love Water we had an increase of 10,000 website visitors. Of these visitors, 40% were people that had not previously visited our website. From February to June 2018 we had an increase of 17% in website visitors compared to the same period in 2017.

IT BELONGS TO ALL OF US



VALUING WATER TOGETHER

On average, Hunter households use 181,000 litres of water a year

We continue to work with our communities to identify ways we can reduce water use in the home and outdoors.



ENGAGING WITH THE MESSAGE

More than 700 people entered our Love Water radio competition

Via our water use calculator, they found out how to save water at home. There were 214,814 visits to our calculator in 2017-18.



SPREADING THE LOVE

We shared a video of our staff expressing their love of water

Our social media community enjoyed more than 55,000 displays on Twitter and Facebook, sharing photos and videos of their own love of water in response.



ILLUSTRATING OUR LOVE

Reflecting what an integral part water plays in our everyday lives

Our illustrations, showing water use at home, outdoors, work and more, have appeared on banners to buses, providing daily reminders of water's value.



ENABLING THE LIFE OUR COMMUNITIES DESIRE

Hunter Water has a key role to play in implementing the Government's vision for the Hunter to be Australia's leading regional economy with a vibrant metropolitan city at its heart.

The Hunter has long been known for its desirable lifestyle, with its beautiful coastline and bushland from the Lake to the Port, green suburban communities, agricultural expertise, and a resilient economy.

Our 2017+3 Strategy challenges us to understand and respond to the views of our customers, consumers and communities, and to work in collaboration with our stakeholders and partners to deliver on the aspirations for our region.

Our strategic context

In order to deliver services to the expectations of our customers, Hunter Water is responding to key challenges and opportunities. These include:

Population growth - the Greater Newcastle Metropolitan Plan has forecast an additional 160,000 people in the Lower Hunter over the next 20 years. For Hunter Water this is expected to take us to a population of approximately 700,000 serviced by 2036. Greater Newcastle will be the focus for much of this growth.

A changing planning environment - with the release of the Hunter Regional Plan 2036 and the Greater Newcastle Metropolitan Plan 2036, the NSW Government has announced fundamental changes to land-use planning in the Hunter, with a greater focus on planning at a regional level.

Customer, consumer and community expectations - social and demographic change and evolving expectations will challenge the way we operate. There is a trend for increased tracking of personal information and greater transparency and access to information. We need to understand how these broad trends are manifesting in our region.

Technological change - rapid technological change is transforming the way our customers, consumers and communities live, and will change

the way services are provided. Augmented and virtual reality, the internet of things, big data and digital technologies are disruptors creating whole new markets and movements. They offer the opportunity to transform our business, to deliver new solutions and to create new opportunities.

Climate - climate change and variability present significant challenges in managing infrastructure to deliver water services to the community. Greater climate variability is predicted to lead to more frequent and intense storms, and longer periods of drought. Sea level rise predictions present a significant risk to our region and assets.

Price and cost increases - an increased cost of living and the high proportion of working families locally, challenge our business to keep prices low. Efficiency improvements, productivity gains and a better understanding of the potential to increase revenue sources offers the opportunity to deliver on our vision while minimising cost increases and delivering a return on government investment.

Operational electricity requirements alongside water industry process changes and technological improvements in renewable energy generation provide new opportunities to become self sufficient and improve operations.

SUSTAINABLE DEVELOPMENT GOALS

17 integrated global goals to transform our world

Supporting people, promoting prosperity and protecting the planet

Our global context

The Sustainable Development Goals (SDGs) were adopted by 193 member countries of the United Nations in 2015. They are a call to action to improve people's lives.

Hunter Water is firmly committed to playing its part in the realisation of the Sustainable Development Goals and is proud to be part of an industry that has made a strong collaborative commitment to progress all 17 objectives. The SDGs offer a new way of thinking that challenges the traditional 'business as usual' approach and with increasing adoption across the nation and globe, will result in better alignment with emerging government policy. They also provide a common framework for engagement with stakeholders across our region and beyond.

We have signed the Water Services Association of Australia's urban water commitment to promote the SDGs across the industry and within our communities in order to build a more sustainable and prosperous future. We are especially well-placed to deliver on Goal 6 in ensuring the availability and sustainable management of water and sanitation for all, and we have commenced work across all 17 goals. We will continue to seek opportunities to further embed them in our operations and the services we provide.



Read more about how our work and projects are promoting the Goals through our six Strategic Priorities on pages 13 - 37.

2017+3 STRATEGY

OUR PURPOSE IS TO ENABLE THE SUSTAINABLE GROWTH OF THE REGION, AND THE LIFE OUR COMMUNITIES DESIRE, WITH HIGH QUALITY, AFFORDABLE SERVICES



GREAT SERVICES



DIGITAL UTILITY



GOOD DEVELOPMENT



GREAT EMPLOYER



THOUGHT LEADER



LEADING PRODUCTIVITY

OUR VISION IS TO BE A VALUED PARTNER IN DELIVERING THE ASPIRATIONS OF OUR REGION.

Our values define who we are as an organisation and how we behave. We will be successful by embodying them in our actions and decisions.

- **Wellbeing:** The wellbeing of the public, everyone who works for us, and the environment is our highest priority.
- **Honesty:** We are honest and courteous and respect the views of others.
- **Innovation:** We are innovative and look for new ways to do things and challenge traditional means.
- **Excellence:** We strive for excellence, to be the best we can be and to continually improve.
- **Courage:** We have the courage to turn challenges into opportunities.
- **Collaboration:** We are collaborative and recognise that by working with others and sharing information and ideas we can develop better solutions.

1

THOUGHT LEADER

**TO BE A THOUGHT
LEADER IN DEVELOPING
A SUSTAINABLE AND
RESILIENT WATER AND
WASTEWATER FUTURE**



BEING A THOUGHT LEADER

Our goal is to utilise this thought leadership to create a better water future for our customers, consumers and communities.

Hunter Water is strongly placed to play a leading role in making our region more sustainable and resilient. This role can only be established by being a leader in understanding community expectations, and balancing these against requirements to deliver liveability, sustainability

and affordability. Through demonstrating thought leadership, we aim for our advice and opinion to be welcomed and valued by our stakeholders.

Sustainability requires the balancing of economic, social and environmental goals to deliver the best outcomes for now, and for future generations.

Water Resilience Programme



A RELIABLE WATER SUPPLY IS ESSENTIAL TO SUSTAIN OUR COMMUNITIES' DESIRE FOR THE LIFE THEY WANT TO LEAD, INCLUDING HEALTH, CULTURE, FAITH, PRODUCTION, RECREATION, SUSTAINABLE GROWTH AND LIVEABILITY OUTCOMES.

The water industry faces many uncertainties, driven by megatrends such as climate change, population growth and technological change; as well as more acute stresses such as drought.

While downward risk pressures need to be managed and planned for, we recognise these uncertainties also create future opportunities. A resilient approach is therefore one that values the benefits of keeping our options open, to allow us to benefit from new and innovative approaches and technological advancements; and provide time to have meaningful two-way conversations with our communities.

Hunter Water recognises the broader value water can provide across our region, enabling regional prosperity and contributing to broader outcomes for the community, such as improved wellbeing, quality of life, and intergenerational equity.

The Water Resilience Programme is a systems-thinking approach which recognises the dynamic relationships between the natural environment, Hunter Water's infrastructure and service capabilities, and our customers and community. The collective resilience of this system is considered in the context of the adaptive capacity of the system, enabling us to respond to uncertainties, as well as robustness, to ensure the system can continue to meet the needs of the community through system shocks and stresses such as drought.

Hunter Water's Water Resilience Programme focuses on:

- Minimising water loss and maximising customer water conservation.
- Maximising time for source augmentation to allow the opportunity for a collaborative, innovative learning engagement initiative with Hunter Water, community stakeholders and customers.
- Facilitating new technological solutions which maximise water resilience and source adaptability.

The Water Resilience Programme seeks to provide a water system that can adapt and respond to future uncertainties, protect and restore our natural environment and provide affordable, high-quality services that promote our community's health and wellbeing while supporting the region's economic prosperity.

Reducing water loss



As part of our commitment to Love Water, Hunter Water is working to reduce the volume of water lost from our own water network.

In 2017-18, leakage accounted for 7.2 gigalitres (billion litres), which equates to approximately 10.1% of total potable water produced. This equates to real losses of 86 litres per connected property per day.

Key initiatives and achievements during the past year include:

- Substantially increasing active leak detection, surveying 80% of Hunter Water's water network for leaks. This is approximately four times the historic rate of surveying, with 80 kilometres of water mains surveyed each week, detecting a weekly average of 26 previously unknown leaks.

- Relining the Black Hill Reservoir to minimise losses from this structure.
- Implementing smart technology systems which use network sensors and data to detect difficult to find leaks and breaks.
- Reprioritising the repair of customer reported leaks. On average our customers report 150 leaks each week. Repairing these leaks is one of our highest maintenance priorities. In 2017-18 we reduced leakage by 10 litres per connected property per day, which followed a reduction of 8 litres per connection per day in 2016-17. This represents a reduction across the two years of 17.3%.

Despite these encouraging results, there is room for improvement and we will continue to make leakage reduction a high priority in the year ahead.

WE HAVE CUT LEAKAGE



Integrated water conservation



In addition to reducing leakage and water loss within our own network, Hunter Water is focused on delivering an integrated approach to water conservation with our communities.

Our integrated water conservation programme seeks to drive water conservation across the community and our customer base to reduce the demand for drinking water. This will extend the time until we would need to make decisions regarding the next water source, providing opportunities to consider future technologies which could defer major source investment even further.

Initiatives include our Love Water conservation campaign, learning with our communities to save water and including our communities in participative decision making.

Additionally, we have been working closely with our major customers to develop Water Efficiency Management Plans (WEMPs), which are high-level reviews of non-residential water consumption, quantifying how non-residential customers consume water. A WEMP highlights historical consumption patterns and recommends high level water efficiency opportunities.

Over the year, water efficiency activities identified a total of 513 megalitres (million litres) in annualised leaks and water efficiency opportunities on customer premises. Of the identified opportunities, 208 megalitres was realised in actual savings, including 99 megalitres saved in schools.

For residential customers, Hunter Water expanded its Plumbing Assistance Programme to support customers with unusually high water usage.

Integrated water management and further supply options



Across the year, Hunter Water has worked closely with the Department of Industry in preparation for a review of the Lower Hunter Water Plan (LHWP). The LHWP is an all-of-government approach to water planning and drought response across the Lower Hunter.

Significant work has been undertaken to consider more resilient water management opportunities, including harvesting stormwater and recycled wastewater for industrial and recreational use (such as watering parks and sporting fields).

Sustainable wastewater



Hunter Water has extended its strategic thinking to consider the future of its wastewater operations. Wastewater collected from households and industries across the Lower Hunter contains valuable organic and energy resources, which can be used to help meet future demand for non-potable water, energy and nutrients.

Further information on Hunter Water's approach to sustainable wastewater is included in the Aspirational Goals section of this report on page 38.

Waste to energy



Hunter Water's wastewater treatment processes produce biosolids, which are traditionally disposed of via mine site rehabilitation, landfill or ocean outfall. We recognise that biosolids contain valuable resources, and consistent with our aspirational goals, there may be better ways to manage their disposal. Over the last financial year, Hunter Water has explored the relationship between biosolids, energy production and carbon emissions by considering available waste

markets, technology and the role that Hunter Water can take in facilitating and leading regional thinking. This has included working closely with the University of Technology Sydney's Institute for Sustainable Futures, and Resilience Brokers. With these partners, we are considering a broader view on organic waste management and have found that given the waste feedstock available regionally, there is potentially a market for processing of organic waste, generating biogas and electricity in the Lower Hunter.



SUPPORTING CONSERVATION EFFORTS

We are proudly part of an inter-agency response to support the iconic Hunter Wetlands Centre.

Partnering with like-minded organisations



Part of being a thought leader and playing a leading role in making our region sustainable and resilient involves partnering with like-minded organisations. These organisations share our values of promoting conservation and sustainability, and are valued by our community.

Through our sponsorship and partnership programmes with the Hunter Wetlands Centre

and Port Stephens Koalas, as well as our learning with schools activities, we have invested in future-focused learning. The *Kids and Koalas!* programme highlights how Hunter Water can work collaboratively with these organisations and schools to help shape the environment, health and wellbeing of our community, with a focus on the future by changing today.

Collaboration for the benefit of our community



Hunter Water partnered with a number of organisations throughout 2017-18 for the benefit of our community. Care for our customers drives us to work together with other organisations so we can achieve the best customer outcomes and enable the sustainable growth and development of our region.

Shaping our region's future involves making decisions today that will enable a better tomorrow. Through a research partnership with the University of Newcastle, we are sharing knowledge, resources and expertise across various fields such as engineering, social science and the environment.

The research will help drive improvements in how we operate and support the future development of our community.

A collaboration of resources and information has been established with Lake Macquarie City Council, with the signing of a partnership agreement in March 2018 marking the start of a new integrated approach to doing business. By sharing ideas and learning together, we are able to streamline our services for the benefit of the Lake Macquarie community.



We have increased our active leak detection to help reduce water loss



Delivering disability and Aboriginal Torres Strait Islander scholarships



Signing on to better collaborate with Lake Macquarie City Council

“BY SHARING IDEAS AND LEARNING TOGETHER, WE ARE ABLE TO STREAMLINE OUR SERVICES TO BE MORE EFFICIENT.”

New life for our reservoirs



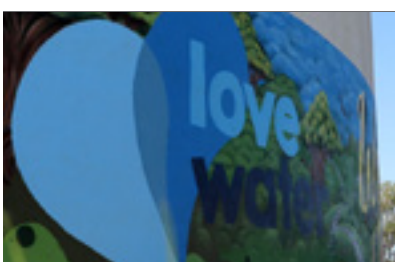
Utilising our iconic assets for the benefit of the community is important to us in promoting our values of conservation and sustainability.

The Charlestown Reservoir was given a new lease on life, with a Love Water mural painted by a group of young people, completed in July 2018. While it still operates as a functioning reservoir in supplying water to our customers, it now promotes an important message about water conservation.

Hunter Water's first drinking water reservoir, 'The Res', joined an esteemed list of significant places and buildings on the State Heritage Register in April 2018. The now decommissioned reservoir

at Newcastle East remains a valuable community asset, with its unique design and history attracting thousands of people for public tours. Its heritage listing will ensure it is protected for generations to come.

In another unique use for the site, the roof of The Res has been transformed into a playground for students at Newcastle East Public School. Hunter Water is proud to provide a new use for the space, which boasts some of the best views in the city, and share the iconic site for the growth and development of children.



Our new Love Water reservoir mural was painted in July 2018



Supporting Hunter Wetlands which works to save wildlife and habitat



Students now enjoy a new playground atop Hunter Water's *The Res*

2

GREAT SERVICES

TO PROVIDE GREAT SERVICES TO OUR CUSTOMERS, CONSUMERS AND COMMUNITIES



PROVIDING GREAT SERVICES

Hunter Water exists to serve the community of the Lower Hunter. Our customer base is large and diverse in its needs and expectations of us, and will continue to change and grow as the region develops.

We need to understand both the current and future expectations of our customers, consumers and the community, particularly what lifestyles they aspire to in the future to guide our decision making.

Our objectives in engaging and learning with our stakeholders are to:

- Understand customer, consumer and community needs and expectations and allow their voice to factor in our decision making.
- Provide great service to customers, consumers and communities.
- Actively participate as a member of our community and foster a culture where we all value water.
- Be responsive to the needs of our customers, consumers and communities.

Part of our customer-centric approach is to be innovative in how we find and deliver solutions. This includes developing digital tools and platforms to offer more service choice, make it easier to deal with us and provide reliable and high quality services.

Work is well underway formulating a strategy that will provide a consolidated view of customer service operations and strategic initiatives intended to improve customer experience and reduce customer effort. The development process includes research, ideation, theme development and formation.

An important part of developing this strategy will be inviting customers to participate in this planning process to identify highly valued service attributes and test and validate strategic themes that are based on customer values and priorities.

Customer and community engagement



Hunter Water has demonstrated its commitment to community engagement, by harnessing all its community activities, having listening and learning conversations and ensuring community input is considered in our decision making processes. To achieve this, Hunter Water has re-positioned its brand under the Love Water banner to better align with our messages around conservation and sustainability and to learn together.

We are engaging better with existing networks of customers and communities - such as through the Community and Customer Advisory Group and Customer Panel, and creating new channels

and forums for engaging with the widest possible range of stakeholders. Our approach is founded in representation and reach, both physical, social and demographic to ensure the integrity of the programme and encourage a reciprocal learning journey. Deliberative and stakeholder forums, social media and Your Voice (an online engagement platform) are being complemented by the strategic use of all our customer touch points, including events and plans for a display space where new water-saving technologies and other conservation information will be showcased.



RESEARCH

Immersion interviews with select customers

IDEATION

Executive workshops
Customer co-design

SYNTHESIS

Develop themes
Working groups

FORMATION

Documentation, refinement and presentation

Our online engagement platform Your Voice, at yourvoice.hunterwater.com.au, was launched in May 2018 and is playing a critical role in encouraging community participation in initiatives across our entire organisation. Your Voice is a 24/7 interactive website that acts as a centralised portal for all engagement activities. Letters to residents about projects in their area are directing people to this portal for updates and discussion. Since its launch there have been more than 600 unique visits to Your Voice.

Interest in Love Water, combined with the recent dry conditions, delivered strong interest in the water usage calculator across winter. This is unlike previous years, where interest decreased during the cooler months.

We continue to look for ways to make it easier for our customers to deal with us online. In the last

year we have introduced enhancements to our website to enable customers to complete direct debit and pension rebate applications online rather than needing to call us.

We are also putting unprecedented effort into social media to reach our customers and community. We have expanded our social media presence to include Instagram, LinkedIn and YouTube, as well as Twitter and Facebook, giving customers and the community more options to interact with us than ever before.

Love Water is generating increased traffic on our social media channels with a combined reach of nearly 250,000 users and 4,000 'engagements'. Engagements are measured by interaction, such as 'liking' or 'sharing' with a specific piece of content.

**146,000 people
ENGAGED WITH US**
at 57 community events



**115,068
ENQUIRIES**
on a variety of issues

**625 customers
ASSISTED**
through our hardship programme



**95% customer
SATISFACTION**
with call taker

**731,186 BILLS
printed and delivered**
to our customers



**44 SECONDS
average speed
of answer**

Reaching out

We are utilising new avenues of engagement in reaching out and showing support for those customers experiencing hardship. We have continued our attendance at community events to reduce poverty and provide essential services to members of our community, including Bring Your Bill Days and Hunter Homeless Connect Day.

During the past year we have had an active presence at 57 community events across the region attended by more than 146,000 people, including V8 Supercars, Surfest, Port to Port, Living Smart Festival, Light Up Newcastle and Harmony Day. Our attendance at these events continues

the dialogue with our customers, and builds on the strategic partnerships we have with other community agencies, who recognise our support as a leading utility.

We also continue to prioritise consultation on new projects, including our first wastewater flow control facility installed at Wallsend, the second watermain constructed beneath Swansea Channel, a new water pressure management programme in Edgeworth and Charlestown, and the Belmont Temporary Desalination Plant (our insurance policy for severe drought).

Learning to change our world



Our commitment to transform Hunter Water into a listening and learning organisation has driven us to embark on a collaborative 21st century learning strategy to service the needs of schools by providing access to digitised expert-derived information, knowledge and experiences which may be useful to students in solving water resilience and sustainability challenges.

The project Learning to Change Our World brings together Hunter Water, New Lambton Public School, Mayfield West Demonstration Public School, Hunter Sports High School and Learning Emergence in a partnership that empowers students to take action to improve water resilience in and beyond the Hunter community.

Our commitment to sustainability



Over the past year, Hunter Water has made practical changes to increase sustainability and our impact on the environment. These include soft plastics and coffee cup recycling programmes.

Soft plastics are plastics that you can scrunch up. They cannot be recycled through normal recycling channels and are a significant contributor to landfill and environmental pollution. The Plastic Police programme aims to change this through

engagement with schools and the community through a trial currently operating.

Hunter Water is supporting this Hunter-born initiative by rolling out soft plastic recycling to staff and contractors. We have now diverted more than 500 kilograms of pallet wrapping and everyday home and office soft plastics from landfill. Our staff also have access to a disposable coffee cup recycling program, ensuring less waste is going to landfill.

The right partnerships for service delivery



We have partnered with Hunter Commercial Services (HCS) to provide people with disabilities the opportunity to live and work in a community that accepts them as valued individuals. As a registered Australian Disability Enterprise, HCS employs people with a disability who live in the Hunter and Newcastle to maintain the grounds of all of Hunter Water's pump stations, reservoirs and depots.

The size and complexity of this contract is impressive. Hunter Water has more than 600

parcels of land spread over an area of almost 7,000 square kilometres and seven council areas. HCS has the responsibility to mow, landscape, mulch, clean litter, spray and remove graffiti from each of these sites. Different spraying and management requirements for land in the drinking water catchment areas means that planning and delivery needs to be highly accurate. Performance to date has been excellent and HCS reports that it is difficult encouraging crew members to take a day off.

“PROVID[ING] PEOPLE WITH DISABILITIES THE OPPORTUNITY TO LIVE AND WORK IN A COMMUNITY THAT ACCEPTS THEM AS VALUED INDIVIDUALS.”

125th anniversary celebrations



In July 2017, Hunter Water celebrated 125 years since the Hunter District Water Supply and Sewerage Board was formed. Marking this milestone was a chance to reflect on how far we have come and focus on where we are going in the future.

To celebrate our proud history in the Lower Hunter and the innovative decisions over this time, we hosted a special exhibition at the Newcastle Regional Museum. The exhibit was highly successful, attracting 20,000 visitors to learn about our past through never-before-seen memorabilia and photos.

Into the future

A more sophisticated capability for faults reporting and management will be developed as part of the new website platform to enable our customers to log network faults quickly and easily online.

Hunter Water has progressed delivery of the Williamstown Water Reticulation Project on behalf of the Commonwealth Government, managing the connection of 270 properties in the Williamstown Management Area by July 2018. During this time the connection area was expanded, adding 160 properties to the original 190, making a total of 350 properties eligible for connection. In the next 12 months Hunter Water will complete

the connection of another 70 properties to safe drinking water.

Additionally, over the six months to June 2018, on behalf of the NSW Government Interim Water Program, Hunter Water responded to 218 requests for rainwater tank top ups for properties in the Management Area yet to be connected to the reticulated water supply. This was delivered via 360 individual tanker loads. Over the next 12 months we will continue to coordinate deliveries for properties requiring refills until their connection.

Enabling a diverse and inclusive community

Hunter Water is continually striving to be a more diverse and inclusive workplace and wants to do everything it possibly can to create equal opportunities for all members of our community.

2017-18 saw two newly established Hunter Water scholarships at the University of Newcastle to

provide financial support and the opportunity for paid on-the-job training for Indigenous students. In addition, we support an annual Undergraduate Disability Scholarship. Hunter Water is proud to play a role in helping these students achieve their educational aspirations.



Community dialogue and celebration at the Pelican Bay NAIDOC event



Our new newsletter is sent to tenants, customers and businesses



A meeting of our Customer and Community Advisory Group at Walka Water Works



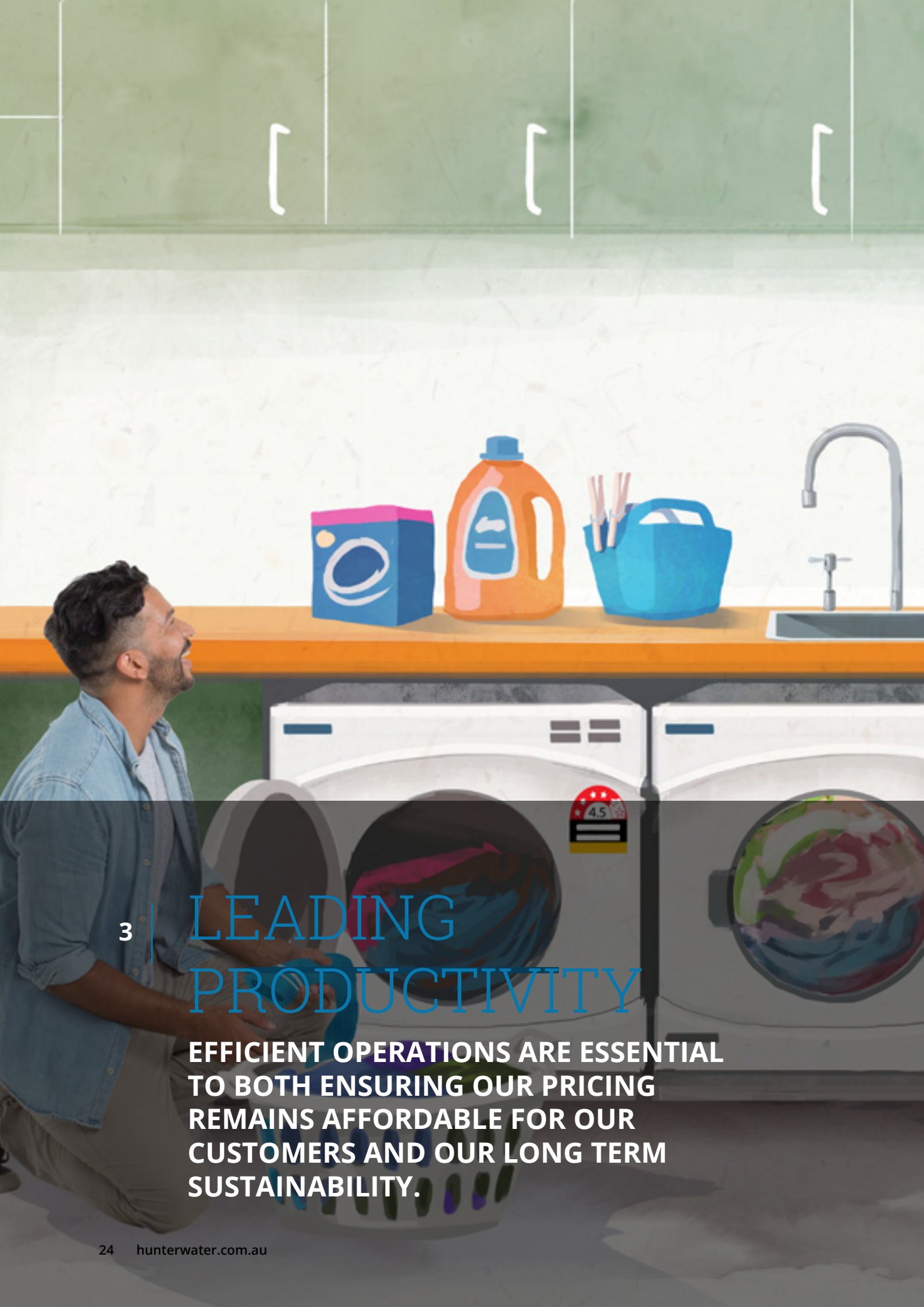
Joining our community partners in the pledge to end homelessness locally



Delivering safe water connections to Williamstown Management Area



Sharing our love for water at the Newcastle Writers Festival



3

LEADING PRODUCTIVITY

EFFICIENT OPERATIONS ARE ESSENTIAL TO BOTH ENSURING OUR PRICING REMAINS AFFORDABLE FOR OUR CUSTOMERS AND OUR LONG TERM SUSTAINABILITY.

LEADING IN EFFICIENCY AND PRODUCTIVITY

Efficient and productive operations are essential in ensuring our pricing remains affordable for our customers.

We seek efficiencies in our operations to enable our vision to be realised while continuing to keep prices low for our customers. We have made significant progress in delivering both operational efficiencies and productivity gains, focusing on a culture of continuous improvement to exceed the expectations of our customers and shareholders.

Our objectives are to maintain customer prices amongst the lowest in the country, invest prudently, improve investment decision making and harvest productivity savings. Hunter Water has also delivered improvements in its capital works procurement while maintaining an investment grade credit rating.

Seeking and producing efficiencies



We have continued to exceed our efficiency target of \$1 million per year during the life of the 2017+3 Strategy. Efficiencies of more than \$1.1 million were identified across the business in 2017-18, further to savings of \$1.4m in 2016-17 on completion of the field productivity project. Trend analysis of major expenditure areas has also been undertaken to identify future opportunities.

Productivity savings achieved by the field workforce in prior years continue to be maintained with service levels remaining high. All productivity targets are being met and further work is being undertaken to develop a continuous improvement

mindset across all teams, including training in process improvement techniques.

A revised electricity budgeting and forecasting model has been operationalised and used for forecasting of the 2018-19 budget. This has enabled increased visibility of high use sites where usage is being moved to off peak where possible.

Planning and procurement of a water network control solution (smart integrated pump scheduling) is well advanced and a pilot project has commenced. Implementation of the preferred solution will be in 2018-19 with the potential for large savings in electricity each year.



GOAL

Produce \$1 million in productivity efficiencies each year of 2017+3



\$1.1M

Productivity savings in 2017-18



DAILY

Average value of efficiencies identified in 2017-18

Fair pricing



Hunter Water examines potential changes to the structure and setting of water, wastewater and stormwater prices at each four-yearly Independent Pricing and Regulatory Tribunal (IPART) review. We are always looking for ways to encourage efficient consumption and ensure fair pricing.

We are working with all customer groups to reassess the setting of water usage prices, location-

based water prices for industrial customers and stormwater drainage charges. Our engagement has focused on the potential for water efficiency savings and potential water recycling schemes. Miscellaneous charges have also been reviewed for opportunities to reduce and streamline fees.

Improving meter accuracy

Work is underway to ensure our meters deliver true and accurate recordings of water usage. This includes replacement of aged and faulty meters, as well as new connections, and is ahead of schedule. Almost 10,000 meters were replaced in the financial year, including 530 larger meters for non-residential customers.

This will help us get a better understanding of leakage and non-revenue water and ensure we are billing customers fairly. It will also help inform the types of meters we use in the future. A review of water theft within the network will be conducted to better understand the incidence of theft, how it will be detected and how it can be minimised.

Investment decision making – a holistic view of project benefits

Our new approach to investment decision making is based on the establishment of programmes that clearly demonstrate the case for change and a holistic view of the benefits that individual projects are seeking to achieve. We are able to deal with uncertainty, complex inter-relationships, and respond to changes in a dynamic environment by being flexible.

In 2017-18 we focused on tailoring the investment model to Hunter Water, with a majority of investment decisions now proceeding through both strategic and programme business cases. The main driver of activity has been the completion of Investment Logic Mapping (ILM) for all of these cases. ILM workshops, including structured discussions and thinking, are fostering a more

“WE ARE ABLE TO...
RESPOND TO CHANGES IN
A DYNAMIC ENVIRONMENT
BY BEING FLEXIBLE.”

collaborative and informed strategic business culture. This is prompting broader thinking on long term vulnerabilities and opportunities, identifying new thinking and clarifying existing knowledge as well as providing a more accessible approach to problems and solutions beyond technical discussions.

Into the future

Our strategic cases for Sustainable Wastewater Services and Water Resilience have been developed, which has seen three distinct programmes of work; namely the Sustainable Wastewater Programme, Water Resilience Programme and Investment Decision Making

Process, reaching levels of maturity at the right time to be productive and informative while also informing our upcoming pricing submission.



Hunter Business Chamber touring The Res, hearing about our Sustainable Wastewater programme



Almost 10,000 aged and faulty meters were replaced by our team in 2017-18



New water meters will help ensure customers are billed fairly.



4 | DIGITAL
UTILITY

TO REALISE THE
BENEFITS THAT BEING
A DIGITAL UTILITY CAN
PROVIDE

BEING A DIGITAL UTILITY

Digital technologies are being used increasingly within the utilities sector to transform the way in which we deliver outcomes to those that we work with and service.

Hunter Water is implementing a Digital Utility Strategy to help us deliver new and improved outcomes and to re-establish Hunter Water as a modern, forward-thinking and innovative organisation. The strategy is being delivered via four initiatives as shown below.

Through these programmes we are using digital technologies to provide insight into our customers, consumers and communities, and to offer greater

flexibility and convenience to our customers by establishing available and efficient digital channels. We will use digital technologies to focus on our performance and how we can improve the utilisation of resources, manual processes, our operating model and capabilities to provide better outcomes, while minimising cost increases to our customers.



SERVICE AND EXPERIENCE



INTELLIGENT NETWORKS



FIELD SERVICE MANAGEMENT



GO DIGITAL

Improving customer service and experience online

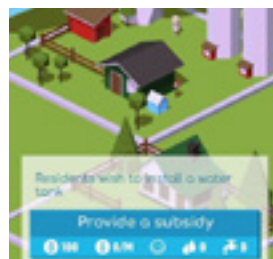
The foundational project of this programme is the development of a new website which will enable improved accessibility and engagement through content that is memorable and is worth sharing and revisiting. It will also be user-supportive to ensure the experience is effortless and calls are reduced to the call centre.

The ability to provide customers with the choice of bill delivery via an electronic channel is integral in meeting customer expectations and aligning with industry objectives. Information and insights gained from our employee eBilling trial will be used in the development of an eBilling solution to ensure a seamless customer experience is realised and uptake rates are optimised when a wider launch is undertaken in 2018-19.

“EASIER, FASTER AND SMARTER.”

We have successfully launched the online developer web application. This allows developers

to lodge and pay for the initial development consent online, rather than preparing paperwork and having to physically travel to our customer centres for consent stamping - ensuring that the process is easier, faster and smarter. The development of more applications is being explored.



Games could soon be used to help educate and engage



Exploring a virtual pump through Building Information Modelling

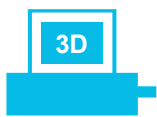
Driving digital innovation

Our Go Digital programme aims to improve the way we work, think and learn. The programme will deliver enterprise-wide solutions such as self-service analytics, learning and collaboration tools, automated workflows and integration platforms. It will also focus on increasing our digital capabilities. Hunter Water has trialled and adopted a number of solutions to support new or existing business processes:

- Crowdicity is now our organisation-wide innovation management platform. It is a web-based portal that makes it easy for staff to suggest solutions to problems, detail new ideas, vote on preferred solutions and collaboratively problem-solve with their peers.

- TaKaDu is being used to detect leaks and breaks, allowing us to monitor pressure, flow and manhole levels remotely.
- Inside is used daily by the Customer Strategy and Retail team to handle concurrent customer interactions. It facilitates simultaneous online chat and shows visually, in real time, how customers are interacting with our website.
- In the area of gamification, two working games have been developed and workshops with other water utilities are planned to develop them to a point where they can start driving changes in behaviour. One example is a game showing how our showers relate to water consumption.

DIGITAL INNOVATION INITIATIVES



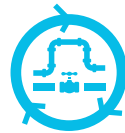
3D printing



Wastewater pump sequencing



eBilling trial



Building information modelling



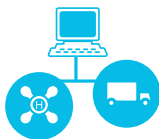
Ideation tool



Inside - online chat



Gamification



Internet of Things



Smart standpipes



Active leak detection



Visitor experience



Smart meters

Leveraging technology in the field

Intelligent Networks will improve the way we service our customers, community and consumers, reduce risk, and optimise asset investment, operation and performance. The programme will leverage our technological advances in the Internet of Things and other low powered telemetry systems, low powered monitoring devices, analytics and machine learning to find actionable insights into the performance of our assets.

We have initiated the Smart Integrated Pump Scheduling project to optimise operational costs and improve the performance of our water distribution network, and a wastewater pumping sequencing trial has been implemented to demonstrate the capability to automate pump operations. We have also successfully connected

the first Point Orange device (a battery powered remote telemetry unit) to our control system using 3G technology. These units have the potential to enable remote monitoring and control for a fraction of the cost required to install traditional telemetry systems.

A number of initiatives are underway to use digital technologies to improve work processes in the field. We are assessing a project to deploy tablet devices after a successful trial, and a safety pilot is in progress to deliver an electronic form to simplify the submission of identified hazards. The intention is that this will increase the number of hazards logged and treated, contributing to safety improvements.

5

GOOD DEVELOPMENT

THE HUNTER REGIONAL PLAN 2036 HOLDS THE VISION OF THE HUNTER BEING AUSTRALIA'S LEADING REGIONAL ECONOMY. ENABLING GOOD DEVELOPMENT IS FUNDAMENTAL TO ACHIEVING THIS VISION.

ENABLING GOOD DEVELOPMENT

Hunter Water has a key role to play in achieving the vision for the Hunter to be the leading regional economy in Australia with a vibrant metropolitan city.

Hunter Water is continuing to further its role in enabling good development. To achieve this, we are building on key policy and process changes as well as partnering with councils and other government stakeholders to enable growth that is affordable and sustainable, and aligns with broader planning.

We have a long term approach, informed by what our communities value in terms of sustainability and what lives they want to lead. Our objectives are to provide sustainable services for population growth, deliver efficient and innovative services for new development work with developers and planning authorities, and improve the amenity of our urban areas.

Funding and delivery of growth infrastructure

Our launch of the Funding and Delivery of Growth Infrastructure Policy in January 2018 resulted in \$17.1m of applications received to June, comprising \$4.5m water and \$12.6m sewer assets. Of these projects, three have signed funding deeds and commenced construction procurement.

Commensurate with where high growth is occurring, five projects are located within the Maitland local government area in the suburbs of Farley and Gillieston Heights representing 50% of the total value of funding submissions. The Lake

Macquarie local government area is the next highest ranked with two projects representing 35% of the total asset value.

As more growth projects have been presented to Hunter Water for consideration, this has tested the application of criteria, the process steps and procurement guidelines. A review has commenced and refinements will be made to ensure that the objectives of the policy and value-for-money continue to be achieved.

New Developer Engagement Strategy

A Developer Engagement Strategy has been finalised and will be delivered in 2018-19, aligned with Hunter Water's community engagement framework. We will be seeking to partner with developers to trial and introduce new technology into developments.

The strategy aims to involve the wider development sector in a more sophisticated and meaningful way in determining the water future for the region.

Initiatives include:

- Round table discussions to promote understanding and insight into strategic water themes influencing the prosperity of the region.
- A panel of interested key stakeholders which comprises UDIA, the Housing Industry Association (HIA), Property Council, local business chambers and developers.
- A quarterly eNewsletter.

Delivery and certification of developer works

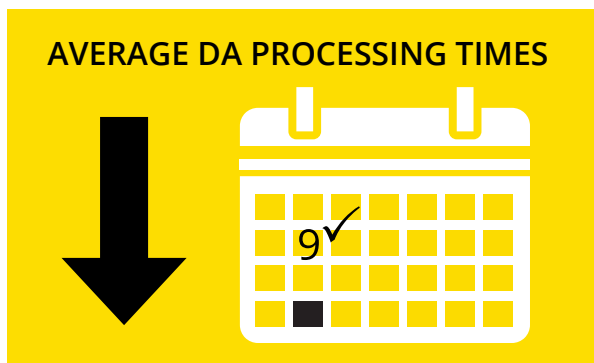
Our certification system documentation was updated in early 2018 and received resoundingly positive feedback from the UDIA and accredited design consultants.

Decommissioning the old developer asset creation process and the reaccreditation of all suppliers into the new certification model has resulted in new accredited supplier registers.

Business process improvements that support development



Consistent with the growth underway across the region, 2018-19 is expected to be a buoyant year with a forecast of 2,100 development applications to be assessed by Hunter Water. Recent efficiency and process improvements have been acknowledged by the development community, and are demonstrated in the 2017-18 statistics. Average processing times fell from 23 days in August 2017 to 9.1 days in June 2018, with more than 75% of applications processed in less than 14 days.



The revised complex works design review process, new process map and guidelines were implemented in January 2018. This has:

- Reduced handling times.
- Minimised the number of design review iterations from an average of four to two.
- Improved pricing certainty for consultants.
- Reduced costs to developers.
- Set expectations for documentation quality and content at each stage.

The notice-of-requirements, now prepared, signed and issued electronically, provides an opportunity for the customer to provide feedback on their service experience. Feedback received will identify improvement opportunities.

DEVELOPMENT APPLICATIONS ASSESSED

2017-18: **2,208**
2016-17: **2,145**
2015-16: **2,009**



Improving the customer service experience



Our Certification of Developer Works project has provided more autonomy for developers to deliver lower risk infrastructure works, while the funding of growth infrastructure has eased the burden of peak debt experienced by the lead developer. However, it is the service experience that greatly influences overall developer sentiment.

Over 2017-18 developers have benefitted from greatly improved turnaround times in development assessment and a 'can do' customer service attitude leaving behind a compliance driven culture. This, coupled with improved stakeholder engagement, has helped reposition Hunter Water as an enabler of the aspirations of the region.

Working with council partners to improve development experience



Over the last financial year, we have strengthened partnerships with local councils. In particular, strong working relationships have continued to develop with Lake Macquarie City, Port Stephens and Dungog Shire Councils. While each of the partnerships are unique, they each provide the opportunity to work collaboratively to address shared problems, to improve the experience

of residents and ratepayers across the Lower Hunter, and improve the sequencing and timing of major infrastructure projects and service delivery.

Working with local council partners, we have reviewed opportunities to improve the development experience and process.

Utilising digital technologies into the future



Hunter Water's development assessment process is reliant on human effort to drive and deliver. There is an opportunity to use digital technologies to increase customer involvement in the lodgement and self-assessment of simple developments and to leverage existing investments in the Geographic Information System (GIS).

Our online application lodgement portal will be improved and streamlined. Making more development assessment activities available online could deliver quicker turnaround times for the development sector, further enabling good development.



6 | GREAT
EMPLOYER

OUR HIGHEST PRIORITY IS TO ENSURE THE SAFETY AND WELLBEING OF EVERYONE WHO WORKS WITH AND FOR HUNTER WATER AND THE SAFETY OF OUR COMMUNITY.

BEING A GREAT EMPLOYER

We are a people business. It is our people that will deliver on Hunter Water's vision and fulfil our purpose.

In order to meet and exceed our customers' expectations we must be resilient, adaptive and innovative. To support our people in achieving success, we must ensure their safety and wellbeing, encourage a culture where learning, innovation and change are embraced, and provide a collaborative, outcome-focused environment in accordance with our values.

OUR PEOPLE PLAN: FOUR PILLARS

- Health, safety and wellbeing
- Diversity and inclusion
- The way we work
- Creating a culture of learning and leadership

Work Health, Safety (WHS) and Wellbeing



Having no one injured as a result of their work is one of our key objectives and this underpins all of the work we do. Our WHS Strategy focuses on mitigating high potential incidents through implementation of the Fatal Risk Programme, investment in infrastructure upgrades and building a positive safety culture.

In the area of risk management and zero harm, a number of programmes were implemented during the year, including physical demand assessments to reduce musculoskeletal disorder injuries. We reclassified our confined spaces and updated rescue procedures and equipment, formed an Asbestos Management Committee, and enhanced traffic management through upgrades at North Lambton Depot.

As a regional enabler of collaboration and change, we met with local councils to share best practice initiatives in WHS and brainstorm areas of interest.

We have delivered on our commitment to roll out Fatal Risk Standards (FRS), which are the topics recognised as potential causes of fatality in the water industry. Each FRS includes a list of critical elements which need to be adhered to and a more detailed standard, with easy to access booklets provided to all staff. Senior managers have completed fatal risk observations which support cultural change, monitor critical safety behaviours and identify emerging safety risks. Staff and contractors have also been constructively engaged in reviewing safety through activities such as stop work meetings, emphasising the importance of leadership and continuous improvement.

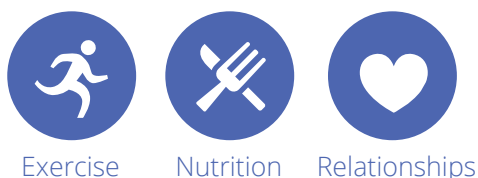
Wellbeing has also been a major driver of new projects in 2017-18, with action areas including employee health, culture and engagement.

Two yearly Fitness for Work assessments for all high risk field based staff were completed and individualised programs developed to support workers address any health or functional limitations with the support of dietitians, exercise physiologists, physiotherapists and other allied health providers. The Get Healthy at Work programme, a NSW Government initiative, is being offered to field based workers. 150 employees have undertaken the assessments focusing on type two diabetes and cardiovascular disease.

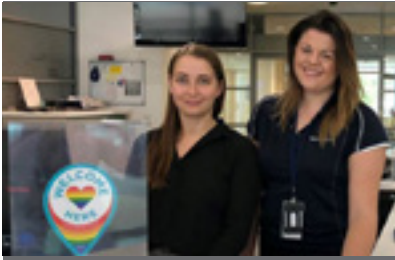
Our new Employee Assistance Programme was launched with a national provider, Benestar. It is a holistic programme that supports good health, both physical and mental, through all stages of employees' lives. It is also open to employees' families and is a philosophical move away from the traditional view that assistance is accessed only when something is broken.



SUPPORTING EMPLOYEES



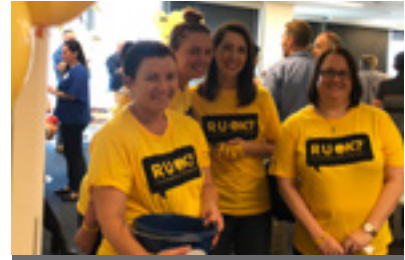
Furthering the focus on mental health, the Black Dog Institute attended field toolbox talks to promote mental fitness. The Month of You was also launched to mark RUOK? Day and support Suicide Prevention.



Customer Service staff proudly displaying our LGBTIQ+ welcome here sign



Supporting causes close to employees' hearts: making donations to Carrie's Place



Our staff marking RUOK? Day with a lunchtime talk on mental health

Being diverse and inclusive



We strive to be a great employer for all of our people, including employees, contractors and partners. In order to be adaptable, innovative and resilient we must create a culture that is based on learning power and leadership, collaborative and outcome-focused. Equally importantly, diversity must be valued as a strength. Research has identified that creating an inclusive workplace and culture is the key to the success of any diversity strategy. Inclusion is about a sense of belonging where people feel valued, respected and share a sense of fairness. An inclusive workplace is one where different voices are respected and heard, diverse perspectives and approaches are valued and everyone is encouraged to make a contribution. We continue to build an inclusive workforce that mirrors the communities in which we operate.

The aim of our Diversity and Inclusion Strategy is to leverage diversity and foster inclusion to ensure that all our people feel valued and respected. This also extends to our community.

In 2017-18, for the first time, we partnered with the University of Newcastle in co-sponsoring two female employees to commence their Masters of Business Administration. The aim of the initiative is to address the national gender equity imbalance in senior management, by offering scholarships to female employees and providing them with leadership skills and strategic perspectives that will help them move into management and executive positions.

Further initiatives during the year include Wear it Purple Day supporting LGBTIQ+ people and a NAIDOC Week staff video showcasing our Aboriginal and Torres Strait Islander scholarship recipients and personal stories of Aboriginal employees. We also supported numerous causes close to employees' hearts, including Cancer Council NSW Biggest Morning Tea, The Polished Man, Camp Quality, WaterAid, Red Cross Help Aussie Farmers Appeal and Ronald McDonald House.



Creating a culture of learning and leadership



Leaders model and promote resilience, continually develop their learning power and contribute to building a learning culture. We want to enable our people to lead change by being thought leaders and fostering innovation. We will do this by developing our people and listening to our customers and communities.

An innovation and continuous improvement pilot programme has been conducted for innovation partners across the business. The focus of this programme has been on creating a toolbox to support innovation and continuous improvement with an emphasis on applying Lean tools and design thinking methodology.

Our first women's mentoring programme was launched in 2017-18 focusing on developing communication skills, leadership confidence and reducing stress for our current and aspiring female leaders. The programme ran over four months and was well received with extensive

interest and support across the business. A second programme will commence before the end of 2018 where a further 15 female employees will be chosen to participate.

To date 57 employees have completed our flagship leadership development programme with a further 30 scheduled to finish by the end of 2019. The purpose is to provide leaders with knowledge and practical pathways to:

- Engage in self-directed learning journeys aligned to the shared vision for the future of Hunter Water and its community; and
- Build individual and collective leadership capability to lead the organisation towards that vision.

These initiatives, which enable and support collaboration and learning, are important to develop and sustain a whole of organisation contribution and an awareness that Hunter Water is changing as an employer.

57 staff developing LEADERSHIP



All successfully completed the Leadership Development Programme in 2017-18.



5% increase in WOMEN

At Group Manager level between October 2017 and August 2018 (from eight to 11).

9% born OVERSEAS



Contributing to the strong diversity of our workforce.



14% working FLEXIBLY

Either part time or through another type of flexible work arrangement.

85% staff PARTICIPATION



In our annual engagement survey, helping to unlock future culture-based opportunities.



4,633 hours of TRAINING

Completed in the areas of environment, quality, and work health and safety. This is an average of 10.1 hours training per full time equivalent employee.

The way we work

By improving the way we work by focusing on processes, technology, change and innovation, we will encourage self-directed learning, create a more naturally collaborative workforce and make

progress visible. The benefits of this will be that we make smarter decisions, improve employee wellbeing, have a safer workforce and greater staff autonomy.

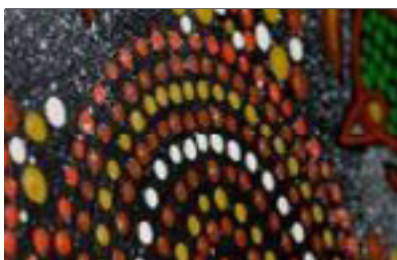
Continuing our focus on safety and wellbeing

In 2018-19 an increased focus on safety culture will include gaining a better understanding of how we apply the learning power principles so that our journey to becoming a learning organisation is reflected in our safety performance.

Upgrades will be delivered to eliminate hazards and improve the safety of our assets, including on high voltage assets, electrical switchboard replacement and hazardous chemical storage.

A further progression of our health and wellbeing focus will be mental health training, due to be delivered in late 2018.

These initiatives, and the continued rollout of our People Plan, will help shift our organisational culture towards a more curious, adaptive, resilient and collaborative workforce. Our progress will be benchmarked by our annual staff survey which will also inform future areas for improvement.



Celebrating Aboriginal and Torres Strait Islander people with a staff video



Co-sponsoring two female employees, with the University of Newcastle, to commence their MBA



Raising money for Cancer Council NSW with Biggest Morning Tea staff events

ASPIRATIONAL GOALS

TO 2020 AND BEYOND

At the time of writing the 2017+3 Strategy it was clear that Hunter Water needed to complete much of the work in the Strategy before we could set the high level measures and targets against which the implementation of our Long Term Plan will be judged. To stretch our thinking we set four aspirational goals.

FOUR KEY GOALS

- Carbon neutral by 2030
- Maintaining price increases in line with inflation
- Adding 10 years to the timing of future source augmentation
- Gaining full support from our customers and community for our decisions

These goals were never intended to become the targets, but are a signal of the step changes Hunter Water needs to make in its performance across multiple dimensions. In the past year we have made strong progress across each of these aspirational goals.

Carbon neutral by 2030

Electricity is one of our major costs, accounting for approximately 10% of our operating costs. This presents an opportunity to look into the viability of increasing our generation of renewable energy. Our carbon strategy will consider the investment required to achieve carbon neutrality, how quickly we could achieve this aspiration, timing of associated investment decisions, technology and market changes, and whether customers are willing to pay. The strategy will also consider targets expected to change over time as new and more cost effective technology is developed, and with customers' preferences.

Currently, indirect emissions account for 70% of our carbon footprint - this includes the energy we use in our offices, buildings and facilities (for

example pump stations and treatment plants). The other 30% is made up of direct emissions from sources owned or controlled by Hunter Water, including wastewater treatment processes, company-owned vehicle travel and non-transport fuel use such as generators.

Floating solar and a low emissions fleet

We have commissioned a feasibility study to examine options for floating solar on Grahamstown Dam and Edgeworth Wastewater Treatment Works. It will also explore potential secondary benefits, such as reduced evaporation leading to a greater water yield, and improved solar panel performance due to the cooling effect of water as compared to land or roof mounted panels.

We are investigating the opportunity to move to a more sustainable, lower emissions fleet of vehicles. While our fleet accounts for only 5% of our total carbon emissions, they represent an opportunity to make a tangible and visible impact.

Industry research partnership

We will contribute in kind support to a Water Research Australia PhD project on reducing methane emissions from sludge lagoons. The project, which will be completed in 2021, is a collaboration with the University of Queensland's Advanced Water Management Centre, SA Water and Melbourne Water.

Developing our energy strategy

We are exploring innovative procurement approaches with our energy retailer and local renewable energy companies. Opportunities being explored include renewable energy generation, exposure to the spot electricity market and energy curtailment, and longer term renewable energy power purchase agreements.

Energy modelling will be completed and an energy strategy finalised in early 2019. The work will inform the next electricity supply contract due to commence in January 2020.

Embedding carbon reduction into business as usual

Initiatives underway include the purchase of a hybrid vehicle for the Head Office fleet, and installation of LED lighting during facility upgrades which can reduce lighting electricity consumption.

Maintaining price increases in line with inflation

Hunter Water has one of the most affordable water bills in Australia. We understand that many of our customers face increasing cost of living pressures and that we need to continually improve our efficiency and make productivity gains to maintain downward pressure on our prices. In addition to keeping prices low, many customers expect water utilities to deliver better environmental performance and enhanced services.

To better understand our customers' preferences we undertook research on the investment choices that they think we should make. A high survey response rate (93% completed) and positive commentary from survey respondents validated our approach. One wrote, "the survey has provided a transparent opportunity to be actively engaged in the decision making process regarding the allocation of spending and services over the next 10 years."

The results of the survey will be used for our next price submission, which is due to be submitted to the Independent Pricing and Regulatory Tribunal (IPART) next year.

Adding 10 years to the timing of future source augmentation

By working with our customers to lower demand while reducing leakage across our network, we are extending the time between now and when we would need to make decisions regarding future source augmentation. This provides an opportunity to consider future technologies which could help us save more water and potentially delay the need for a new water source indefinitely. The value of this would be lower water bills now and in the future, greater investment in innovation and technology, and a more sustainable water future. To this end, we are implementing our non-revenue water programme and water conservation programmes while long term water resilience planning is underway.

Across the last two years, Hunter Water has made significant inroads in reducing network leakage. In 2017-18, leakage accounted for 7.2 gigalitres of our non-revenue water, or 10.1% of the drinking water produced. This equates to a real loss of 86 litres (L) per connected property per day.

By increasing our leak detection efforts, implementing smart technology systems to detect leakage within the network, and improving the repair times of customer reported leaks, we have reduced real losses by a further 10 litres per connection per day. This is a total decrease in real losses of 17.3% in just two years.

The drought has heightened community and stakeholder interest in our water storages. This provides a valuable opportunity to engage the curiosity of our communities about water conservation via our Love Water campaign and to drive behavioural change.

Underlining our commitment to water conservation is our founding membership of the Regional Water Conservation Alliance. The Alliance was formed in 2018 by Hunter Water, Sydney Water, Central Coast Council and Shoalhaven Council to collaborate on shared water management issues.

Gaining the full support of our customers and community

We are investing considerable time and effort to engage with our customers and community to gain input and support for the decisions we make. A number of channels for engagement have been created to enable two-way dialogue. These range from qualitative to quantitative methods, and include electronic and face-to-face forums. The feedback that we receive is an important input into investment decisions.

In the past year we have expanded our social media presence on Facebook, Instagram, YouTube and LinkedIn and launched 'Your Voice', a web-based channel that reflects best practice across the public sector. These channels allow engagement with our customers and community in portals they use every day to interact with each other and organisations.

We are also using new engagement channels to share knowledge about our strategic challenges; challenges that will best be resolved in conjunction with our customers and community. The trusted relationships that we aim to establish through our "always on" channels are also critical to encouraging the kind of behavioural changes required to achieve our water conservation objectives.

OUR BOARD

At the centre of corporate governance

Under the *Hunter Water Act 1991*, our Board comprises up to nine members including the Managing Director, Chairperson and seven independent, non-executive Directors.

The Board oversees our policies, management and performance. It sets the strategic direction and risk appetites for the organisation and ensures Hunter Water achieves its business and regulatory commitments. We have a strong corporate governance framework that underpins our strategic objectives and commitment to customers, shareholders and the community. The Board's Corporate Governance and Audit and Risk Committees play a key role in setting the corporate governance culture.

	TERRY LAWLER BCom FCA FAICD FAIM AO		MAREE GLEESON BSc PhD FAICD OAM		PETER DALGLISH GAICD BSc GDipMktgMgmt
Terry Lawler was appointed as Chairman on 1 January 2012.		Maree Gleeson was appointed as a Director on 1 January 2013.		Peter Dalglish was appointed as a Director on 2 July 2013.	
	RUTH LAVERY MPH BComm GAICD CA F.FINSIA		GRAHAME CLARKE BAppSc MEngSc GAICD		CHRISTINE FELDMANIS FAICD SFFin TFASFA CPA CSA BCom MAppFin JP
Ruth Lavery was appointed as a Director on 23 June 2014 (retired 22 June 2017 reappointed 31 August 2017).		Grahame Clarke was appointed as a Director on 23 June 2014 (retired 22 June 2017 reappointed 31 August 2017).		Christine Feldmanis was appointed as a Director on 8 September 2016.	
	MICHELLE VANZELLA BEc Lib (Hons) MBA		ROD HARRISON BComm Dr of Business (Honours Causa)		JIM BENTLEY BSc PhD
Michelle Vanzella was appointed as a Director on 22 February 2018.		Rod Harrison was appointed as a Director on 22 February 2018.		Jim Bentley was appointed as Managing Director on 28 July 2016.	

For full profiles of Hunter Water's Directors please refer to the Directors' Report on pages 45 - 47.

Details on our Board, structure and committees, pages 40 - 42, are current at the time of publishing this report, 31/10/2018.

Our Board is appointed by our voting shareholders, the NSW Treasurer and Minister for Finance, Services and Innovation. Directors, excluding the Managing Director, are appointed for a term of up to three years. Upon completion, Directors may be appointed for a further term or subsequent

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

Our structure

The Board has established a number of committees to provide strategic guidance and to strengthen corporate governance. The Executive Management Team, led by the Managing Director, oversees the operation of the six divisions at Hunter Water. The Executive Management Team's key responsibilities include accountability for operational safety, providing leadership to employees, delivering Hunter Water's strategic vision, managing operations in keeping with the

Board's risk appetites, and ensuring compliance with regulatory frameworks.

The regulatory 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 the shareholders.



Terry Lawler AO, Chairman
Jim Bentley, Managing Director
Maree Gleeson OAM, Director
Peter Dalglish, Director
Ruth Lavery, Director
Grahame Clarke, Director
Christine Feldmanis, Director
Michelle Vanzella, Director
Rod Harrison, Director

Audit and Risk
Corporate Governance
Science, Environment and Human Health
Investment

Jim Bentley, Managing Director
 Operational safety, leadership, delivering our strategic vision, overseeing operating activities and capital projects, compliance, and managing stakeholder relationships.

Darren Cleary, Chief Investment Officer
 Science and innovation, infrastructure and planning, asset management, infrastructure delivery, water resilience and sustainable wastewater.

Richard Harris, Chief Information and Technology Officer
 Digital utility transformation, strategy, planning, governance, enterprise architecture, project services, business systems, information security and operations.

Victor Prasad, Executive Manager Customer Strategy and Retail
 Customer strategy, community experience, community engagement, retail services, development services, water efficiency and revenue services.

Clint Thomson, Executive Manager Service Delivery for Customers
 Intelligent networks, capability engineering, environmental operations, water operations and maintenance delivery.

Jennifer Hayes, Chief Financial Officer
 Regulatory and economic policy, financial control and compliance, corporate accounting and analysis, Treasury and business performance reporting.

Peter Kembrey, Executive Manager Corporate and Legal, Company Secretary
 Office of the General Counsel, internal audit, commercial services, work health and safety, facilities and services, environment, risk and quality, and procurement.

COMMITTEES AND GOVERNANCE

Audit and Risk	Corporate Governance	Science, Environment and Human Health	Investment
<p>To assist the Board with external financial reporting, internal control and risk management, external audit, internal audit, compliance and ethics, and fraud and corruption prevention and detection.</p> <p>Members C Feldmanis (Chair) T Lawler M Gleeson R Lavery R Harrison J Bentley (ex officio)</p> <p>Frequency At least four meetings per year</p>	<p>To ensure effective corporate governance within Hunter Water and to advise the Board on remuneration policy and matters concerning Board evaluation and composition.</p> <p>Members T Lawler (Chair) P Dalglish C Feldmanis R Harrison J Bentley</p> <p>Frequency At least four meetings per year</p>	<p>To assist the Board with advice on scientific, environmental science and human health matters and assessment of scientific innovations affecting the current and future operations of Hunter Water and its social and natural environment.</p> <p>Members M Gleeson (Chair) G Clarke M Vanzella J Bentley</p> <p>Frequency Four meetings per year</p>	<p>To assist the Board in fulfilling its responsibilities in relation to investment of funds, governance, composition and delivery performance of allocated funds.</p> <p>Members P Dalglish (Chair) T Lawler G Clarke R Lavery M Vanzella J Bentley</p> <p>Frequency Four meetings per year</p>

Regulatory framework

We are 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 set by the IPART and is issued by the Governor on the recommendation of our Portfolio Minister. We have a five year Operating Licence which came into effect on 1 July 2017.

The Operating Licence is the overarching regulatory instrument and sets out operating responsibilities, system standards, service standards and customer rights. It also requires implementation of management systems for water

quality, environment and asset management. The Customer Contract also forms part of the Operating Licence.

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 publicly available by IPART upon completion.

Access to water

We extract water from the Williams, Paterson and Allyn Rivers as well as groundwater sources under conditions set out in licences issued by the NSW

Government. These licences are issued under the *Water Management Act 2000*.

Pricing

The 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. IPART conducted a public review of Hunter Water's prices for water, sewerage, stormwater and other services throughout 2015-16.

IPART's Final Determination of prices applies for the four-year period from 1 July 2016 to 30 June

2020. The prices were determined by IPART in June 2016 and, in comparison with the previous price period, IPART set a higher revenue allowance for Hunter Water over the four-year period. On average, this resulted in a 2.4% real increase in prices and charges in 2017-18 plus inflation of 2.1%.

Information about the price determination process can be found on IPART's website.

Wastewater systems

The Environment Protection Authority (EPA) is responsible for the issue of licences under the *Protection of the Environment Operations Act 1997* for the wastewater pipe network, pumping stations and treatment systems.

The licences stipulate both quality and quantity conditions for discharge from each wastewater

treatment works and are reviewed every five years under the legislation. The licences also specify operational controls and performance reporting for the wastewater pipe network and pumping stations.

Drinking water quality

Hunter Water provides safe and reliable drinking water to more than half a million customers. We take a holistic approach to managing our water quality, ensuring we deliver high quality water to our customers while protecting the environment.

Our drinking water systems are aligned to "The Framework for Management of Drinking Water Quality" that is part of the Australian Drinking Water Quality Guidelines - the national reference document for drinking water quality. The framework emphasises a preventive multiple barrier approach to protecting drinking water quality from the catchment to tap. Drinking water

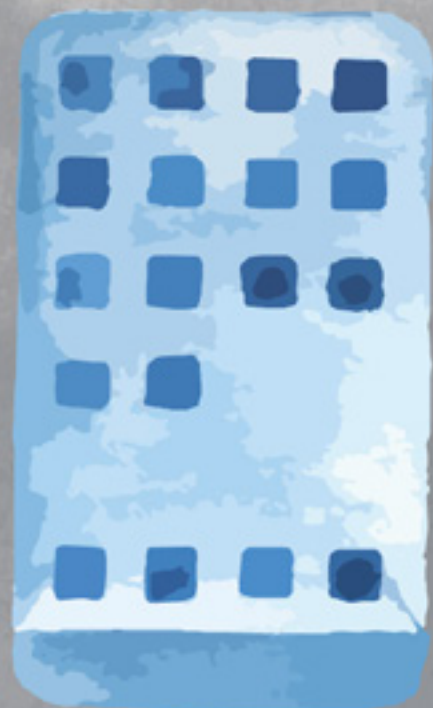
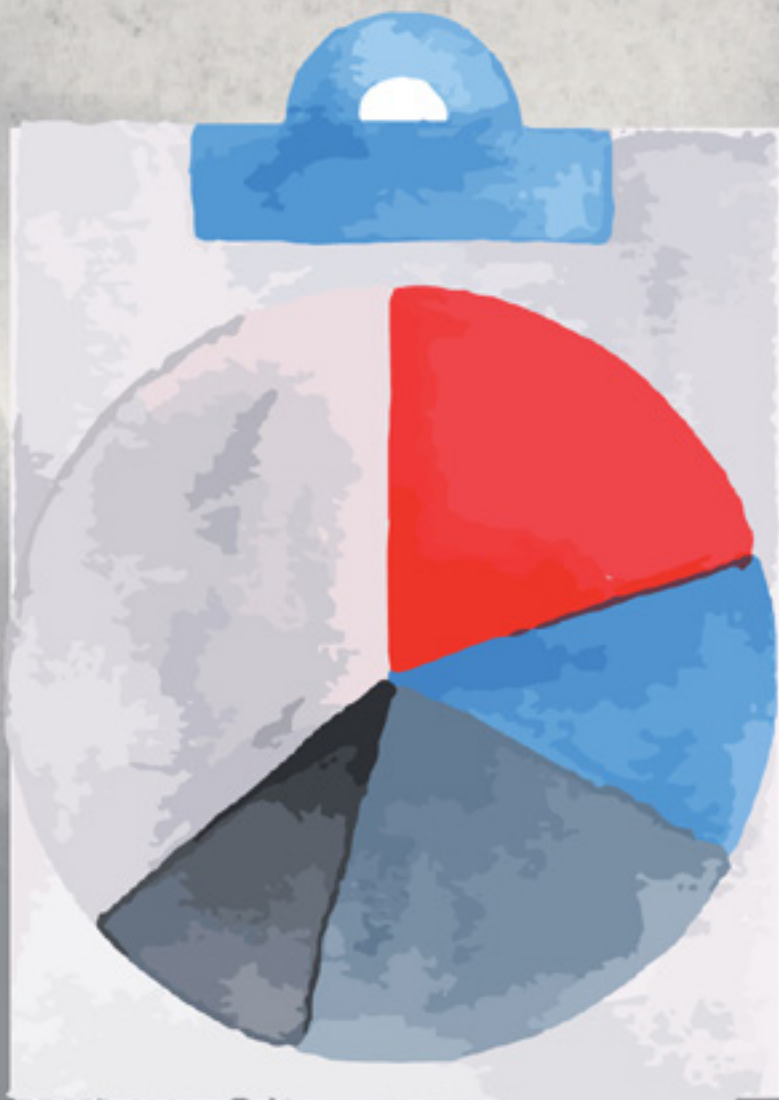
supplied by Hunter Water is consistently of a very high standard and is well within the requirements of the Australian Drinking Water Guidelines.

Under our operating licence we are required to comply with the Australian Drinking Water Guidelines. Quality is ensured by specifying health-based and aesthetic criteria as well as maintaining preventive measures to protect water quality from the catchment to tap.

We work closely with NSW Health through a Memorandum of Understanding to ensure that all current and emerging issues associated with drinking water quality are identified and assessed.

FINANCIAL

STATEMENTS
AND STATISTICAL INFORMATION



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 2018.

DIRECTORS

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

Mr T Lawler	Chairman
Dr J Bentley	Managing Director
Prof M Gleeson	
Mr P Dalglish	
Ms R Lavery	(retired on 22 June 2017 and reappointed on 31 August 2017)
Mr G Clarke	(retired on 22 June 2017 and reappointed on 31 August 2017)
Ms C Feldmanis	
Ms M Vanzella	(from 22 February 2018)
Dr R Harrison	(from 22 February 2018)

COMPANY SECRETARY

Mr P Kembrey

AUDITORS

Audit Office of New South Wales

BANKERS

Commonwealth Bank of Australia

INFORMATION ON DIRECTORS

T LAWLER AO, BCOM, FCA, FAICD, FAIM

Mr Lawler was appointed as Chairman of Hunter Water Corporation on 1 January 2012. Mr Lawler is also Chair of Life Without Barriers Limited and Chair of Ampcontrol Group. Mr Lawler is also a Director of Powerdown Australia Pty Limited and peoplefusion Pty Limited. Mr Lawler has previously been the Chairman of National Rail Corporation Limited, Newcastle Knights Limited and a Director of Newcastle Port Corporation.

J BENTLEY BSC, PHD

Dr Bentley was appointed as Managing Director of Hunter Water Corporation on 28 July 2016. Dr Bentley has more than 20 years' experience in the infrastructure sector, much of it in water and wastewater businesses. Dr Bentley's experience includes key roles at Thames Water in London and internationally, including in Turkey and the Middle East. Prior to joining Hunter Water, Dr Bentley worked in New Zealand as Executive Director of infrastructure services consultancy Synergine Group Limited and Director of the Centre for Infrastructure Research at the University of Auckland. Dr Bentley previously served as the Chief Executive of Metrowater Limited which supplied water and wastewater services to Auckland City.

M GLEESON OAM, BSC, PHD, FAICD

Professor Gleeson was appointed as a Director on 1 January 2013. Professor Gleeson has held leadership positions in health services, medical research and government. Previously she was the Executive Director of the Hunter Medical Research Institute (HMRI) and is currently a Director of the Central Coast Local Health District Board, NSW Health Pathology Board and the Hunter Research Foundation Centre Advisory Board. Professor Gleeson has extensive experience as a non-executive director with a strong background in corporate governance, strategic planning, capital developments, risk management and compliance. In 2011 she was awarded a Member of the Order of Australia (OAM) for her community work and role in medical research with HMRI.

P DALGLISH BSC, GDIPMKTGMGMT, GAICD

Mr Dalglish was appointed as a Director on 2 July 2013. Mr Dalglish is a water industry specialist with over 40 years' experience in all facets of the industry including management of large-scale wastewater treatment operations and infrastructure projects, corporate planning and system performance review. Mr Dalglish is currently a Director of Chester Consulting Pty Ltd and Strathfield Golf Club who held senior management positions with Sydney Water Corporation and URS Australia Pty Ltd where he worked on strategic projects across Australia and in New Zealand, The Philippines, Iraq and Vietnam.

R LAVERY MPH, BCOMM, MPH, GAICD, CA F.FINSIA

Ms Lavery was appointed as a Director on 23 June 2014 and retired as a Director on 22 June 2017. Ms Lavery was reappointed on 31 August 2017. Ms Lavery has a finance and economics background. Ms Lavery is a member of the inaugural Consumer Challenge Panel of the Australian Energy Regulator, advising on consumer perspectives on electricity and gas network regulatory proposals, and served as Trustee of the NSW Government's Responsible Gambling Fund. With many years at a senior level at the NSW Independent Pricing and Regulatory Tribunal and extensive experience in private sector infrastructure investment and business management, she brings to the Board expertise in economic regulation, efficient business practices and financial analysis.

G CLARKE BAPPS, MENGSC, GAICD

Mr Clarke was appointed as a Director on 23 June 2014 and retired as a Director on 22 June 2017. Mr Clarke was reappointed on 31 August 2017. Mr Clarke has extensive experience in the functions and administration of Local and State Government in New South Wales. Mr Clarke has worked throughout regional NSW including roles at Hastings Shire Council and Shoalhaven City Council specialising in the regulation of the environmental health, building and planning functions of local government. Mr Clarke was employed by the NSW Department of Public Works and Services, in the delivery of the then NSW Government's Country Towns Water Supply and Sewerage Scheme programme for New South Wales which included training treatment plant operators. During this time Mr Clarke developed an in depth working knowledge of water supply and sewerage systems operated by local Government Councils. Mr Clarke also worked for the NSW Environment Protection Authority from 1993 to 2013 which included seven years as the Regional Manager for the Hunter Region.

C FELDMANIS FAICD, SFFIN, TFASFA, CPA, CSA, BCOM, MAPPFIN, JP

Ms Feldmanis was appointed as a Director of Hunter Water in September 2016. Ms Feldmanis has more than 30 years of experience in the financial arena, spanning both the government and private sectors. She has extensive experience in investment management, finance, accounting and risk management, legal & regulatory compliance, governance and business building, in both the listed and unlisted financial products markets. Ms Feldmanis formerly held senior executive positions with firms including Deloitte, Elders Finance, Bankers Trust, NSW TCorp and Treasury Group. She was previously an independent non-executive director of Delta Electricity from 2012 until 2016, chairing the Audit & Risk, and Environment, Workplace, Health & Safety Committees. She is currently a non-executive director and Chair of the Audit and Risk Committees of Perpetual Equities Investment Company Ltd (ASX: PIC), non-executive director of Netball NSW, and Chair of Bell Asset Management Ltd.

M VANZELLA BEC LLB (HONS), MBA

Ms Vanzella was appointed as a Director on 22 February 2018. Ms Vanzella has an extensive combination of customer, marketing, digital, data and commercial legal skills built up across multiple industries including technology, retail, property and financial services. Ms Vanzella practiced Corporate & Commercial law at Allens and has held senior executive positions with iconic Australian brands including Westfield, Suncorp and AAMI. She was previously an independent non-executive director of Canteen Australia and Chair of the People and Performance Committee. She is currently a non-executive director at Abbotsleigh School and Chair of the Strategic Planning Committee. Ms Vanzella brings to the Board expertise in strategic growth and innovation, customer strategy and analytics, consumer marketing and public brand management and the application of existing and emerging technologies to business growth.

R HARRISON BCOMM DR OF BUSINESS (HONOURS CAUSA)

Dr Harrison was appointed a Director on 22 February 2018. Dr Harrison has over 40 years of experience in Industrial Relations. Based in Newcastle he has been involved in the shipbuilding, ship repair, major civil and mechanical construction and held senior roles at a regional, state and national level in the Australian Coal Industry with operational and policy responsibilities including oversight and coordination of the Hunter Valley Coal Chain. Industry Representative to the United Nations agencies IMO and UNCTAD Committee on Shipping. In 28 years as Judicial Officer Dr Harrison held a dual commission as Deputy President of the NSW Industrial Relations Commission and the Fair Work Commission and an occasional appointment to the Tasmanian Industrial Commission and is widely recognised for an innovative and collaborative approach to workplace improvement. Dr Harrison is Chair of the University of Newcastle Human Resources, Employment Relations and Management Industry Advisory Group. He was a member of the establishment board of the University of Newcastle Foundation, Chair of an Advisory Committee to the Newcastle Knights Ltd and works with Australian Business Lawyers & Advisors.

MEETINGS OF DIRECTORS

	Board Meetings		Committee Meetings							
			Audit and Risk		Corporate Governance		Community and Environment		Capital Works	
	A	B	A	B	A	B	A	B	A	B
T Lawler	10	12	3	4	4	4	*	*	3	4
M Gleeson	11	12	3	4	*	*	4	4	*	*
P Dalglish	11	12	*	*	4	4	*	*	4	4
R Lavery ^a	10	10	3	3	*	*	3	3	3	3
G Clarke ^a	10	10	*	*	*	*	3	3	3	3
C Feldmanis	12	12	4	4	4	4	*	*	*	*
J Bentley	12	12	4 ^c	4 ^c	4	4	4	4	4	4
M Vanzella ^b	3	4	*	*	*	*	*	*	*	*
R Harrison ^b	4	4	*	*	*	*	*	*	*	*

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.

a = Director retired and reappointed (Clarke and Lavery on 22 June 2017 and reappointed on 31 August 2017).

b = Director appointed (Vanzella and Harrison on 22 February 2018).

c = Director Bentley attended subcommittee meetings as an ex officio member during the year.

Note: Directors Clarke and Lavery attended the Board and Committee Meetings in July 2017 each as an observer. Director Lavery attended the Committee meetings in August 2018 as an observer.

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 for continuing operations before income tax for the year ended 30 June 2018 was \$94.3m compared with \$82.3m for the previous year. An annual dividend of \$43.2m has been declared for the year ended 30 June 2018.

REVIEW OF OPERATIONS FINANCIAL

The terminology used in reporting the results is as follows:

- The Group, i.e. 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 favourable to budget by \$8.7m primarily due to higher than budgeted water consumption, and higher than budgeted capital contributions.

SUBSEQUENT EVENTS

There were no other 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 half year ended 30 June 2018.

AUDIT AND RISK COMMITTEE

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

Ms C Feldmanis	Director, Committee Chair
Mr T Lawler	Director, Chairman
Prof M Gleeson	Director
Ms R Lavery	Director (retired on 22 June 2017 and reappointed on 31 August 2017)
Dr J Bentley	Managing Director (ex officio member)

The committee's main objectives are to:

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

CORPORATE GOVERNANCE COMMITTEE

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

The Committee's main objectives are to:

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

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

Mr T Lawler	Chairman, Committee Chair
Mr P Dalglish	Director
Ms C Feldmanis	Director
Dr J Bentley	Managing Director

DIRECTORS' BENEFITS

During or since the end of half year no Director of the Economic Entity has received or become entitled to receive a benefit by reason of a contract entered into by the Parent Entity or the Controlled Entity with:

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

CODE OF CONDUCT

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.



Terry Lawler AO
Chairman



Jim Bentley
Managing Director

Newcastle
30 August 2018

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT

Hunter Water Corporation

To Members of the New South Wales Parliament

Opinion

I have audited the accompanying financial statements of Hunter Water Corporation (the Corporation), which comprise the Income Statement and Statement of Other Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position at 30 June 2018, 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 entities it controlled at the year's end or from time to time during the financial year.

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 2018, and of their financial performance and 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* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation and the consolidated entity in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles 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
- precluding the Auditor-General from providing non-audit services.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Director's Responsibilities for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the ability of the Corporation and the consolidated entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the directors either intend to liquidate the Corporation and the consolidated entity or to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

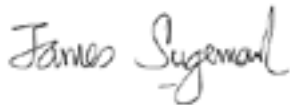
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that the Corporation or the consolidated entity carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



James Sugumar
Director, Financial Audit Services

31 August 2018
SYDNEY

FINANCIAL STATEMENTS

Start of audited financial statements

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Revenue			
Services	2	367,927	335,507
Other revenue	2	194	58
Total Revenue		368,121	335,565
Expenses			
Operational expenses	3	(140,719)	(122,552)
Depreciation and amortisation	4	(59,080)	(51,985)
Finance costs	4	(64,548)	(62,846)
Superannuation expense	4	(8,315)	(7,986)
Asset revaluation increment/ (decrement)	4	70	(3,480)
Other	4	(1,193)	(4,445)
Total Expenses		(273,785)	(253,294)
Profit Before Income Tax		94,337	82,272
Income tax expense	5(a)	(38,639)	(27,539)
Profit After Income Tax		55,697	54,733
Profit for the Year		55,697	54,733
Profit is attributable to:			
Owners of Hunter Water Corporation		55,697	54,733
		55,697	54,733

The Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Profit for the Year		55,697	54,733
Other Comprehensive Income			
Items that will not be reclassified to income statement:			
Net increase in assets revaluation reserve	21(a)	1,206	1,165
Income tax effect relating to net (increase)/decrease in assets revaluation reserve	21(a)	458	596
Remeasurement of defined benefit superannuation liability		50,208	33,949
Income tax effect relating to remeasurement of defined benefit superannuation liability	5(c)	(15,062)	(10,185)
Other comprehensive income for the period, net of tax		36,810	25,526
Total Comprehensive Income for the Year		92,507	80,258
Total comprehensive income for the year is attributable to:			
Owners of Hunter Water Corporation		92,507	80,258
		92,507	80,258

The Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Current Assets			
Cash and cash equivalents	8	33,203	11,667
Trade and other receivables	9	45,936	43,460
Inventories	10	2,665	2,572
Assets classified as held for sale	11(a)	-	30,829
Total Current Assets		81,804	88,528
Non-Current Assets			
Property, plant and equipment	12	2,655,474	2,575,094
Intangible assets	13	25,547	19,590
Other non-current assets	9	439	369
Total Non-Current Assets		2,681,459	2,595,054
Total Assets		2,763,264	2,683,582
Current Liabilities			
Trade and other payables	15	100,717	79,502
Current tax liabilities	16	3,916	3,688
Borrowings	17	72,863	88,012
Provisions	18	64,418	59,242
Liabilities directly associated with assets classified as held for sale	11(b)	-	4,124
Total Current Liabilities		241,914	234,568
Non-Current Liabilities			
Borrowings	17	1,056,503	1,013,344
Provisions	18	68,199	118,507
Deferred tax liabilities	19	127,997	102,124
Total Non-Current Liabilities		1,252,699	1,233,975
Total Liabilities		1,494,613	1,468,543
Net Assets		1,268,651	1,215,038
Equity			
Share capital	20	116,539	112,193
Reserves	21(a)	388,428	389,497
Retained earnings	21(b)	763,684	713,349
Total Equity		1,268,651	1,215,038

The Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

Economic entity	Notes	Share Capital \$'000	Reserves \$'000	Retained Profits \$'000	Total Equity \$'000
Balance at 1 July 2017		112,193	389,497	713,349	1,215,038
Profit for the year		-	-	55,697	55,697
Transfer from revaluation reserve to retained earnings on disposal	21	-	(2,733)	2,733	-
Other comprehensive income		-	1,664	35,146	36,810
Total comprehensive income for the year		-	(1,069)	93,577	92,507
Transaction with owners in their capacity as owners:					
Distributions to owners:					
Dividends provided for or paid	7	-	-	(43,240)	(43,240)
Contributions with owners:					
Equity Injections		4,346	-	-	4,346
Balance at 30 June 2018		116,539	388,428	763,684	1,268,651
Balance at 1 July 2016		103,700	390,887	673,301	1,167,887
Profit for the year		-	-	54,733	54,733
Transfer from revaluation reserve to retained earnings on disposal	21	-	(3,151)	3,151	-
Other comprehensive income		-	1,761	23,764	25,525
Total comprehensive income for the year		-	(1,390)	81,648	80,258
Transaction with owners in their capacity as owners:					
Distributions to owners:					
Dividends provided for or paid	7	-	-	(41,600)	(41,600)
Contributions with owners:					
Equity Injections		8,493	-	-	8,493
Balance at 30 June 2017		112,193	389,497	713,349	1,215,038

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Cash flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		338,202	316,017
Payments to suppliers and employees (inclusive of goods and services tax)		(157,296)	(143,159)
		180,906	172,858
Interest received		151	71
Proceeds from environmental levy and developers		5,992	7,104
Borrowing costs		(54,390)	(66,524)
Income taxes paid		(27,143)	(24,634)
Net cash flows from operating activities	22	105,516	88,875
Cash Flows from Investing Activities			
Purchases of property, plant and equipment		(94,426)	(100,711)
Proceeds from sales of property, plant and equipment		32,140	10,841
Net cash flows from investing activities		(62,286)	(89,870)
Cash Flows from Financing Activities			
Proceeds from borrowings		103,106	36,913
Repayment of borrowings		(87,547)	(7,410)
Equity contribution	20	4,346	8,493
Dividends paid	7	(41,600)	(37,300)
Net cash flows from financing activities		(21,695)	696
Net Increase / (Decrease) in Cash and Cash Equivalents		21,536	(298)
Cash and cash equivalents at beginning of the year		11,667	11,965
Cash and cash equivalents at end of the year	8	33,203	11,667
Cash Flows from Discontinued Operations	6	-	-

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and through the notes to the financial statements. These policies have been consistently applied to both years presented, unless otherwise stated. The financial statements include the Economic Entity consisting of Hunter Water Corporation and its wholly-owned subsidiary Hunter Water Australia Pty Limited (the Controlled Entity).

The Economic Entity's financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 30 August 2018.

A. BASIS OF PREPARATION

The financial statements are general purpose financial statements, which have been prepared in accordance with Australian Accounting Standards (and Interpretations), mandates issued by NSW Treasury and other statutory reporting requirements, including NSW Treasury Circulars, the *Public Finance and Audit Act 1983*, the *State Owned Corporations Act 1989* and the associated requirements of the *Public Finance and Audit Regulation 2015*.

The Directors have determined that the Economic Entity is a for-profit entity for financial reporting purposes. In preparing the financial statements, the accounting policies described below are based on the requirements applicable to for-profit entities.

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

- Certain classes of property, plant and equipment and intangibles are measured at fair value;
- Assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell;
- Defined benefit superannuation liabilities are stated at the present value of accrued benefit obligation less net assets available to pay benefits of the fund assets;
- Employee benefit provisions are stated at the present value of the future obligation for the relevant liabilities concerned;
- Borrowings are measured at amortised cost.

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.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements:

- Fair Value refer to Note 14;
- Provisions refer to Note 18;
- Employee Benefits (Superannuation) refer to Note 25.

All amounts contained in this report have been rounded to the nearest thousand dollar and are expressed in Australian Dollars.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the results, 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 2018. Management has determined the Controlled Entity to be immaterial and therefore has not presented separate balances for the Parent Entity as noted in Note 32.

C. 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.

D. COMPARATIVE INFORMATION

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is presented in respect of the previous period for all amounts reported in the financial statements.

E. AUSTRALIAN ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations applicable to the Economic Entity have been published that are not mandatory for 30 June 2018 reporting periods. NSW Treasury has mandated that the Economic Entity may not early adopt any of these new standards and interpretations. The Economic Entity assessment of the impact of these new standards and interpretations which may impact the Economic Entity are set out below:

(i) AASB 9 Financial Instruments (Effective for Reporting Periods Commencing on or after 1 January 2018)

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

(ii) AASB 15 Revenue from Contracts with Customers (Effective for Reporting Periods Commencing on or after 1 January 2018)

AASB 15 Revenue from Contracts with Customers was released in December 2014 and is the new comprehensive standard for revenue recognition, replacing AASB 111 Construction contracts, AASB 118 Revenue and AASB 1004 Contributions. It is operative from 1 January 2018. The core principle of the new standard requires entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (i.e. payment) to which the company expects to be entitled in exchange for those goods and services. There is no anticipated impact on the Economic Entity as all revenue recognition aligns with current AASB requirements including those of the new standard AASB 15.

(iii) AASB 16 Leases (Effective for Reporting Periods Commencing on or after 1 January 2019)

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. The previous accounting model for leases required lessees and lessors to classify their leases as either finance leases or operating leases and account for those two types of leases differently. Increased disclosures for leases of the Economic Entity will be required from the effective commencement date of this standard.

Operating leases will need to be recognised in a similar way to finance leases on the Statement of Financial Position (if greater than a 12 month term and of a material nature). An asset will be recognised (right-of-use asset) and depreciated whilst a lease liability will exist representing the lease obligations. Lease expenses in the Income Statement will be replaced by depreciation expense and also interest expense similar to finance leases. Expenditure in the Income Statement would have no material impact on the current treatment. Leases that would require to be recognised on the Statement of Financial Position would be determined at the time the standard becomes effective (approximately \$30m).

(iv) AASB 17 Insurance Contracts - (Effective for Reporting Periods Commencing on or after 1 January 2021)

This standard establishes principles for the recognition, measurement, presentation and disclosure of contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of this standard is to ensure that entities provide relevant information in a way that faithfully represents those contracts. AASB 17 reflects the view that an insurance contract combines features of both a financial instrument and a service contract. As this standard is for businesses that issue insurance contracts there is no impact on the Economic Entity from the application of this standard.

(v) 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections - (Effective for Reporting Periods Commencing on or after 1 January 2018)

This standard makes amendments to AASB 10 Consolidated Financial Statements, AASB 128 Investments in Associates and Joint Ventures and other standards and interpretations. There is no anticipated impact on the Economic Entity from the application of this standard.

(vi) AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation (Effective for Reporting Periods Commencing on or after 1 January 2019)

This standard amends AASB 9 Financial Instruments to permit entities to measure at amortised cost or fair value through other comprehensive income particular financial assets that would otherwise have contractual cash flows but do not meet the conditions only as a result of a prepayment feature. There is no anticipated impact on the Economic Entity from the application of this standard.

(vii) Interpretation 23 Uncertainty over Income Tax Treatment (Effective for Reporting Periods Commencing on or after 1 January 2019)

This interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in AASB 112 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. There is no anticipated impact on the Economic Entity from the application of this standard.

(viii) AASB 2018-1 Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle (Effective for Reporting Periods Commencing on or after 1 January 2019)

This standard amends AASB 3 Business Combinations, AASB 11 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs. The main features of this standard are to provide clarification to these existing standards. There is no anticipated impact on the application of this standard on the Economic Entity.

(ix) AASB 2018-2 Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement (Effective for Reporting Periods Commencing on or after 1 January 2019)

This standard amends AASB 119 Employee Benefits to specify how an entity accounts for defined benefit plans when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments require an entity to use the assumptions used for the remeasurement of the net defined benefit liability or asset to determine the current service cost and the net interest for the remainder of the reporting period after a plan event occurs. The Standard also clarifies that, when a plan event occurs, an entity recognises the past service cost or a gain or loss on settlement separately from its assessment of the asset ceiling. The Economic Entity receives defined benefits statements from an external actuary who comply with all requirements under AASB 119.

NOTE 2. REVENUE

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Services - Regulated			
Tariff - service charges		150,006	139,348
Tariff - usage charges		144,996	127,431
Environmental charge		5,957	7,058
Other revenue		5,600	5,295
		306,559	279,132
Gain/(Loss) on disposal of assets		(362)	522
Unregulated Income		3,049	4,215
		2,687	4,737
Developer contributions - cash		3	20
Developer contributions - assets		32,407	33,137
		32,410	33,157
Government Grants - rebates		15,333	14,757
Other		10,938	3,724
		26,271	18,481
		367,927	335,507
Other Income			
Interest income		194	58
		194	58
		368,121	335,565

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration or contribution received or receivable. 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 or contribution received or receivable. Revenue is recognised for the major business activities as follows:

(I) SERVICE REVENUE

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). Regulated revenue is revenue received from our regulated services as declared under the *IPART Order 1997*.

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

(II) UNREGULATED REVENUE

Unregulated revenue relates to the revenue raised through the provision of recycled water services.

(III) DEVELOPER CONTRIBUTIONS

Contributions from developers can be in the form of both monetary and non-monetary assets. In accordance with Australian Accounting Interpretation 18, where physical asset contributions are received in return for connection to a service delivery network, contributions are recognised as revenue and assets at cost upon connection. Subsequent measurement of the assets is in accordance with AASB 13 Fair Value Measurement using the income approach.

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

(IV) PROPERTY SALES

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

(V) INVESTMENT INCOME

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

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

(VI) GOVERNMENT GRANTS

State government grants are received to offset customer service obligation rebates. Government grants relate to pensioner, environmental levy and exempt property rebates.

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.

NOTE 3. OPERATIONAL EXPENSES

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Employee Related		44,262	41,039
Maintenance		20,293	19,372
Operations		41,152	34,126
Regulatory		5,690	4,667
Corporate		28,582	22,611
Other		740	738
		140,719	122,552
Maintenance Expense			
Employee related expenses		11,216	13,802
Other		20,931	19,615
		32,147	33,417

RECOGNITION AND MEASUREMENT

Expenses are recognised in profit or loss when incurred or as part of ordinary course of business.

NOTE 4. EXPENSES

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Profit before income tax includes the following specific net gains and expenses:			
(i) Depreciation and Amortisation			
Amortisation	13 (a) and (b)	8,727	8,252
Depreciation	12 (b) and (c)	50,353	43,733
Total depreciation and amortisation expense		59,080	51,985
(ii) Finance Costs			
Amortisation of discount / (premium) on loans		11,824	97
Long term borrowings - interest		34,521	45,981
Short term borrowings - interest		327	489
Net (Gain) / Loss on borrowings refinanced		387	(0)
Other interest expense		238	194
Government guarantee fee		19,504	18,464
Capitalised finance costs		(2,253)	(2,378)
		64,548	62,846
(iii) Superannuation Expense			
Superannuation expense - defined benefit funds		3,025	2,964
Superannuation expense - contributions		5,290	5,022
		8,315	7,986
(iv) Asset Revaluation Decrement/(Increment)		(70)	3,480
(v) Net (Gain) / Loss on Disposal of Property, Plant and Equipment		1,193	4,445
(vi) Expenses Include:			
Restoration provision expenses		-	(60)
Other charges against assets - Bad and doubtful debts	9(a)	(105)	(36)
Rental expenses - Minimum lease payments		4,747	4,451

RECOGNITION AND MEASUREMENT

Interest and other borrowing costs are expensed as incurred unless they relate to the capitalisation of borrowing costs in which case they are capitalised as part of the cost of those assets.

The government guarantee fee represents the fee paid by the Corporation to NSW Treasury in relation to the Corporation's borrowings.

NOTE 5. INCOME TAX

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
A. INCOME TAX EXPENSE			
Current tax		28,115	24,127
Deferred tax	19	(722)	2,309
Under/(over) provided in prior years		11,246	1,104
		38,639	27,539
Income tax expense is attributed to:			
Continuing Operations		38,639	27,539
		38,639	27,539
Deferred income tax (revenue)/expense included in income tax expense comprises:			
(Decrease)/increase in deferred tax liabilities		895	(4,427)
(Decrease)/increase in deferred tax assets		(173)	2,118
Income tax expense is attributed to:			
Profit from Continuing Operations		94,337	82,272
B. RECONCILIATION BETWEEN INCOME TAX EXPENSE AND PROFIT BEFORE INCOME TAX			
Profit before income tax excluding dividend		94,337	82,272
Tax rate of 30% (2017 - 30%)		28,301	24,681
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Entertainment non-deductible expenses		4	10
Non-deductible expenses		62	1,136
Sundry Temporary Differences		(807)	505
Australian owned Research and Development concession claim		(17)	(13)
		27,542	26,319
Deferred tax not recognised on capital loss		(150)	116
Under/(over) provision in prior years		11,246	1,104
Income Tax Expense		38,639	27,539
Under provision in prior years includes \$10.1m on the derecognition of the deferred tax asset due to the completed sale of Kooragang Industrial Water Scheme (KIWS). KIWS sale exchange occurred in the financial year ended 30 June 2017 with settlement completed November 2017.			
C. TAX EXPENSE/(INCOME) RELATING TO ITEMS OF COMPREHENSIVE INCOME			
Net increase/(decrease) in property plant and equipment revaluation reserve	19	458	596
Actuarial gains/(losses) on defined benefit funds	19	15,062	10,185
		15,520	10,780
D. INCOME TAX			

The Parent and Controlled Entity are subject to the National Tax Equivalent Regime (NTER). An "equivalent" or "notional income tax" is payable to the NSW Government through the Office of State Revenue. The liability for income tax is primarily assessed in accordance with the *Income Tax Assessment Acts of 1936 and 1997* (ITAA) and is administered by the Australian Taxation Office.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the 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.

NOTE 5. INCOME TAX CONTINUED

E. 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 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 standalone 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.

The wholly-owned entity was 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 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. 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. DISCONTINUED OPERATION - CONTROLLED ENTITY

A. DESCRIPTION

In July 2014, the Board of Hunter Water Corporation resolved its intention to sell the assets and business of its subsidiary Hunter Water Australia Pty Limited (HWA). The associated assets and liabilities of the subsidiary which made up the operations of HWA were sold through two separate transactions in December 2014. HWA has ceased trading and is currently in liquidation.

B. FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

The financial performance and cash flow information presented are for the year ended 30 June 2018 and the year ended 30 June 2017.

	Economic entity	
	2018	2017
	\$'000	\$'000
Revenue	-	-
Expenses	-	-
Profit before income tax	-	-
Income tax expense	-	-
Profit after income tax of discontinued operation	-	-
Net cash inflows / (outflows) from operating activities	-	-
Net increase / (decrease) in cash generated from discontinued operations	-	-

NOTE 7. DIVIDENDS PAID OR PROVIDED FOR

	Notes	Economic entity	
		2018	2017
		\$'000	\$'000
Opening Balance		41,600	37,300
Add: dividend declared at 37.1 cents per share (2017: 37.1 cents per share)		43,240	41,600
Less: dividend paid at 37.1 cents per share (2017: 36.0 cents per share)		(41,600)	(37,300)
		43,240	41,600

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

NOTE 8. CASH AND CASH EQUIVALENTS

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Cash at bank and on hand		3,073	11,667
Deposits at call		30,130	-
		33,203	11,667

Deposits at call are bearing interest rates between 1.45% and 1.80% (2017: 1.45% and 1.00%).

A. RECONCILIATION TO CASH AT THE END OF THE YEAR

The above figures are reconciled to cash at the end of the financial years.

Cash and cash equivalents (per Statement of Financial Position)	33,203	11,667
Cash and cash equivalents (per Statement of Cash Flows)	33,203	11,667

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.

Refer Note 33 for details regarding credit risk, liquidity risk and market risk arising from financial instruments.

NOTE 9. TRADE AND OTHER RECEIVABLES

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Current			
Trade debtors		23,612	22,679
Allowance for Impairment on other debtors		(242)	(347)
Accrued revenue - unbilled water usage		20,590	19,636
		43,960	41,968
Prepayments		1,976	1,492
		1,976	1,492
Total Current		45,936	43,460
Non-current			
Stock Receivable		439	369
Total Non Current		439	369

A. MOVEMENT IN THE ALLOWANCE FOR IMPAIRMENT

Balance at beginning of the year	347	383
Amounts written off during the year	(2)	(4)
Amounts recovered during the year	(132)	(52)
Increase/(decrease) in allowance recognised in Income Statement	29	19
Balance at end of year	242	347

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

B. 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 collectible.

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

NOTE 10. INVENTORIES

	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Current			
Consumable stores at cost		2,665	2,572
		2,665	2,572

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.

NOTE 11. ASSETS CLASSIFIED AS HELD FOR SALE

(a) Assets Classified as Held for Sale	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Current			
Assets held for sale		-	30,829
		-	30,829

At balance date no assets were classified as held for sale. During the reporting period two assets were disposed of after being held for sale one of which was Kooragang Industrial Water Scheme (KIWS).

The only asset held for sale at 30 June 2017 was KIWS. KIWS ceased to classify as an asset held for sale in November 2017 when settlement took place. Costs to sell assets held for sale during the year total \$0.6m (2017: \$0.6m).

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

It is anticipated that the carrying amounts of such assets will be recovered principally through sale transactions and is considered probable that a sale will occur. All sales of assets classified as held for sales are expected to be settled within 12 months of the reporting date.

Refer to Note 14(B) for valuation process.

(b) Liabilities directly associated with Assets Classified as Held for Sale	Notes	Economic entity	
		2018 \$'000	2017 \$'000
Current			
Liabilities directly associated with Assets Classified as Held for Sale		-	4,124
		-	4,124

The liability associated with assets held for sale at 30 June 2017 included deferred income received through a government grant for KIWS. This liability was derecognised upon settlement of KIWS in November 2017.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

A. PROPERTY, PLANT AND EQUIPMENT

	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Work in Progress \$'000	Total \$'000
Economic Entity						
At 1 July 2016 - Fair Value						
Cost	-	-	-	-	141,066	141,066
Fair value - market valuation	-	-	5,168	3,722	-	8,890
Fair value - income approach	2,348,264	6,041	-	-	-	2,354,305
	2,348,264	6,041	5,168	3,722	141,066	2,504,262
At 30 June 2017 - Fair Value						
Cost	-	-	-	-	91,142	91,142
Fair value - market valuation	-	-	6,124	4,124	-	10,247
Fair value - income approach	2,466,288	7,417	-	-	-	2,473,705
	2,466,288	7,417	6,124	4,124	91,142	2,575,094
At 1 July 2017 - Fair Value						
Cost	-	-	-	-	91,142	91,142
Fair value - market valuation	-	-	6,124	4,124	-	10,247
Fair value - income approach	2,466,288	7,417	-	-	-	2,473,705
	2,466,288	7,417	6,124	4,124	91,142	2,575,094
At 30 June 2018 - Fair Value						
Cost	-	-	-	-	109,012	109,012
Fair value - market valuation	-	-	6,324	5,763	-	12,087
Fair value - income approach	2,523,268	11,107	-	-	-	2,534,375
	2,523,268	11,107	6,324	5,763	109,012	2,655,474

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:

Economic Entity 30 June 2017	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Total \$'000
Net carrying amount 1 July 2016	2,348,264	6,041	5,168	3,722	2,363,196
Additions	160,789	3,687	-	760	165,236
Disposals	(974)	(23)	(698)	-	(1,695)
Transfers between classes	(705)	-	1,654	-	948
Revaluation increments/(decrements)	-	-	-	-	-
Depreciation expense	(41,086)	(2,289)	-	(359)	(43,733)
Net carrying amount 30 June 2017	2,466,288	7,417	6,124	4,124	2,483,952

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:

Economic Entity 30 June 2018	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Total \$'000
Net carrying amount 1 July 2017	2,466,288	7,417	6,124	4,124	2,483,952
Additions	105,252	6,310	202	2,004	113,769
Disposals	(1,235)	(5)	(2)	(83)	(1,325)
Revaluation increments/(decrements)	418	-	-	-	418
Depreciation expense	(47,455)	(2,615)	-	(282)	(50,352)
Net carrying amount 30 June 2018	2,523,268	11,107	6,324	5,763	2,546,462

Refer to Note 14(B) and (D) for further information on the valuation process.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

D. PROPERTY, PLANT AND EQUIPMENT

ACQUISITIONS AND CAPITALISATION

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

Cost is the amount of cash or cash equivalents paid or 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 Economic 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 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 5.45% (2017: 4.38%).

FAIR VALUE

The Economic Entity values its non current assets in accordance with AASB 116 Property, Plant and Equipment, AASB 13 Fair Value Measurement and NSW Treasury's Accounting Policy TPP14-01 Valuation of Physical Non-Current Assets at Fair Value. Non-current assets are valued at fair value using the Income Approach. 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. Non-operational land and buildings are revalued every three years.

AASB 13 determines fair value to be an exit price and one that a market participant would pay in an orderly transaction. Assumptions that are included in determining the most appropriate measure of fair value include:

- The principle or most advantageous market in which an orderly transaction would take place for the asset (liability);
- The highest and best use of the asset / (liability);
- If the asset is used in combination with other assets or on a stand-alone basis.

For each asset subject to valuation, revaluation increments are credited to the asset revaluation reserve through the Consolidated Statement of Other 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 Consolidated 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 Consolidated Income Statement. It is policy to transfer the amounts included in the revaluation reserve in respect of those assets to retained earnings.

Refer to Note 14 for details of fair value assessment and non-current asset disclosures.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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 Economic 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 the cost of 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 relining technologies, as well as in respect of civil components of some other assets.

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

Class of Fixed Asset	Useful Life (years)
System Assets	
Sewer	
- Sewer mains	80-120
- Sewer Pump Stations	10-50
- Wastewater Treatment Works	10-100
Water	
- Water mains	80-150
- Water Chlorinators	15-100
- Water Pump Stations	10-121
- Water Resources	20-150
- Water Treatment Works	10-100
- Meters	15-20
Stormwater	100-150
Recycled Water	80-150
General Support	
Fleet	5-15
General equipment	3-50
Buildings	25-100

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

NOTE 13. INTANGIBLE ASSETS

Economic Entity	Easements \$'000	Software External \$'000	Environmental Credits \$'000	Other \$'000	Work in Progress \$'000	Total \$'000
At 1 July 2016 - Fair Value						
Cost	-	-	-	-	3,360	3,360
Fair value - income approach	2,038	13,579	-	4,030	-	19,647
	2,038	13,579	-	4,030	3,360	23,007
At 30 June 2017 - Fair Value						
Cost	-	-	-	-	3,053	3,053
Fair value - income approach	2,364	11,285	-	2,888	-	16,537
	2,364	11,285	-	2,888	3,053	19,590
At 1 July 2017 - Fair Value						
Cost	-	-	-	-	3,053	3,053
Fair value - income approach	2,364	11,285	-	2,888	-	16,537
	2,364	11,285	-	2,888	3,053	19,590
At 30 June 2018 - Fair Value						
Cost	-	-	-	-	8,597	8,597
Fair value - market approach	-	-	3,491	-	-	3,491
Fair value - income approach	2,997	5,962	-	4,500	-	13,459
	2,997	5,962	3,491	4,500	8,597	25,547

Refer to Note 13(A) and (B) for reconciliations in movement of intangible assets.

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 2017	Easements \$'000	Software External \$'000	Environmental Credits \$'000	Other \$'000	Total \$'000
Net carrying amount 1 July 2016	2,038	13,579	-	4,030	19,647
Additions	326	4,383	-	433	5,142
Amortisation expense	-	(6,677)	-	(1,575)	(8,252)
Net carrying amount 30 June 2017	2,364	11,285	-	2,888	16,537

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 2018	Easements \$'000	Software External \$'000	Environmental Credits \$'000	Other \$'000	Total \$'000
Net carrying amount 1 July 2017	2,364	11,285	-	2,888	16,537
Additions	654	2,546	3,262	2,695	9,157
Disposals	(21)	(225)	-	-	(246)
Revaluation increments/(decrements)	-	-	229	-	229
Amortisation expense	-	(7,644)	-	(1,083)	(8,727)
Net carrying amount 30 June 2018	2,997	5,962	3,491	4,500	16,950

NOTE 13. INTANGIBLE ASSETS CONTINUED

C. INTANGIBLE ASSETS

Intangible assets consist of easements, software, environmental credits 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. Environmental credits are intangible assets and not amortised as they are deemed to have an indefinite useful life. Software is also classified as an intangible asset and is amortised (generally over five years).

Intangible assets including purchased environmental credits are initially recognised at cost. All other environmental credits are initially recorded at fair value. After initial recognition all intangible assets with the exception of environmental credits are carried at fair value in accordance with AASB 13 Fair Value Measurement using the income approach. After initial recognition environmental credits are carried at fair value using the market approach.

Refer to Notes 12 and 14 for details on fair value assessment.

Refer to Notes 12 and 14 for details of fair value non-current asset disclosures.

NOTE 14. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS

A. FAIR VALUE HIERARCHY

Economic Entity 2018	Level 2	Level 3	Total Fair Value
	\$'000	\$'000	\$'000
System assets	-	2,523,268	2,523,268
Land and buildings	12,087	-	12,087
General Support	-	11,107	11,107
Environmental Credits	3,491	-	3,491
Other Intangibles	-	13,459	13,459
	15,578	2,547,834	2,563,412

Transfers into and out of fair value hierarchy levels are recognised at the end of the reporting period. There were no transfers between level 1 or 2 during the period.

For transfers in and out of level 3 measurements see (c) below.

Economic Entity 2017	Level 2	Level 3	Total Fair Value
	\$'000	\$'000	\$'000
System assets	-	2,466,288	2,466,288
Land and buildings	10,248	-	10,248
General Support	-	7,417	7,417
Assets held for sale	30,829	-	30,829
Other Intangibles	-	16,537	16,537
	41,077	2,490,242	2,531,319

NOTE 14. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS CONTINUED

B. VALUATION TECHNIQUES, INPUTS AND PROCESSES

Asset Category	Fair Value Approach	Inputs into Fair Value Assessment
System Asset	<p>At initial recognition fair value is based on a cost approach.</p> <p>No active market exists for these assets.</p> <p>Income approach adopted based on current regulated IPART price determination (June 2016).</p>	<p>Income approach is adopted by discounting future cash flows expected to be generated from the use of these assets. Regulated revenue is determined via an IPART price determination that was issued in June 2016. These regulated future cash flows are considered the primary factor that a market participant would consider when evaluating these assets.</p> <p>Level 3 input</p>
Land and Buildings (non-operational)	<p>At initial recognition fair value is based on a cost approach.</p> <p>Most recent external expert revaluation based on market conditions in an active market occurred in 2015-16. Hunter Water has assessed these amounts are materially accurate.</p>	<p>Market approach is adopted based on the external expert valuations undertaken in 2015-16 which Hunter Water assesses as being materially accurate. An active property market exists in the regions that land and buildings are held. Valuation based on market prices from observable inputs from comparable assets.</p> <p>Level 2 input</p>
Assets Held for Sale	<p>All assets initially recognised on a cost approach. Valuations have been obtained for assets held for sale and, in line with AASB 5, these assets are recognised at the lower of carrying value and fair value (less costs to sell).</p> <p>Valuation based on an active market and similar assets (not identical).</p>	<p>Market approach is adopted based on valuations. An active property market exists in the region. Costs to sell are indicative of previous sales. Observable inputs from comparable assets but not identical.</p> <p>Level 2 input</p>
General Support	<p>At initial recognition fair value is based on a cost approach.</p> <p>Income approach adopted based on current regulated IPART price determination (June 2016).</p>	<p>Income approach is adopted by discounting future cash flows expected to be generated from the use of these assets. Regulated revenue is determined via an IPART price determination that was issued in June 2016. These regulated future cash flows are considered the primary factor that a market participant would consider when evaluating these assets.</p> <p>Level 3 input</p>
Environmental Credits	<p>At initial recognition fair value is based on a market approach with the exception of purchased environmental credits which are initially recorded at cost.</p> <p>Valuation based on an active market and similar assets (not identical).</p>	<p>Market approach is based on the environmental credit market. An active market exists in the region. Valuation based on market prices from observable inputs from comparable assets.</p> <p>Level 2 input</p>

NOTE 14. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS CONTINUED

C. RECONCILIATION OF RECURRING LEVEL 3 FAIR VALUE MEASUREMENTS

(i) The following table represents the changes in level 3 items for the year ended 30 June 2018 for recurring fair value measurements:

Economic Entity 2018	System Assets	Other Fixed Assets	Intangibles	Total Recurring Level 3 Fair Value
	\$'000	\$'000	\$'000	\$'000
Fair Value at 30 June 2017	2,466,288	7,417	16,537	2,490,242
Additions	105,252	6,310	5,895	117,458
Disposals	(1,235)	(5)	(246)	(1,486)
Depreciation/amortisation	(47,455)	(2,615)	(8,727)	(58,798)
Revaluation increment/(decrement) recognised in other comprehensive income	418	-	-	418
Fair Value at 30 June 2018	2,523,268	11,107	13,459	2,547,834

TRANSFER BETWEEN LEVEL 2 AND 3 MEASUREMENTS

There was no transfers between level 2 and level 3 measurements during 2017-18.

(ii) The following table represents the changes in level 3 items for the year ended 30 June 2017 for recurring fair value measurements:

Economic Entity 2017	System Assets	Other Fixed Assets	Intangibles	Total Recurring Level 3 Fair Value
	\$'000	\$'000	\$'000	\$'000
Fair value as at 1 July 2016	2,348,264	6,041	19,647	2,373,953
Additions	160,789	3,687	5,142	169,617
Disposals	(974)	(23)	-	(997)
Depreciation/amortisation	(41,086)	(2,289)	(8,252)	(51,626)
Transfers to Level 2	(705)	-	-	(705)
Fair Value at 30 June 2017	2,466,288	7,417	16,537	2,490,242

TRANSFER BETWEEN LEVEL 2 AND 3 MEASUREMENTS

System assets and intangibles associated with assets held for sale were transferred from system assets and intangibles (level 3) to assets held for sale (level 2) during 2016-17.

NOTE 14. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS CONTINUED

D. MEASUREMENT OF FAIR VALUE

The following tables summarise the quantitative information about the significant unobservable inputs in recurring level 3 fair value measurements.

Description	Fair Value at 30 June 2018 \$'000
System Assets	2,523,268
Other fixed assets	11,107
Other Intangibles	13,459

Unobservable Input item	30 June 2018 Calculation of Fair Value	Relationship of Unobservable Inputs to Fair Value
Time Period	Forecast cash flows for a five year period after which a terminal value is derived.	The terminal value reflects the ability of the CGU to operate into perpetuity.
Real Discount Rate	Pre-tax real discount rate: 4.9% (2017: 5.4%)	The higher the discount rate, the lower the fair value.
Estimates of Future Revenues	<p>Estimates of future regulated revenue streams have been based on the final 2016 IPART determination for the period 2019-20 and on the 2018-19 Business Plan & SCI for the period 2020-21 and 2022-23.</p> <p>This calculates annual revenue requirements on:</p> <ul style="list-style-type: none"> • Full cost recovery on estimated operating expenditure relating to infrastructure assets • A return on the Regulated Asset Base (RAB) and future capital expenditure relating to replacements and projects currently in progress. • A weighted average cost of capital return of 4.9% for the remaining two years of the determination; 4.5% for the period 2020-21 and 2022-23 (consistent with the Business Plan & SCI); and 4.9% thereafter (2017: 5.4%). 	The higher the discounted future revenues, the higher the fair value.
Estimates of Future Expenditure	<p>Operating expenditure from the final 2018-19 operating budget and Business Plan forecasts.</p> <p>Capital expenditure relating to replacements and capital projects currently in progress from the final 2018-19 operating budget and Business Plan forecasts.</p>	<p>Changes in regulated expenditure have little effect on asset values as it has been assumed that future expenditure will be recovered in future IPART pricing determinations.</p> <p>The higher the discounted future expenditure, the lower the fair value.</p>

NOTE 14. FAIR VALUE MEASUREMENT OF NON-FINANCIAL ASSETS CONTINUED

i) Due to the long life of Hunter Water's infrastructure assets, the calculation of the fair value based on the income approach, which is carried out using a 5 year cashflow with a terminal value, is sensitive to variations in key assumptions. Significant assumptions underpinning the modelling process have been based on the final 2016 IPART determination and the 2018-19 Business Plan and SCI. Beyond the 5 year forecast period a level of pricing support has been assumed to ensure the current asset base is maintained with an acceptable weighted average cost of capital (WACC) return of 4.9% (the post tax WACC based on long term averages). As approved prices from the 2016 IPART determination cannot be used in their entirety (they include a recovery on future capital expenditure which does not relate to the current infrastructure assets), estimates of future revenues have been based on a building block model approach as utilised by IPART. This allows for full cost recovery on estimated operating expenditure relating to infrastructure assets as well as a return on the Regulated Asset Base and future capital expenditure relating to replacements and projects currently in progress.

Estimates of future cash-flows have been discounted to present value at a real pre-tax discount rate of 4.9%. The equivalent post-tax discount rate of 3.6% is based on IPART's long-term WACC projection released in February 2018.

Outcomes from Hunter Water's fair value model are sensitive to variations in the forecast expenditure and expected rate of return and as such, revaluation outcomes can vary. Overall a conservative approach has been taken to minimise the risk of material differences attributable to the uncertainty in future periods.

In 2017-18 Hunter Water's fair value model calculated a valuation decrement of \$38m (2017: \$125m increment) being the difference between the written down value of the entity's fixed assets and the present value of cash flows. Management assessed the change as being immaterial to the financial statements. As such no adjustment was made to the asset carrying amounts. Management also assessed that any impairment reversal would impact the Income Statement by \$0.4m which was also deemed to be non-material.

Sensitivity analysis was undertaken on the three key components within the valuation model being the long term WACC return, the discount rate and the long term growth in net cashflows. The results of this analysis with all other inputs remaining unchanged is summarised below. After assessment of the sensitivity analysis it was determined that if these movements did occur there would be no material impact on the Income Statement.

	Change in Valuation	
	2018 \$m	2017 \$m
25 basis point increase change in WACC	149	150
25 basis point increase change in discount rate	238	161
	89	11

	Change in Valuation	
	2018 \$m	2017 \$m
5 basis point change in long-term growth in net cashflows	39	39

ii) There is not an open market for the sale of infrastructure assets owned by the Economic Entity. It is not envisaged that there will be significant variation in the assumptions noted above.

NOTE 15. TRADE AND OTHER PAYABLES

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Current			
Trade creditors		9,153	7,664
Deposits received for services		13,748	12,518
Accrued expenses		77,816	59,321
		100,717	79,502

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 is not material.

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

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

NOTE 16. CURRENT TAX LIABILITIES

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Provision for Income Tax Payable			
Opening Balance		3,688	4,181
Under/(over) provision for income tax in prior year		(743)	14
Amount paid relating to prior year		(2,943)	(4,195)
Amount payable for current year	5	28,115	24,127
Amount paid relating to current year		(24,200)	(20,439)
		3,916	3,688

Current 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.

NOTE 17. BORROWINGS

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Overdraft		-	790
Other loans		1,129,366	1,100,566
		1,129,366	1,101,356
Represented By:			
Current		72,863	88,012
Non-current		1,056,503	1,013,344
		1,129,366	1,101,356

Hunter Water borrows through NSW Treasury Corporation (TCorp) in the form of liquid and marketable TCorp Stocks. As part of its debt management activities, NSW TCorp is contracted as the Debt Liability Advisor for Hunter Water's debt portfolio.

Borrowings are classified as current when they are due to be settled within 12 months from reporting date.

Hunter Water has an overdraft facility with NSW TCorp of \$30m (2017: \$30m) which was unused at 30 June 2018 (2017: \$0.79m).

Hunter Water has a contingent loan facility with Commonwealth Bank of Australia of \$0.1m which was not drawn down at 30 June 2018 and a purchase card facility with National Australia Bank of \$1.0m at 30 June 2018. The borrowings are classified as non-trading liabilities and are unsecured.

The Treasurer approved funding of up to \$1,600m with NSW TCorp for the three year period until 30 June 2021 (2017: \$1,227m), of which \$1,129m was used at 30 June 2018 (2017: \$1,101m).

The Minister has approved an intercompany loan for \$10m of which \$5.8m was used at 30 June 2018. Hunter Water Corporation is the parent company and the subsidiary (Hunter Water Australia Pty Limited) is currently in liquidation. Once liquidation is completed the intercompany loan will be settled.

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

FAIR VALUE APPROACH

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.

NSW TCorp loans: Fair values are determined on the basis of rates supplied by independent market sources.

All borrowings are held at fair value.

NOTE 18. PROVISIONS

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Current			
Dividends	7	43,240	41,600
Restoration		3,962	-
Other		424	-
Employee benefits - short term		640	546
Employee benefits - long term*		16,152	17,096
		64,418	59,242
Non-Current			
Employee benefits		68,199	118,507
*Employee benefits expected to be settled after 12 months		10,294	7,050

Movements in Dividends Provision 2018	Economic Entity Current
Carrying amount 1 July 2017	41,600
Less: dividend paid	(41,600)
Add: dividend declared	43,240
Carrying amount at 30 June 2018	43,240

Movements in Restoration Provision 2018	Economic Entity Current
Carrying amount 1 July 2017	-
Additional provisions recognised	3,962
Carrying amount at 30 June 2018	3,962

Movements in Other Provisions 2018	Economic Entity Current
Carrying amount 1 July 2017	-
Additional provisions recognised	424
Carrying amount at 30 June 2018	424

A. DIVIDENDS

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

B. 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.

C. EMPLOYEE BENEFITS

SHORT-TERM OBLIGATIONS

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

Liabilities for salaries and wages (including non-monetary benefits) and accumulating sick leave that are expected to be settled wholly 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 of the benefits.

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

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

NOTE 18. PROVISIONS CONTINUED

Annual leave that is not expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service is measured at present value in accordance with AASB 119 Employee Benefits. Actuarial advice obtained by NSW Treasury has confirmed the use of a nominal approach for the annual leave on annual leave liability. In accordance with NSWTC 15/09 Accounting for Long Service Leave and Annual Leave a factor of 7.9% of the nominal value of annual leave has been used to calculate the present value of the annual leave liability. Hunter Water has assessed that there is no material difference in the nominal approach plus the 7.9% factor compared to a discounted rate to determine the net present value of this leave liability. The discount rate used in this assessment was 2.5% (2017: 2.5%).

OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

(ii) Long Service Leave

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

(iii) Termination benefits

Termination benefits are employee benefits payable as a result of an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits.

A liability and expense for redundancy benefits are recognised when there is a demonstrated commitment to provide termination benefits to affected employees. This is usually when specific employees affected by restructures have elected to take redundancy termination benefits as at the reporting date. Earlier recognition via a general provision is only recognised when a detailed formal plan has been approved and communicated to employees and unions.

The liability for redundancy benefits for specific employees that have accepted redundancy is measured at the calculated entitlement that will be paid to those employees. This is usually in the following reporting period and thus is not discounted. For a general provision, an estimate is calculated on the basis of the number of employees expected to accept an offer of redundancy in accordance with the formal detailed plan. The liability is only discounted if termination benefits are to fall due more than 12 months after the reporting date.

(iv) Retirement Benefit Obligations

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

DEFINED CONTRIBUTION SUPERANNUATION SCHEMES

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

DEFINED BENEFIT SUPERANNUATION SCHEMES

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

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

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

Refer to Note 25 for more details of Hunter Water's defined benefit superannuation schemes.

NOTE 19. DEFERRED TAX LIABILITIES

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Amounts recognised in profit or loss:			
Tax bases without an asset carrying amount		-	(980)
Stock on hand		931	882
Accruals		406	(397)
Borrowing costs		1,344	1,490
Provisions		(14,510)	(13,730)
Prepayments		227	218
Property, plant and equipment		(14,937)	(24,374)
		(26,538)	(36,891)
Amounts recognised in the Statement of Comprehensive Income			
Superannuation actuarial gains/(losses)		(14,430)	(29,492)
Revaluation of property, plant and equipment		168,965	168,507
		154,535	139,015
Total		127,997	102,124

Economic Entity

	Opening Balance at 1 July 2017	Prior Year Under/over Provision	To Profit or Loss	Directly to Equity	Closing Balance at 30 June 2018
Movements					
Tax bases without an asset carrying amount	(980)	980	-	-	-
Stock On Hand	882	-	49	-	931
Accruals	(397)	-	803	-	406
Borrowing costs	1,490	-	(146)	-	1,344
Provisions (including doubtful debts)	(43,222)	-	(780)	15,062	(28,939)
Prepayments	218	-	9	-	227
Property, plant and equipment	144,134	10,094	(658)	458	154,028
	102,124	11,074	(722)	15,520	127,997

	Opening Balance at 1 July 2016	Prior Year Under/over Provision	To Profit or Loss	Directly to Equity	Closing Balance at 30 June 2017
Movements					
Tax bases without an asset carrying amount	-	-	(980)	-	(980)
Stock On Hand	875	-	7	-	882
Accruals	(327)	-	(71)	-	(397)
Borrowing costs	2,091	-	(601)	-	1,490
Provisions (including doubtful debts)	(53,454)	-	47	10,185	(43,222)
Prepayments	226	-	(8)	-	218
Property, plant and equipment	139,724	(101)	3,915	596	144,134
	89,136	(101)	2,309	10,780	102,124

NOTE 19. DEFERRED TAX LIABILITIES CONTINUED

The deferred tax asset that is expected to be settled within the next twelve months for the Economic Entity is \$0.7m (2017: \$2.3m deferred tax liability).

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. The current tax rate is 30% and this is used to calculate the deferred tax amounts.

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.

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.

NOTE 20. SHARE CAPITAL

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
At 1 July: ordinary shares each fully paid		112,193	103,700
Shares fully paid and issued during year		4,346	8,493
At 30 June: ordinary shares each fully paid		116,539	112,193

Hunter Water Corporation's two shareholders at 30 June 2018 were:

- The Minister for Finance, Services and Property; 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. Shares issued and fully paid at 30 June 2018 total 116,539,000 (2017: 112,193,000).

During the reporting period, an additional 4,346,000 shares had been issued by Hunter Water Corporation due to an equity cash contribution from shareholders of \$4,346,000. The shares have been issued and fully paid during the reporting period.

The equity injection relates to the NSW Government's Housing Acceleration Fund 2 scheme.

NOTE 21. RESERVES AND RETAINED PROFITS

	Economic Entity	
	2018 \$'000	2017 \$'000
A. RESERVES		
Asset revaluation	388,428	389,497
	388,428	389,497

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets and assets held for sale. Refer to Note 12.

Movement in Reserves

Asset revaluation		
Balance at beginning of year	389,497	390,887
Asset revaluation increments/(decrements) from revaluations		
System assets	418	-
Environmental Credits	229	-
	647	-
Tax effect - deferred tax liability on revaluation reserve	458	945
Tax effect of assets held for sale	-	(349)
	458	596
Transfer of reserve on disposal	(2,174)	(2,934)
Transfer to fixed assets	-	948
	388,428	389,497

B. RETAINED PROFITS

Retained profits at 1 July	713,349	673,301
Net profit	55,697	54,733
Transfer from revaluation reserve to retained earnings	2,733	3,151
Net income/(loss) recognised direct in equity	35,145	23,764
Dividends	(43,240)	(41,600)
Retained profits at 30 June	763,684	713,349

NOTE 22. STATEMENT OF CASH FLOWS - OPERATING ACTIVITIES

	Economic Entity	
	2018 \$'000	2017 \$'000
Reconciliation of profit after income tax to the net cash flows from operating activities:		
Net profit for the year from operations	55,697	54,733
Net superannuation (income)/expense	2,962	2,998
Revaluation (increment)/decrement	(70)	3,480
Depreciation and amortisation	59,080	51,985
(Profit)/loss on sale of non-current assets	1,555	3,923
Capital asset (non-cash) contributions	(32,407)	(33,137)
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	(1,843)	3,929
(Increase)/decrease in inventories	(93)	(24)
(Increase)/decrease in other operating assets	(702)	(398)
Increase/(decrease) in trade creditors	4,854	1,689
Increase/(decrease) in other operating liabilities	11,153	188
Increase/(decrease) in provision for income taxes payable	228	(494)
Increase/(decrease) in net deferred tax liabilities (recognised on the Income Statement)	11,267	3,399
(Increase)/decrease in capitalised borrowing costs	(2,253)	(2,378)
Increase/(decrease) in other provisions	(3,912)	(1,018)
Net cash inflow from operating activities	105,516	88,875

NOTE 23. CONTRACTUAL COMMITMENTS

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Capital Commitments			
Aggregate capital expenditure contracted for at balance date but not recognised as liabilities:			
Payable within one year		39,348	40,460
Payable later than one year but not later than five years		431	1,170
Payable later than five years		-	-
		39,779	41,630

GST component of total contractual commitments for the Economic Entity at 30 June 2018 totals \$3.6m (2017: \$3.8m).

NOTE 24. LEASE EXPENDITURE COMMITMENTS

	Notes	Economic Entity	
		2018 \$'000	2017 \$'000
Operating lease commitments in relation to operating leases not provided for and payable:			
Within one year		5,127	4,661
Later than one year but not later than five years		16,554	15,556
Later than five years		6,930	6,151
		28,611	26,367
Representing:			
Cancellable operating leases		6,188	6,872
Non-cancellable operating leases		22,423	19,495
		28,611	26,367

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.

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. An additional operating lease for fleet vehicles was entered into in December 2014 for a five year period within which time the original leased vehicles will be transferred to the new operator.

In July 2014 Hunter Water Corporation's head office on Honeysuckle Drive was sold. A 10 year operating lease on the head office building commencing on 16 July 2014.

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. GST component of total commitments for the Economic Entity at 30 June 2018 totals \$2.6m (2017: \$2.4m).

NOTE 25. SUPERANNUATION

A. SUPERANNUATION PLAN

All employees are entitled to benefits on retirement, disability or death. The defined benefit superannuation schemes 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 Economic Entity also contributes to these schemes.

In July 2015 the Controlled Entity's defined benefit fund was combined into the Parent Entity's defined benefit fund. This consolidation had no impact on the Economic Entity and was as a result of the intention to liquidate the Controlled Entity.

The Economic Entity contributes to the following defined benefit superannuation schemes which are held in trust within the NSW public sector Pooled Fund. These defined benefit schemes are:

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

These schemes are all defined benefit schemes with at least a component of the final benefit being derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal.

All of these schemes are now closed to new members.

The schemes in the Pooled Fund are established and governed by the following NSW legislation: *Superannuation Act 1916*, *State Authorities Superannuation Act 1987*, *Police Regulation (Superannuation) Act 1906*, *State Authorities Non-Contributory Superannuation Act 1987*, and their associated regulations.

The schemes in the Pooled Fund are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993* (SIS). The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Pooled Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Pooled Fund and the Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Pooled Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2015. The actuary has commenced work on the 30 June 2018 investigation. Once completed, the report will be available on the Fund's website. The next actuarial investigation will be performed at 30 June 2021.

The Fund's Trustee is responsible for the governance of the Fund. The Trustee has a legal obligation to act solely in the best interests of fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
- Management and investment of the fund assets; and
- Compliance with other applicable regulations.

There are a number of risks to which the Fund exposes the Employer. The more significant risks relating to the defined benefits are:

- Investment risk - The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall;
- Longevity risk - The risk that pensioners live longer than assumed, increasing future pensions;
- Pension indexation risk - The risk that pensions will increase at a rate greater than assumed, increasing future pensions;
- Salary growth risk - The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions; and
- Legislative risk - The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

During the year ended 30 June 2018 there were no fund amendments, curtailments or settlements during the year.

NOTE 25. SUPERANNUATION CONTINUED

B. RECONCILIATION OF THE NET DEFINED BENEFIT LIABILITY/(ASSET)

Economic Entity at 30 June 2018	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2018	Total \$'000 2017
Net Defined Benefit Liability/(Asset) at beginning of the year	28,364	5,466	84,118	117,948	150,656
Current service cost	652	221	385	1,259	1,689
Net Interest on the net defined benefit liability/(asset)	706	128	2,191	3,025	2,964
Actual return on Fund assets less Interest income	(1,553)	(50)	(5,579)	(7,182)	(8,277)
Actuarial (gains)/losses arising from changes in demographic assumptions	1,199	(69)	618	1,749	(47)
Actuarial (gains)/losses arising from changes in financial assumptions	(7,398)	(506)	(33,923)	(41,827)	(22,531)
Actuarial (gains)/losses arising from liability experience	1,396	220	(4,563)	(2,947)	(3,093)
Employer contributions	(2,846)	(1,193)	(968)	(5,007)	(3,412)
Net Defined Benefit Liability/(Asset) at end of the year	20,521	4,217	42,280	67,017	117,948

C. RECONCILIATION OF THE FAIR VALUE OF FUND ASSETS

Economic Entity at 30 June 2018	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2018	Total \$'000 2017
Fair value of Fund assets at beginning of the year	27,038	1,128	94,929	123,094	116,713
Interest income	694	31	2,411	3,136	2,253
Actual return on Fund assets less Interest income	1,553	50	5,579	7,182	8,277
Employer contributions	2,846	1,193	968	5,007	3,412
Contributions by participants	389	-	284	673	673
Benefits paid	(2,895)	(800)	(6,577)	(10,273)	(8,947)
Taxes, premiums & expenses paid	(419)	(267)	663	(22)	714
Fair value of Fund assets at end of the year	29,206	1,335	98,257	128,797	123,094

D. RECONCILIATION OF THE DEFINED BENEFIT OBLIGATION

Economic Entity at 30 June 2018	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2018	Total \$'000 2017
Present value of defined benefit obligations at beginning of the year	55,402	6,594	179,047	241,043	267,369
Current service cost	652	221	385	1,259	1,689
Interest cost	1,400	159	4,602	6,161	5,217
Contributions by participants	389	-	284	673	673
Actuarial (gains)/losses arising from changes in demographic assumptions	1,199	(69)	618	1,749	(47)
Actuarial (gains)/losses arising from changes in financial assumptions	(7,398)	(506)	(33,923)	(41,827)	(22,531)
Actuarial (gains)/losses arising from liability experience	1,396	220	(4,563)	(2,947)	(3,093)
Benefits paid	(2,895)	(800)	(6,577)	(10,273)	(8,947)
Taxes, premiums & expenses paid	(419)	(267)	663	(22)	714
Present value of defined benefit obligations at end of the year	49,727	5,551	140,536	195,814	241,043

E. RECONCILIATION OF THE EFFECT OF THE ASSET CEILING

Economic Entity at 30 June 2018	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000
Adjustment for effect of asset ceiling at beginning of the year	-	-	-	-
Interest on the effect of asset ceiling	-	-	-	-
Change in the effect of asset ceiling	-	-	-	-
Adjustment for effect of asset ceiling at end of the year	-	-	-	-

NOTE 25. SUPERANNUATION CONTINUED

F. FAIR VALUE OF FUND ASSETS

All Pooled Fund assets are invested by SAS Trustee Corporation (STC) at arm's length through independent fund managers, assets are not separately invested for each entity and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities. As such, the disclosures below relate to total assets of the Pooled Fund.

Asset Category	Total (A\$'000)	Level 1 (A\$'000)	Level 2 (A\$'000)	Level 3 (A\$'000)
Short Term Securities	4,401	2,185	2,216	-
Australian Fixed Interest	2,235	42	2,193	-
International Fixed Interest	1,396	8	1,388	-
Australian Equities	9,271	8,719	549	3
International Equities	10,891	8,499	2,392	-
Property	3,711	788	609	2,314
Alternatives	9,895	421	5,333	4,141
Total	41,801	20,663	14,679	6,459

Level 1 - quoted prices in active markets for identical assets or liabilities. The assets in this level are listed shares; listed unit trusts.

Level 2 - inputs other than quoted prices observable for the asset or liability either directly or indirectly. The assets in this level are cash; notes; government, semi-government and corporate bonds; unlisted trusts where quoted prices are available in active markets for identical assets or liabilities.

Level 3 - inputs for the asset or liability that are not based on observable market data. The assets in this level are unlisted property; unlisted shares; unlisted infrastructure; distressed debt; hedge funds.

Derivatives, including futures and options, can be used by investment managers. However, each manager's investment mandate clearly states that derivatives may only be used to facilitate efficient cashflow management or to hedge the portfolio against market movements and cannot be used for speculative purposes or gearing of the investment portfolio. As such managers make limited use of derivatives.

The percentage invested in each asset class at the reporting date is:

As at	30 June 2018
Short Term Securities	10.5%
Australian Fixed Interest	5.3%
International Fixed Interest	3.3%
Australian Equities	22.2%
International Equities	26.1%
Property	8.9%
Alternatives	23.7%
Total	100.0%

G. FAIR VALUE OF FUND ASSETS

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

The disclosures below relate to total assets of the Pooled Fund.

The fair value of the Pooled Fund assets as at 30 June 2018 include \$97.7m (2017: \$354m) in NSW government bonds.

NOTE 25. SUPERANNUATION CONTINUED

H. SIGNIFICANT ACTUARIAL ASSUMPTIONS AT THE REPORTING DATE

As at	30 June 2018
Discount rate	4.17%
Salary increase rate (excluding promotional increases)	2.7% pa for 2018/19; 3.2% pa thereafter.
Rate of CPI increase	2.25% pa for 2018/19 and 2019/20; 2.5% pa thereafter.
Pensioner mortality	The pensioner mortality assumptions are those to be used for the 2018 actuarial investigation of the Pooled Fund. These assumptions will be disclosed in the actuarial investigation report which will be available on the Trustee's website when the investigation is complete. The report will show the pension mortality rates for each age. Alternatively, the assumptions are available on request from the Trustee

SENSITIVITY ANALYSIS

The entity's total defined benefit obligation as at 30 June 2018 under several scenarios is presented below. The total defined benefit obligation disclosed is inclusive of the contribution tax provision which is calculated based on the asset level at 30 June 2018.

Scenarios A to F relate to sensitivity of the total defined benefit obligation to economic assumptions, and scenarios G and H relate to sensitivity to demographic assumptions.

	Base Case	Scenario A -1.0% Discount Rate	Scenario B +1.0% Discount rate
Discount rate	as above	as above -1.0% pa	as above +1.0% pa
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$)	195,814	221,611	174,531

	Base Case	Scenario C +0.5% rate of CPI Increase	Scenario D -0.5% rate of CPI Increase
Discount rate	as above	as above	as above
Rate of CPI increase	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Salary inflation rate	as above	as above	as above
Defined benefit obligation (A\$)	195,814	207,132	185,444

	Base Case	Scenario E +0.5% salary Increase rate	Scenario F -0.5% salary Increase rate
Discount rate	as above	as above	as above
Rate of CPI increase	as above	as above	as above
Salary inflation rate	as above	above rates plus 0.5% pa	above rates less 0.5% pa
Defined benefit obligation (A\$)	195,814	196,954	194,716

	Base Case	Scenario G Lower Mortality ¹	Scenario H Higher Mortality ²
Defined benefit obligation (A\$)	195,814	198,053	194,253

¹ Assumes the short term pensioner mortality improvement factors for years 2018-2023 also apply for years after 2023

² Assumes the long term pensioner mortality improvement factors for years post 2023 also apply for the years 2018 to 2023

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements. No explicit asset-liability matching strategy is used by the Trustee.

NOTE 25. SUPERANNUATION CONTINUED

I. FUNDING ARRANGEMENTS

Employer contributions to the defined benefit section of the plan are based on the recommendations of the plan's actuary. The last triennial update used to calculate the gross superannuation liability of the various defined benefit schemes was undertaken at 30 June 2015.

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

- Expected rate of return on fund assets backing current pension liabilities of 7.4% pa (2017: 7.4% pa)
- Expected rate of return on fund assets backing other liabilities of 6.4% pa (2017: 6.4% pa)
- Expected salary increase rate of 2.7% pa (2017: 2.7% pa)
- Expected rate of CPI increase of 2.2% pa (2017: 2.2% pa).

	SASS \$'000	SANCS \$'000	SSS \$'000
Expected employer contributions for the Economic Entity	3,105	1,301	968

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

MATURITY PROFILE OF DEFINED BENEFIT OBLIGATION

The weighted average duration of the defined benefit obligation for the Economic Entity is 12.6 years (2017: 13.6 years).

In accordance with AASB 1056 Superannuation Entities, 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 30 June 2018 and a deficit of \$5.7m (2017: \$13.4m) was reported for the Economic Entity

Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
2018			
Accrued benefits	39,045	4,541	90,926
Net market value of fund assets	(29,206)	(1,335)	(98,257)
Net (surplus)/deficit	9,839	3,206	(7,331)
2017			
Accrued benefits	37,508	4,658	94,333
Net market value of fund assets	(27,038)	(1,128)	(94,929)
Net (surplus)/deficit	10,470	3,530	(596)

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 26. CONSULTANCIES

The total amount paid or payable to consultants engaged by Hunter Water during the reporting period was \$3.4m (2017: \$2.6m). No fees were paid by the Controlled Entity during the year.

NOTE 27. CONTINGENT LIABILITIES

The Economic or Parent Entity has not identified any contingent liabilities at balance date (2017: nil).

No significant claims for damages are being negotiated (2017: nil). This does not include matters covered by insurance.

NOTE 28. AUDITORS' REMUNERATION

Notes	Economic Entity	
	2018 \$'000	2017 \$'000
Audit Office of New South Wales		
Audit review of financial statements	235	231
Other audit fees	-	15
	235	246

NOTE 29. 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 (2017: 100%). Shares held by the Parent Entity in the Controlled Entity total \$0.9m (2017: \$0.9m). All shares held are held at cost by the Parent Entity.

At 30 June 2018 an intercompany loan existed between the Parent Entity and Controlled Entity with \$5.8m payable to the Controlled Entity (2017: \$5.8m). The Controlled Entity ceased operations and is currently being wound up. At the conclusion of that process the loan will be fully repaid.

The Controlled Entity was incorporated in Australia.

No financial transactions have taken place in the twelve months to 30 June 2018.

B. THE FOLLOWING RELATED PARTY TRANSACTIONS OCCURRED DURING THE FINANCIAL YEAR

Entity	Economic Entity	
	2018 \$'000	2017 \$'000
Purchases		
Labour Hire		
- Peoplefusion Pty Ltd	993	1,157
Purchase of goods		
- Global Valve Technology Ltd	257	-
Membership and Subscription Fees		
- WSAA	-	210*
Sponsorships, Consultancies & Researches		
- University of Newcastle	-	203**
Outstanding balances with Related Parties		
Payables		
- Peoplefusion Pty Ltd	68	43

* WSAA was not a related party of Hunter Water in 2017-18 but Hunter Water made payments to WSAA. The related party relationship ceased in 2015-16.

** UON was not a related party of Hunter Water in 2017-18 but Hunter Water made payments to UON totaling \$0.4m. The related party relationship ceased in 2016-17.

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

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

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

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

Compensation is shown in Note 31 for the directors and the senior executives only. The NSW Legislature pays the Ministers their compensation and this is not reimbursable from the Corporation.

Disclosures relating to key management personnel are set out in Note 31.

NOTE 30. 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. It operates predominantly in the one geographical segment of NSW in Australia.

NOTE 31. KEY MANAGEMENT PERSONNEL DISCLOSURES

A. DIRECTORS AND ANY DIRECTOR RELATED ENTITIES

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

Mr Terry Lawler	Chairman
Dr Jim Bentley	Managing Director
Prof Maree Gleeson	
Mr Peter Daghish	
Ms Ruth Lavery	(retired on 22 June 2017 and reappointed on 31 August 2017)
Mr Grahame Clarke	(retired on 22 June 2017 and reappointed on 31 August 2017)
Ms Christine Feldmanis	
Ms Michelle Vanzella	(from 22 February 2018)
Dr Rod Harrison	(from 22 February 2018)

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:

Dr Jim Bentley	Hunter Water Corporation	Managing Director
Mr Victor Prasad	Hunter Water Corporation	Executive Manager Customer Strategy and Retail
Mr Richard Harris	Hunter Water Corporation	Chief Information and Technology Officer
Mr Darren Cleary	Hunter Water Corporation	Chief Investment Officer
Mr Clint Thomson	Hunter Water Corporation	Executive Manager Service Delivery for Customers
Mr Peter Kembrey	Hunter Water Corporation	Company Secretary, Executive Manager Corporate and Legal
Ms Fiona Cushing	Hunter Water Corporation	Chief Financial Officer (to 30 April 2018)
Mr Stephen Dunkerley	Hunter Water Corporation	Interim Chief Financial Officer (from 24 April 2018)
<i>Ms Jennifer Hayes</i>	<i>Hunter Water Corporation</i>	<i>Chief Financial Officer (from 25 July 2018)</i>
Ms Fiona Cushing	Hunter Water Australia Pty Limited	Acting General Manager (to 30 April 2018)
Mr Peter Kembrey	Hunter Water Australia Pty Limited	Acting General Manager (from 1 May 2018)

C. KEY MANAGEMENT PERSONNEL COMPENSATION

	Economic Entity	
	2018 \$'000	2017 \$'000
Short term employee benefits	2,378	2,198
Termination payments	153	61
Long term employee benefits	-	-
Post employment benefits	214	196
	2,745	2,455

During the year the entity incurred \$0.1m (2017:Nil) in key management personnel services that were provided by a separate entity, Watermark Search International.

NOTE 32. CONTROLLED ENTITIES

PARENT ENTITY

Hunter Water Corporation

CONTROLLED ENTITIES

	Equity Holding	
	2018	2017
Hunter Water Australia Pty Limited (incorporated in Australia)	100%	100%

Shares held by the Parent Entity in the Controlled Entity total \$0.9m (2017: \$0.9m). All shares held are held at cost by the Parent Entity.

The controlled entity did not have any operational transactions during the year ended 30 June 2018.

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

NOTE 33. FINANCIAL RISK MANAGEMENT

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.

FINANCIAL INSTRUMENT CATEGORIES:

Financial Assets	Note	Category
Cash and cash equivalents	8	N/A
Trade and other receivables	9	Loans and receivables at amortised cost
Financial Liabilities	Note	Category
Borrowings	17	Financial liabilities measured at amortised cost
Trade and other payables	15	Financial liabilities measured at amortised cost

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 manage the debt portfolio. The current management agreement with NSW TCorp commenced on 1 December 2010, prior to that date NSW TCorp held only an advisory role.

An analysis of the various risks is outlined below:

A. MARKET RISK

(I) INTEREST RATE RISK

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities. The Economic Entity's debt portfolio is all held at fixed interest rates, with the exception of a small amount of CPI linked debt. The \$30m overdraft facility held with NSW TCorp has a floating rate.

The weighted average interest rates are shown below:

ECONOMIC ENTITY

2018	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	1.33%	33,195	-	8	33,203
Trade and other	5.50%	-	10,060	28,454	38,514
		33,195	10,060	28,462	71,717
Financial Liabilities					
Borrowings	2.80%	-	1,129,366	-	1,129,366
Trade and other payables	n/a	-	-	91,799	91,799
		-	1,129,366	91,799	1,221,165

NOTE 33. FINANCIAL RISK MANAGEMENT CONTINUED

The comparative information with regard to the 2017 year is as follows:

2017	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets					
Cash and cash equivalents	1.07%	11,659	-	8	11,667
Trade and other receivables	5.75%	-	10,345	27,894	38,239
		11,659	10,345	27,902	49,906
Financial Liabilities					
Borrowings	3.05%	-	1,101,356	-	1,101,356
Trade and other payables	n/a	-	-	72,202	72,202
		-	1,101,356	72,202	1,173,558

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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Economic Entity				
Cash and Cash Equivalents				
If Interest rates are 100 basis points higher	174	52	174	52
If Interest rates are 100 basis points lower	(174)	(52)	(174)	(52)
Borrowings				
If Interest rates are 100 basis points higher	(1,105)	(1,210)	(1,105)	(1,210)
If Interest rates are 100 basis points lower	1,105	1,210	1,105	1,210

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 that incorporate future projections for a period of at least 10 years.

As part of its neutral benchmark debt portfolios the Economic Entity has also established the specific target for when total debt exceeds more than \$50m (2017: \$50m), that no more than 25% 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 the Board for endorsement the proposed financial accommodation that will be required for the coming years (this is then required to be approved by the Treasurer of NSW).

In order to further manage liquidity risk, the Economic Entity has a \$30m (2017: \$30m) overdraft facility with NSW TCorp which is used to meet short-term cash flow requirements as deemed by management. Any surplus funds are invested in an at call deposit ("11am") account, also held with NSW TCorp.

While current liabilities exceed current assets at 30 June 2018 the Economic Entity continues to trade as a going concern. The Economic Entity has sufficient funds to meet its obligations until 30 June 2019.

During the current and prior years, there were no defaults or breaches on any loans payable. No assets have been pledged as collateral. Management have assessed the Economic Entity's exposure to liquidity risk as insignificant based on prior period data and current assessment of risk.

Thus, the Economic Entity's financial statements have been prepared on a going concern basis.

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 NSW Treasury Circular NSWTC 11/12: Payment of Accounts. NSWTC 11/12 specifies that supplier payments are to be made within 30 days unless an alternative period is provided.

NOTE 33. FINANCIAL RISK MANAGEMENT CONTINUED

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

Economic Entity	Carrying Amount	Total Contractual Cash Flows	Within 1 Year	Maturity Dates			Over 5 Years
				Within 1-2 Years	Within 2-5 Years	Over 5 Years	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2018							
Trade and other payables	91,799	91,799	91,799	-	-	-	-
Borrowings	1,129,366	1,327,293	104,367	225,397	459,965	537,564	
Total	1,221,165	1,419,091	196,165	225,397	459,965	537,564	
2017							
Trade and other payables	72,202	72,202	72,202	-	-	-	-
Borrowings	1,101,356	1,313,783	121,018	100,785	524,836	567,143	
Total	1,173,558	1,385,985	193,220	100,785	524,836	567,143	

C. CREDIT RISK

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

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

The only financial assets that are past due or impaired are sales receivables of the Statement of Financial Position.

	Economic Entity		
	Total ¹	Past Due but Not Impaired ₁	Considered Impaired
	\$'000	\$'000	\$'000
30- 90 days overdue	6,958	6,958	-
> 90 days overdue	3,102	2,860	242

¹ The ageing analysis excludes statutory receivables and prepayments, 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.

NOTE 34. EVENTS OCCURRING AFTER BALANCE DATE

No other matters or circumstances other than those noted above 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.

END OF AUDITED FINANCIAL STATEMENTS.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Hunter Water Corporation and pursuant to Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983*, in the opinion of the Directors the accompanying financial statements:

- a) Exhibit a true and fair view of the financial position of Hunter Water Corporation as at 30 June 2018, and its financial performance for the year then ended.
- b) Comply with the *Public Finance and Audit Act 1983*, the *State Owned Corporation's Act 1989*, *Public Finance and Audit Regulation 2015*, the Australian Accounting Standards (which include Australian Accounting Interpretations).
- c) There are reasonable grounds to believe that Hunter Water Corporation 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.



Terry Lawler AO
Chairman



Jim Bentley
Managing Director

Dated 30 August 2018
Newcastle

MORE ABOUT OUR BUSINESS

Further information on our directors and committees, employees, financial performance and legislation.

DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Hunter Water’s Board of Directors is comprised of up to nine members, including the Managing Director, appointed by the voting shareholders, currently the NSW Treasurer and the NSW Minister for Finance, Services and Property. 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 the current Directors refer to the Directors’ Report in the Financial Statements.

COMMITTEES AND MEMBERSHIPS

Committee and Membership	Corporate Support and Contact	Meeting Frequency	Major Areas Coverage
Audit and Risk C Feldmanis (Chair) T Lawler M Gleeson R Lavery R Harrison J Bentley (ex officio)	Claire Drelincourt	Four meetings per year and as required	To assist the Board with external financial reporting, internal control and risk management, external audit, internal audit, compliance and ethics, and fraud and corruption prevention and detection.
Corporate Governance T Lawler (Chair) P Dalglish C Feldmanis R Harrison J Bentley	Peter Kembrey	Four meetings per year and as required	To ensure effective corporate governance within Hunter Water and to advise the Board on remuneration policy and matters concerning Board evaluation and composition.
Science, Environment and Human Health M Gleeson (Chair) G Clarke M Vanzella J Bentley	Anna Lundmark	Four meetings per year	To assist the Board by providing advice on scientific, environmental science and human health matters and assessment of scientific innovations affecting the current and future operations of Hunter Water, social and natural environment.
Investment Peter Dalglish (Chair) T Lawler G Clarke R Lavery M Vanzella J Bentley	Stuart Horvath	Four meetings per year	To assist the Board in fulfilling its responsibilities in relation to investment of funds, governance, composition and delivery performance of allocated funds.

COMMUNITY CONSULTATIVE FORUM MEMBERSHIP AND ATTENDANCE

Representative	Organisation	Attendance at Meetings Held	
		A	B
Cr Brian Adamthwaite	Lake Macquarie City Council	1	3
Mr Rick Banyard	Property Owners Association	2	3
Mr David Beins		1	3
Ms Linda Bowden	Save the Williams River Coalition	3	3
Cr Melanie Dagg (Alt Cr Mark Lyons)	Cessnock City Council	3	3
Mr Geoff Dingle	Medowie Progress Association	3	3
Cr Jason Dunn ^a	Newcastle City Council	1	2
Dr Troy Gaston	University of Newcastle	1	3
Mr James Hopson	Williams River Water Users Association	3	3
Ms Anita Hugo (Alt Jon Novoselac)	Hunter Business Chamber	1	3
Cr Paul Le Mottee	Port Stephens Council	3	3
Mr William Lennox	Maitland Masonic Centre	2	3
Ms Jean McGarry	Lake Macquarie Sustainable Neighbourhood Alliance	3	3
Mayor Tracey Norman ^b	Dungog Shire Council	2	2
Mr Joe Thompson	Hunter Local Land Services	0	3
Mr Kevin McDonald ^c	Hunter Region Botanic Gardens	1	1
Ms Joan Lambert ^d	Newcastle Older Women's Network	0	1

A=Number of meetings attended.

B=Number of meetings held during the time the member was part of the committee.

a= Newcastle City Council advised that Cr Dunn had being appointed as their representative via letter on 3 November 2017.

b= Mayor Tracey Norman was appointed in February 2018 following the September 2017 Local Government Election.

c= Mr McDonald advised of his resignation from the CCAG on 1 June 2017. His resignation was effective following the October meeting of the Group.

d= Ms Lambert advised that the Newcastle Older Women's Network had been disbanded and resigned on 20 January 2018.

EMPLOYEES

AVERAGE TOTAL REMUNERATION PACKAGE OF EXECUTIVES AT 30 JUNE 2018

SES Band (equivalent)	Average Remuneration		Gender 2018		Gender 2017	
	2018 (\$)*	2017 (\$) #	Female	Male	Female	Male
Above Band 4	546,739	-	-	1	-	-
Band 4	-	-	-	-	-	-
Band 3	-	461,322	-	-	-	1
Band 2	282,005	263,631	-	2	1	2
Band 1	257,876	232,197	-	3	-	3
Total			-	6	1	6

* Including superannuation and performance pay.

Includes salary only (report updated 22/11/2018)

Note: As a State Owned Corporation, Hunter Water does not use NSW Senior Executive Service (SES) remuneration package Bands.

In 2017-18, 3.29% of Hunter Water's employee-related expenditure was related to senior executives compared with 4.27% in 2016-17.

EXECUTIVE POSITIONS AT 30 SEPTEMBER 2018

Senior Officer	Position	Qualifications
Jim Bentley	Managing Director	BSc (Chemical Engineering), PhD (Chemical Engineering)
Victor Prasad	Executive Manager Customer Strategy and Retail	BE (Civil)
Darren Cleary	Chief Investment Officer	BE, ME
Richard Harris	Chief Information and Technology Officer	BA (Computer Science)
Peter Kembrey	Executive Manager Corporate and Legal	BA, LLB, Dip. Legal Prac.
Clint Thomson	Executive Manager Service Delivery for Customers	Grad Dip MEM, BE (Mech)
Jennifer Hayes	Chief Finance Officer	BBus (Accounting), MBA, CPA, GAICD

WORKFORCE PROFILE

	2014	2015	2016	2017	2018
Males	326	314	322	325	316
Females	140	147	134	141	143
Total	466	461	456	466	459
Permanent	405	394	393	406	394
Temporary	3	15	9	5	8
Part-time	58	52	54	55	57
Total	466	461	456	466	459
Redundancies	7	8	13	2	4
Recruitment	24	30	39	46	34
Unplanned absences (%)	3.7	3.4	3.1	3.2	2.8

WORKFORCE DIVERSITY

The aim of our Diversity and Inclusion strategy is to leverage diversity and foster inclusion in order to ensure all our people feel valued and respected. It has six focus areas – Gender Equality, Supporting Indigenous Australians, Abilities, Supporting LGBTIQ+ staff and community members, Generational Diversity, and Cultural and Linguistic Diversity.

HUMAN RESOURCES POLICIES AND PRACTICES

Policy Category	Policies and Standards
Attraction and Recruitment	Recruitment, Selection and Appointment Policy Recruitment and Selection Standard EEO Standard
Training and Development	Learning and Development Policy Learning and Development Standard Education Assistance Standard Young Professionals Standard
Performance and Reward	Performance Management, Misconduct and Disciplinary Policy Remuneration Policy Performance Management Standard Misconduct and Discipline Standard Remuneration and Salary Band Review Standard Annual Incentive Standard
General Employment Conditions	Redundancy and Redeployment Policy Redundancy and Redeployment Standard Senior Employee Benefits Policy Leave Standard Parental Leave Standard Community Service Leave Standard Travel and Accommodation Standard Flexible Work Arrangements Standard Conflict of Interest Standard Corporate Device Policy Damage to Loss of Personal Effects Policy Dress Code Standard Fee/Licence Fee Standard Head Office Parking Standard Human Resources Policy Framework Internal Reporting Standard Organisation Security Policy
Ethics and Behaviour	Bullying and Harassment Prevention Policy Bullying and Harassment Prevention Standard Grievance Resolution Policy Code of Conduct Standard Code of Conduct Policy Grievance Resolution Standard Social Media Standard Employee Identification Card Standard Employee Records Standard External Notification Standard Diversity & Inclusion Policy Diversity & Inclusion Standard Fraud and Corruption Control Standard Gifts and Benefits Standard

TRENDS IN THE REPRESENTATION OF EEO GROUPS¹

EQUAL EMPLOYMENT OPPORTUNITY (EEO) TARGET GROUPS:

	Benchmark/ Target	% of Total Employees ²				
		2014	2015	2016	2017	2018
Women	50	29	30	29	28	29.25
Aboriginal people and Torres Strait Islanders	2.6	0.6	0.6	0.6	1.1	1.7
People whose first language was not English	19	4.5	4.8	4.6	4.3	4.5
People with a disability	N/A	5.4	4.7	5	2.2	1.7
People with a disability requiring work-related adjustment	1.5	4.5	4	4.1	1.9	1.3

¹ Employee numbers are as at 30 June 2018.

² Excludes casual employees.

Note: The significant variation in participation of people with a disability and people with a disability requiring adjustment from 2016 to 2017 is due to an audit and review of employee data. The review included a move to employees self identifying.

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.

TRENDS IN THE DISTRIBUTION OF EEO GROUPS¹²³

DISTRIBUTION INDEX:

	Benchmark/ Target	2014	2015	2016	2017	2018
Women	100	88	88	89	91	91
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	66	72
People whose first language was not English	100	103	105	101	103	101
People with a disability	100	98	91	95	85	90
People with a disability requiring work-related adjustment	100	96	90	93	84	82

¹ Employee numbers are as at 30 June 2018.

² Excludes casual employees.

³ A Distribution index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other employees. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other employees. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution index is automatically calculated by the software provided by ODEOPE. N/A displayed where there are less than 20 employees in a particular EEO group.

Note: 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.

MULTICULTURAL POLICIES AND SERVICES PROGRAMME (PREVIOUSLY EAPS)

All employees, customers and stakeholders have access to corporate services where required. In the areas of recruitment, selection, promotion, transfer, training and development and conditions of service, merit based principles apply. We continue to seek ongoing applications from people from culturally and linguistically diverse backgrounds.

GENDER EQUALITY

WiMBA – Women in Masters of Business Administration (MBA)

This year for the first time we co-sponsored two female employees with the University of Newcastle to commence their MBA. This WiMBA programme focuses on encouraging diversity in leadership by helping Hunter Water identify female employees in leadership and supporting them through an MBA. We will be committing to an annual sponsorship on an ongoing basis.

WOMEN'S MENTORING PROGRAMME

A pilot Women's Mentoring Programme was initiated to support high potential women realise that potential, focusing on aspects such as career aspirations, communication skills, self-confidence and coping with stress.

ABORIGINAL AND TORRES STRAIT ISLANDER PEOPLE

For NAIDOC Week Hunter Water produced a video highlighting our commitment to Aboriginal and Torres Strait Islander communities, including employment and protection of their heritage. Hunter Water is also sponsoring two indigenous students from the University of Newcastle and has committed to this sponsorship of two students every year on an ongoing basis.

ABILITIES

Hunter Water has sponsored a student with a disability from the University of Newcastle and we have committed to this sponsorship annually on an ongoing basis.

Hunter Water has joined the Australian Network on Disability which is a member-based for-purpose organisation that supports organisations to advance the inclusion of people with a disability in all aspects of business. We will be using its tool, the Access and Inclusion Index, to gain insights into our strengths and the maturity of our journey to be accessible and inclusive to people with disability.

LGBTIQ+

Hunter Water's customer service centres in Honeysuckle, Maitland and Lake Macquarie have been registered as Welcoming Places. As a registered Welcoming Place we receive a sticker to display in our windows to let people know that LGBTIQ+ diversity is welcomed and celebrated in our business.

FLEXIBILITY

14% of our workforce works part-time or takes up other flexible working arrangements.

CULTURAL DIVERSITY

9% of our workforce was born overseas and 9% identify as non-Australian.

WOMEN AT HUNTER WATER

The percentage of women at Hunter Water increased from 31% to 33% from October 2017 to August 2018 (143 to 150). The percentage of women with delegated authority increased from 5% to 7% from October 2017 to August 2018 (24 to 32). The percentage of women at Group Manager level and above increased from 26% to 31% from October 2017 to August 2018 (8 to 11).

INDIGENOUS

1.7% of our workforce identify as Aboriginal or Torres Strait Islander.

EMPLOYEE SAFETY PERFORMANCE

	2013-14	2014-15	2015-16	2016-17	2017-18
Lost time frequency rates	2.8	4.1	5.1	1.3	4.5
Total hours lost	1,079	2,762	3,930	1,053	370
Lost time injuries	5	4	5	1	7
First Aid injuries	26	45	35	7	40
Medical Treatment Injuries	24	22	25	7	12
Prosecutions	0	0	0	0	0

The most positive aspects in WHS performance have been the reduction in total hours lost to workers compensation from 1,053 to 370. There has been an increased focus on preventative injury management and increased engagement of supervisors to provide their workers with early intervention health services. There has been particular focus on managing all injuries, including non-work related injuries, in a pro-active manner. This has had a positive impact on safety culture and combined with the increasing focus on treating musculoskeletal injuries early, there has been a positive impact on injury rates.

OVERSEAS TRAVEL COMMENCED DURING 2017-18

In 2017-18 there were six Hunter Water overseas trips that received Ministerial approval:

25/07/17: Jim Bentley (MD) travel to New Zealand (Auckland) to attend a University of Auckland Centre for Infrastructure Research (CIR) Workshop. Funded by University of Auckland.

23/08/17 - 28/08/17: Jim Bentley (MD) travel to United States of America to deliver opening presentation and participate in a Water Research Foundation Workshop on resilient water infrastructure. Funded by Cranfield University and Water Research Foundation.

04/09/17 - 14/09/17: Stuart Horvath (Manager Investment & Asset Planning) travel to Nepal to participate in the Australian Water Partnership between Kathmandu Upatyaka Khanepani Limited and the Water Services Association Australia. Funded by the Australian Water Partnership.

11/12/17 - 15/12/17: Stuart Horvath (Manager Investment & Asset Planning) travel to Nepal to participate in the Australian Water Partnership between Kathmandu Upatyaka Khanepani Limited and the Water Services Association Australia. Funded by the Australian Water Partnership.

12/12/17: Jim Bentley (MD) travel to New Zealand to attend a University of Auckland workshop to coordinate joint research initiatives perused by Hunter Water, and to attend meetings with the CEO and senior executive of WaterCare and other NZ partners. Funded by Hunter Water.

06/04/18 - 21/04/18: Jim Bentley (MD) travel to United Kingdom and France to facilitate sessions with the UK Collaboratorium for Research on Infrastructure and Cities (CKCRIC) at the University of Bristol, Cranfield University and University College London, and to attend the Global Water Summit in Paris. Funded by University of Bristol, Global Water Leaders' Group and Hunter Water.

CUSTOMER AND SERVICE PERFORMANCE

CUSTOMER BASE

Customer	Number of Properties 2017-18	Income Raised 2017-18 \$m Actual
Residential	188,402	209.52
Multi-Residential ¹	45,374	36.00
Commercial	10,031	31.94
Industrial	1,196	15.07
Bulk Supply	5	1.54
Other ²	3,256	19.13
Total	248,264	313.20

¹ Includes total number of individual flats.

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

RAINFALL RECEIVED (MILLIMETRES) - 12 MONTHS ENDING 19 APRIL FOR EACH YEAR¹

Year	Newcastle	Grahamstown	Chichester
2013-14	928	813	863
2014-15	990	901	1,133
2015-16	1,369	1,635	1,615
2016-17	1,037	982	1,239
2017-18	750	826	955
Long Term Average	1,117	1,044	1,264
Years of Record	153	51	91

¹ Hunter Water reports on water supply and water consumption information for the period 20 April to 19 April. This timeframe allows a more accurate estimate of customer water use which relies on the four monthly cycle of billing meter reads.

WATER SUPPLIED (MEGALITRES) - 12 MONTHS ENDING 19 APRIL FOR EACH YEAR

Source	2014	2015	2016	2017	2018
Chichester	27,086	23,580	19,606	23,026	21,843
Tomago	1,123	0	5,993	1,255	1,269
Grahamstown	40,167	40,702 ³	39,837	43,057	46,758
Total Major Sources	68,376	64,282³	65,437	67,337	69,869
Anna Bay ¹	2,295	1,941	2,195	1,931	1,786
Lemon Tree Passage	812	792	828	834	867
Total²	71,483	67,015	68,460	70,102	72,522

¹ Above figures for Anna Bay include water supplied from the Glovers Hill and the Anna Bay Water Treatment Plants.

² Total includes losses from Dungog Water Treatment Plant and process water used at Grahamstown Water Treatment Plant.

³ Grahamstown sourced water and Total Major Sources for 2014-15 have been updated.

WATER CONSUMPTION (MEGALITRES) - 12 MONTHS ENDING 19 APRIL FOR EACH YEAR

	2014 ML	2014 (%)	2015 ML	2015 (%)	2016 ML	2016 (%)	2017 ML	2017 (%)	2018 ML	2018 (%)
Domestic	40,150	56%	37,723	56%	37,936	55%	39,834	57%	42,737	58%
Non-Domestic	21,306	30%	18,572	28%	18,171	26%	19,062	27%	19,374	26%
Bulk Supply	299	0%	380	0%	484	1%	487	1%	516	1%
Total Consumption	61,755	86%	56,675	84%	56,591	82%	59,383	84%	62,627	86%
Authorised (HWC own use)	2,139	3%	2,045	3%	2,450	4%	1,924	3%	2,051	3%
Apparent Losses	1,333	2%	1,225	2%	1,225	2%	1,272	2%	1,340	2%
Real Losses	6,523	9%	7,327	11%	8,514	12%	7,917	11%	7,177	10%
Gross Non-Revenue Generating	9,995	14%	10,597	16%	12,189	18%	11,113	16%	10,569	14%
Total Supply	71,750¹		67,272¹		68,780¹		70,496¹		73,196	

¹ Includes water received from a bulk supplier: 267ML in 2014, 257ML in 2015, 321ML in 2016, 393ML in 2017 and 675ML in 2018.

WATER SYSTEM INCIDENTS

Incident / Solution	2013-14	2014-15	2015-16	2016-17	2017-18
Poor pressure	63	76	80	66	123
Pump problem	3	40	14	4	7
Seepage	178	234	296	198	132
Main flush	1,191	1,264	2,185	2,211	1846
Main repair	1,479	1,431	1,335	1,248	1522
Hydrant defect	866	905	911	1,038	1066
Valve defect	237	229	290	230	269
Repair pathcock/maincock	2,788	2,793	3,160	3,080	3179
Meter defect	694	994	740	651	544
Service defect repaired by HWC Operations staff	1,555	1,958	2,035	2,367	2517
Service defect repaired by private plumber	688	899	806	746	705
Complaint unconfirmed	373	416	459	398	397
Other	1,417	1,519	1,537	1,439	1366
Tap rewashers	45	26	59	30	27
Trunkmain repairs	2,666	2,856	2,463	1,325	847
Total	14,243	15,640	16,370	15,031	14,547

WATER TRANSPORT SYSTEM RELIABILITY

	2013-14	2014-15	2015-16	2016-17	2017-18
Main breaks per 100kms main - trunkmains included in length of mains	30.21 ¹	28.9	26.8	24.8	30.0
Discoloured water complaints per 1000 properties connected (tenancy)	2.9	2.7	3.6	3.8	3.5

¹ 2013-14 results now include breaks in water services as well due to a change in the WSAA definition.

WASTEWATER SYSTEM INCIDENTS

Incident/Solution	2013-14	2014-15	2015-16	2016-17	2017-18
Chokage cleared - main	2,529	2,515	2024	2,374	2,464
Chokage cleared - branch	2,175	2,205	1917	2,129	2,315
Private plumbers job ¹	490	586	532	449	424
House drains cleared	4	4	5	6	4
Storm overflow	239	460	436	60	224
Gravity sewer break	35	46	43	56	51
Rising main break	40	45	29	30	32
Pump Station malfunction	6	66	9	3	3
Vacuum Sewer Jobs	21	46	36	40	8
Pump Effluent Line	10	12	14	5	10
No work required	117	112	122	128	109
Complaint unconfirmed	187	244	379	281	278
Charge job ²	1	1	1	0	1
Other	1,091	1,219	743	609	578
Total	6,945	7,561	6,290	6,170	6,501

¹ Problem in customer's private drains or fittings.

² Completed by Hunter Water and customer billed.

WASTEWATER TRANSPORT SYSTEM RELIABILITY 2017-18

	Number of Main Breaks and Chokes	Length of Sewermain (km)	Ratio of Main Breaks/Chokes Per 100km of Main
Total	2,590	5,072	50.6

	Number of Property Breaks and Chokes	Number of Wastewater Properties	Ratio of Property Breaks and Chokes per 1,000 Properties
Total	2,387	239	10.0

GENERAL STATISTICS

Water	2013-14	2014-15	2015-16	2016-17	2017-18
Population in area ^{1,2}	572,092	578,523	583,659	589,955	591,192
Population supplied with water ¹	550,347	558,390	563,611	571,389	577,856
Properties where water is available ³	242,590	247,355	250,875	255,016	265,263
Properties connected to water (metered) ³	235,835	238,822	242,277	246,011	250,314
Capacity of major sources (ML)	276,686	276,686	276,686	276,686	276,686
Total supply from sources (ML) ⁴	71,750	67,272	68,781	70,103	72,522
Average day net supply (ML) ⁴	196.6	184.3	187.9	192.1	198.7
Maximum day net supply (ML) ⁴	315.5	277.7	271.1	299.7	330.0
Maximum week net supply (ML/day) ⁴	293.4	251.4	253.8	263.1	290.4
Minimum day net supply (ML) ⁴	142	140	123.7	132.3	132.3
Average consumption per residential tenement (kl/annum)	181.3	167.8	166.3	172.0	179.0
Five year rolling average consumption ⁵	175.7	172.5	170.8	172.6	173.3
Watermains laid during year (km)	65.5	59.1	50.4	67.5	71.5
Watermains abandoned during year (km)	21.2	3.5	11.7	22.6	22.0
Watermain length revisions during the year (km)	-2.2	-3.3	0.5	1.4	-8.5
Total watermains in service (km)	4,893	4,945	4,985	5,031	5,072
Length of watermain per connected property (m)	20.75	20.71	20.58	18.18	18.33
Water supplied free of charge: charitable, public and miscellaneous purposes (kl)	458,848	433,560	416,211	399,487	441,900
Water supplied free of charge: dollar value (\$)	977,346	949,497	923,989	898,846	1,016,369
Wastewater	2013-14	2014-15	2015-16	2016-17	2017-18
Population supplied with water and sewer ¹	527,692	535,010	539,585	546,348	554,054
Properties where sewer is available ³	232,861	235,830	239,308	243,244	255,099
Properties connected to sewer ³	224,326	227,514	230,618	234,376	238,559
Sewermain laid during the year (km)	54.5	44.3	52.5	53.7	70.6
Sewermain abandoned during the year (km)	3.5	3.5	5.8	4.5	6.1
Sewermain length revisions during the year (km)	0.6	-0.3	3.6	3.7	6.7
Total sewermain in service (km)	4,903.1	4,944.8	4,995.0	5,048.0	5,119
Length of sewermain per liable property (m)	21.1	21.0	20.6	20.5	20.5
Wastewater supplied free of charge: dollar value (\$)	144,155	138,048	134,104	137,136	154,433
Drainage	2013-14	2014-15	2015-16	2016-17	2017-18
Properties liable ³	69,287	69,732	69,978	70,620	71,218

Dissection of Population - June 2018 ¹		2017-18	
Region	Population in Area	Served Water	Served Sewer
Newcastle	164,041	164,041	163,286
Lake Macquarie	204,799	206,018	199,096
Maitland	83,130	82,748	80,049
Cessnock	57,626	51,574	46,851
Port Stephens	72,314	69,795	63,736
Dungog	9,282	3,427	942
Sub Total	591,192	577,603	553,960
Singleton (Part Branxton)	-	253	94
Total	591,192	577,856	554,054

	2013-14	2014-15	2015-16	2016-17	2017-18
Ratio of properties connected to water and sewer, and water only ⁶	95.90%	95.80%	95.70%	95.60%	95.88%

¹ Population figures from 2013-14 have used Estimated Resident Population (ERP) from the Australian Bureau of Statistics.

² Population in area from 2013-14 includes population in Dungog Local Government Area.

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

⁴ Supply and consumption figures are based on Water Year, i.e. 12 months ending 19 April.

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

⁶ Includes five main local government areas only.

WASTE STATEMENT

Hunter Water continued to recycle waste from operational activities and construction projects wherever it is practical and cost effective to do so. During 2017-18 a total of 31,500 tonnes of solid waste was generated of which 50% was reused or recycled. Effective management of waste spoil from operational activities continues to be a major focus and removal of legacy landfill waste from Hunter Water land at Stockton to a licensed landfill has been a key project during 2017-18. Hunter Water is looking to drive sustainability initiatives across its operational activities and supply chains and improving waste management will continue to be an important focus area in the year ahead.

CONSUMER RESPONSE

The volume of customer complaints increased by 3% compared to last year. This increase is attributed to an increase in sewer odour / service complaints due to prolonged dry conditions with little rainfall for an unusually extended period.

WATER QUALITY

The volume of customer complaints is 24% lower than last year. This is attributed to the success of our improved customer experience strategies introduced for water quality issues: improved communication to customers regarding planned and unplanned outages (including increased use of social media), trialling of new processes including 'ice pigging' to clean mains, improved chlorine monitoring and distribution throughout the water network and improved management of tanker fill points.

WATER PRESSURE AND CONTINUITY

The volume of these complaints is on par with last year.

SEWER OVERFLOW AND ODOUR

Refer to Consumer Response.

BILLING

The volume of billing complaints has increased by 21% on last year. This increase is attributed to a change in water usage patterns over drier months rather than meter reading inaccuracies. The following initiatives were introduced to improve the customer experience related to billing complaints:

- Bill smoothing is an improved payment option for customers seeking more affordable scheduled fortnightly and monthly payments
- Additional resources are being made available to monitor and check bill calculations to minimise bill errors
- Provision of assistance to pay bills through a payment assistance scheme administered by external agencies such as St Vincent de Paul, Samaritans and Salvation Army
- Outreach visits to community agencies to engage face to face and promote awareness of assistance programs.

EXTERNAL COMPLAINTS

Hunter Water supports the operation of the Energy and Water Ombudsman of NSW (EWON) which is an independent complaint resolution organisation. This scheme provides customers with access to an external dispute resolution body offering an independent review of complaints – if required. External dispute volumes (Energy and Water Ombudsmen NSW - EWON) for 2017-18 were 5% lower than last year. This is attributed to Hunter Water's continued engagement with EWON and providing updates and information about customer matters more proactively.

COMMITMENT TRACKER

The Customer Commitment Tracker captures all complaints where Hunter Water has made a commitment to its customer for follow-up action.

TOTAL NUMBER OF REPORTABLE COMPLAINTS

TABLE 1 - TOTAL NUMBER OF REPORTABLE COMPLAINTS (EXCLUDING EWON)

	2013-14	2014-15	2015-16	2016-17	2017-18
Total Water and Sewer Complaints	1,577	1,506	1,160	764	872
Per 1,000 Properties	6.8	6.3	4.8	3.2	3.5

TABLE 2 - MAIN FEATURES OF REPORTABLE COMPLAINTS BY CATEGORY

	2013-14	2014-15	2015-16	2016-17	2017-18
Water quality	794	708	407	221	169
Per 1000 properties	3.4	3	1.7	0.9	0.7
Water services	17	15	13	4	21
Per 1000 properties	0.1	0.1	0.05	0	0.1
Sewer services	173	233	247	247	300
Per 1000 properties	0.8	1	1	1	1.2
Drainage	2	9	5	1	0
Per 1000 properties	0.03	0.04	0.02	0	0
Billing	591	541	488	291	382
Per 1000 properties	2.5	2.3	2	1.2	1.6

TABLE 3 - EWON COMPLAINTS

	2013-14	2014-15	2015-16	2016-17	2017-18
EWON	127	120	126	103	100

FINANCIAL

INFORMATION ON THE STATEMENT OF FINANCIAL POSITION OF THE ECONOMIC ENTITY RECEIVABLES

Receivables are shown as an asset on the Statement of Financial Position and total \$46.38m.

	June 2018 \$m	June 2017 \$m
Tariff Income - billed	15.12	16.30
Tariff Income - unbilled	20.97	19.64
Sundry Debtors	1.23	1.03
Net GST Receivable from ATO	5.88	4.10
Community Service Obligations	0.76	1.04
Prepayments	1.98	1.49
Miscellaneous Debtors	0.67	0.57
	46.62	44.18
Less Provision for Doubtful Debts	(0.24)	(0.35)
Total Receivables	46.38	43.83

Information regarding the major categories follows.

A	Tariff Income – unbilled: This item is an estimate of unbilled 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 Economic Entity GST is only collected on a few taxable revenue items (e.g. external sales). In accordance with relevant Accounting Standards and NSW Treasury Circulars, the balance of receivables and payables are recorded as GST-inclusive. As the majority of sales by the Economic Entity are GST-free, but its purchases predominantly include GST, the Economic 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 2018 (inclusive of accruals) and included in receivables was \$5.88m.
C	Community Service Obligations: The Economic Entity seeks financial reimbursement for providing services other than on a commercial basis. These services are titled Community Service Obligations (CSO's). Claims for reimbursement of CSO's are submitted each year to the relevant government department 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 Planning and Environment. The Economic Entity's CSO claims for 2017-18 were for rebates given to pensioners and exempt properties, for example churches. The 2017-18 claim and cash received were as follows:

	Amount Claimed \$m	Cash Received \$m	Outstanding (Prepayment) \$m
Pensioner Rebate	13.24	12.54	0.70
Exempt Properties	2.10	2.03	0.07
Total CSO Claim and Cash Received	15.33	14.57	0.76

INVESTMENTS

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

	June 2018 \$m	June 2017 \$m
Cash at Bank	3.07	11.67
T-Corp Deposit Accounts	30.13	-
	33.20	11.67
Interest Earned	0.19	0.06
Average Interest (on average monthly investment balance)	1.33%	1.07%

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

FIXED ASSETS - PROPERTY, PLANT AND EQUIPMENT

	June 2018 \$m	June 2017 \$m
Opening WDBV	2,483.95	2,363.20
Less - Depreciation Charge	(50.35)	(43.73)
Less - Disposals	(1.32)	(1.69)
Add - Additions	81.36	132.10
Add - Externally Funded Assets	32.41	33.14
Add - Transfers Between Classes	-	0.95
Revaluation - Increment	0.42	-
Total Fixed Assets - Property, Plant and Equipment	2,546.46	2,483.95

The total assets of \$2,546m at 30 June 2018 represents an increase of \$62m on the balance as at 30 June 2017 of \$2,484m.

INTANGIBLE ASSETS

	June 2018 \$m	June 2017 \$m
Opening WDBV	16.54	19.65
Less - Amortisation Charge	(8.73)	(8.25)
Less - Disposals	(0.25)	-
Add - Additions	9.16	5.14
Revaluation - Decrement	0.23	-
Total Intangible Assets	16.95	16.54

The Economic Entity's intangible assets consist of easements (a right of access to property), software, environmental credits and other intangible assets.

BORROWINGS

The Economic Entity has engaged NSW Treasury Corporation (TCorp) in a Liability Advisory Role to assist in the management and structuring of the debt portfolio. Management of the portfolio is in accordance with NSW Treasury requirements and Board approved parameters.

During 2017-18 the capital value of the Economic Entity's financial liability portfolio increased by \$28.01m.

The average interest yield cost of debt held at 30 June 2018 was 2.80%. A profile of the Economic Entity's Financial Liability Portfolio is as follows:

	June 2018 \$m	June 2017 \$m
Number of Loans	34	35
Face Value	1,200.96	1,167.17
Net Premium / Discount on Loans	(71.59)	(65.82)
Current Capital Value	1,129.37	1,101.36
Market Value	1,189.37	1,177.27
Come and Go Facility	-	(0.79)
Interest bearing liabilities included in the Statement of Financial Position are:		
Current	72.86	88.01
Non-Current	1,056.50	1,013.34
Total Market Value Borrowings	1,129.37	1,101.36
Debt Maturity Profile		
Within 1 year	72.86	88.01
Between 1-5 years	705.53	638.17
Over 5 years	350.98	375.17
Current Capital Value	1,129.37	1,101.36

EMPLOYEE PROVISIONS

At 30 June 2018 the liability for Employee Provisions totalled \$84.99m representing a decrease of \$51.16m during the year.

	June 2018 \$m	June 2017 \$m
Long Service Leave	12.82	13.53
Defined-Benefit Superannuation	67.37	117.95
Accrued Sick / Annual Leave	4.80	4.67
	84.99	136.15

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

	June 2018 \$m	June 2017 \$m
Current	16.79	17.64
Non-Current	68.20	118.51
	84.99	136.15

At 30 June 2018 the Economic Entity's defined benefit superannuation provision was \$67.37m (2017: \$117.95m). Note: the Long Service Leave (LSL) entitlements have been disclosed at the present value of expected future cash outflows in accordance with accounting standard AASB119 *Employee Benefits*.

BREAKDOWN OF LANDHOLDINGS AS AT 30 JUNE 2018

Code	Description	Number of Properties	Value \$m
1	Land fully utilised as an integral part of the Parent Entity's system.	387	27.56
2	Land partly used with the unused residue required for future integral needs	3	0.40
3	Land not currently used but fully required for future integral needs.	6	0.93
4	Land partly used, the residue having potential for alternative use.	19	1.80
5	Land with significant potential for alternative use.	27	5.01
6	Land not currently used but potentially required for future integral needs	10	0.18
Total Breakdown of Landholdings as at 30 June 2018		452	35.88

Landholdings are valued and assessed in accordance with the NSW Treasury Accounting Policy (TPP14-01) *Valuation of Physical Non-Current Assets at Fair Value*. The last land valuation was undertaken during 2015-16. Land holdings in all codes have been valued in accordance with Treasury Guidelines being at Fair Value.

PROPERTY DISPOSALS

There were no property transactions with a value greater than \$5,000,000 that did not go to public auction or tender in the 2017-18 financial year.

MATERIAL CAPITAL EXPENDITURE CONTRACTS AS AT 30 JUNE 2018 (GST-EXCLUSIVE)

(CONTRACTED FOR AT BALANCE DATE BUT NOT PROVIDED FOR)

Contract Number	Contract Description	Committed Amount \$m
CP3408	Supply and Delivery of Pipes and Fittings Duckenfield to Tarro	6.59
CP3322	Supply and Installation of Customer Billing System	5.31
CP3351	Chisholm and Gillieston Heights Recycled Water Design and Construction	5.21
CP3329	Central Coast Inter - Regional Transfer - Design and Construction	2.16
CP3334	High Voltage Network Overhead Powerlines Upgrade	2.09
CP3437	Stockton Beach - Exposed Landfill	1.90
CS0632	Hunter River Trenchless Crossing Construction	1.36
CP3323	Campvale Culvert Replacement Pipeline	1.32
CP3326	SCADA Radio Network Upgrade	1.06
CP3347	Williamstown Water Reticulation Scheme - Design & Construction	0.80
CS0892	Mayfield and Hamilton East Stormwater Pipeline - Rehabilitation	0.75
CS0904	Potable Water Solutions Rollout	0.62
CP3332	PLC and Telemetry Upgrade	0.55
CS0905	Rainwater Tank Supply	0.52
CP3380	Elmore Vale Network Upgrade - Construction	0.49
CP3319	Hunter River Estuary Water Quality Model	0.49
CP3375	Wastewater Critical Mains Renewals 2016-20	0.43
CP3297	Waratah West Wastewater Pump Station Upgrade - Construction	0.41
CP3382	Water Network Structure Renewals 16-20	0.26
	Other Commitments less than \$0.25m	3.85
		36.16

FINANCIAL SUMMARY AND RATIO ANALYSIS OF THE ECONOMIC ENTITY

OPERATING PROGRAMME 2018

ECONOMIC ENTITY

A summary of actual and budgeted results for 2017-18 and comparisons with 2016-17 results and budget is as follows:

	Actual 2018 \$m	Budget 2018 \$m	Actual 2017 \$m	Budget 2017 \$m
Income				
Net Tariff Income	321.89	308.41	293.89	292.97
Interest on Investments	0.19	0.06	0.06	0.07
Profit/(Loss) on Sale and Disposal of Assets	(1.56)	-	(3.92)	-
External Sales	3.05	0.41	4.21	0.47
Contribution from Capital Works	32.41	23.55	33.16	19.15
Other (inc Non-Regulated Income)	10.94	3.00	3.72	2.97
Total Income	366.93	335.43	331.12	315.63
Expenditure				
Operating Expenses	146.02	141.12	127.57	131.26
Superannuation Interest Expense	3.02	3.75	2.96	4.73
Revaluation Increment/(Decrement)	(0.07)	-	3.48	-
Depreciation & Amortisation	59.08	57.59	51.99	49.24
Interest Expense	45.52	46.36	45.15	51.54
Financial Charges	19.02	19.41	17.70	15.37
Total Expenditure	272.59	268.24	248.85	252.13
Profit Before Tax	94.34	67.19	82.27	63.50

OPERATING PROGRAMME 2019

ECONOMIC ENTITY

	Budget 2019 \$m
Income	
Net Tariff Income	326.05
Interest on Investments	0.05
Profit / (Loss) on Sale of Assets	-
External Sales	0.63
Contribution from Capital Works	35.00
Other (inc Non-Regulated Income)	3.03
Total Income	364.76
Expenditure	
Operating Expenses	145.19
Superannuation Interest Expense	3.82
Depreciation & Amortisation	61.24
Interest Expense	45.08
Financial Charges	19.41
Total Expenditure	274.74
Operating Profit Before Tax	90.03

FIVE YEAR FINANCIAL SUMMARY AND RATIO ANALYSIS

1. STATEMENT OF FINANCIAL POSITION (ECONOMIC ENTITY)

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Current assets					
Cash & Cash Equivalents	33.20	11.67	11.97	12.71	7.29
Trade & Other Receivables	45.94	43.46	46.90	41.01	46.87
Inventories	2.67	2.57	2.48	2.28	2.68
Assets held for sale	-	30.83	43.29	26.99	25.21
Total current assets	81.80	88.53	104.64	82.99	82.05
Non-current assets					
Fixed assets	2,681.02	2,594.68	2,527.27	2,639.99	2,676.40
Investments / other	0.44	0.37	0.44	0.42	-
Total non-current assets	2,681.46	2,595.05	2,527.71	2,640.42	2,676.40
Total assets	2,763.26	2,683.58	2,632.34	2,723.41	2,758.44
Current liabilities					
Trade and Other Payables	100.72	79.50	88.08	76.67	77.79
Borrowings	72.86	88.01	7.38	100.69	61.94
Provisions	64.42	59.24	56.14	41.62	62.81
Current Tax Liabilities	3.92	3.69	4.18	0.95	12.95
Other Liabilities	-	4.12	4.12	-	-
Total current liabilities	241.91	234.57	159.91	219.93	215.49
Non-current liabilities					
Borrowings	1,056.50	1,013.34	1,064.18	960.35	969.71
Provisions / other	196.20	220.63	240.37	240.24	251.46
Total non-current liabilities	1,252.70	1,233.98	1,304.55	1,200.59	1,221.18
Total liabilities	1,494.61	1,468.54	1,464.46	1,420.52	1,436.66
Net assets	1,268.65	1,215.04	1,167.89	1,302.90	1,321.78
Capital and retained earnings					
Share capital	116.54	112.19	103.70	102.85	100.00
Reserves	388.43	389.50	390.89	512.26	555.94
Retained profits	763.68	713.35	673.30	687.78	665.84
Total equity	1,268.65	1,215.04	1,167.89	1,302.90	1,321.78

2. INCOME STATEMENT (ECONOMIC ENTITY)

Trading Operations	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Revenue					
Tariff	306.56	279.13	275.04	280.29	282.57
Other	28.96	23.22	26.51	7.71	3.82
Less: operating costs	140.72	122.55	119.62	124.42	114.83
Gross margin	194.80	179.80	181.94	163.58	171.55
Other income					
Investments	0.19	0.06	0.10	0.18	0.26
Other expenditure					
Financing charges	64.55	62.85	70.56	67.85	68.12
Depreciation and amortisation	59.08	51.99	49.90	41.47	40.87
Superannuation adjustment	8.32	7.99	7.62	7.90	7.38
Other	1.12	7.93	3.86	28.65	14.14
Profit before contributions for capital works	61.93	49.11	50.10	17.89	41.31
Contributions for capital works	32.41	33.16	28.60	34.35	23.34
Net Profit	94.34	82.27	78.69	52.24	64.65

3. FINANCIAL RATIOS

Profit included in calculating ratios is Profit before Superannuation Adjustments and Contributions for Capital Works.

	2018	2017	2016	2015	2014
A - Gross Profit (%)	58.06	59.47	60.33	56.80	59.90
B - Working Capital (ratio)	0.34	0.38	0.65	0.38	0.38
C - Cash Ratio	0.14	0.05	0.07	0.06	0.03
D - Equity to Total Liabilities (ratio)	0.85	0.83	0.80	0.92	0.92
E - Interest Cover (times)	2.50	2.32	2.21	1.95	2.11
F - Return on Equity (%)	7.98	6.92	7.43	3.26	6.77
G - Real Rate of Return (%)	5.12	4.69	5.15	3.60	4.63
H - Return on Total Net Assets (%)	5.54	4.70	4.94	1.98	3.90

COMMENTS ON FINANCIAL RATIOS

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

A - GROSS PROFIT

Gross Profit is calculated as gross margin divided by total revenue. Increasing margins are an indication of potential profitability and the increases should correlate to increases in gross operating revenue and thus ensure that the benefits of increased income from services are not being eroded by increased costs of providing the services. Performance for 2017-18 was consistent with prior year trends.

B - WORKING CAPITAL

Working Capital is calculated as current assets divided by current liabilities and provides an indication of liquidity and capacity to realise current assets to meet current commitments. The working capital ratio remained consistent with the prior year.

C - CASH RATIO

Cash Ratio is calculated as current investments divided by current liabilities and is similar to the working capital ratio in that it provides an indication of liquidity. This ratio has increased for the year as a result of increased cash held at 30 June 2018 compared to previous years.

D - EQUITY TO TOTAL LIABILITIES

Equity to Total Liabilities is calculated as total equity divided by total liabilities. This ratio provides an indication of the longer term solvency of Hunter Water, in that it shows the level of financial equity in the business as represented by how many times net assets if liquidated would cover total liabilities. This ratio has remained consistent in 2018 compared to prior years.

E - INTEREST COVER

Interest Cover is calculated as funds from operations adjusted for by non-cash items (depreciation, non-cash contributions, etc.) divided by interest expense and financial charges. This ratio provides an indicator of the ability to meet interest commitments from operating profits. This ratio shows that Hunter Water is achieving operating profits sufficient to cover financing costs.

F - RETURN ON EQUITY

Return on Equity is calculated as operating profit less no cash revenue divided by the sum of Issued Capital and Retained Profits. Return on Equity for 2017-18 is 7.98%, which is higher than the previous year due to the increased operating profit.

G - REAL RATE OF RETURN

Real Rate of Return (RRR) is calculated as operating profit plus net interest and financial charges divided by written down book value of infrastructure assets and capital work-in-progress. RRR reflects the implicit rate of return generated from operating activities. For inter-agency comparison purposes the Water Services Association of Australia (WSAA) utilises an RRR in order to capture the major economic indicators of commercial performance i.e. capital costs, recurrent costs and revenue. The rate of return Hunter Water may earn is used to pay real interest costs on debt and a return on equity which may in fact be a contribution to the State Government by way of dividends or re-investment in the organisation. The current year's result is 5.12%.

H - RETURN OF TOTAL NET ASSETS

Return on Total Net Assets (RONA) 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 2018 return on total net assets is higher than 2017 primarily due to increased operating profit.

PRICING STRUCTURE

The 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. IPART conducted a public review of Hunter Water's prices for water, sewerage, stormwater and other services throughout 2015-16.

IPART's Final Determination of Hunter Water's prices applies for the four-year period from 1 July 2016 to 30 June 2020. The prices reported in this table were determined by IPART in June 2016 and, in comparison with the previous price period, IPART set a higher revenue allowance for Hunter Water over the four-year period. This resulted in a 2.4% real increase in prices and charges in 2017-18 plus inflation of 2.1%.

WATER

Water Service Charge (\$) Filtered and Unfiltered (Metered and Unmetered)	2017-18	2016-17	2015-16	2014-15
Residential Properties	\$51.12	\$25.69	\$17.75	\$17.51

Non-Residential Properties Meter Size (mm)	Meter Equivalent¹	2017-18	2016-17	2015-16	2014-15
20mm standalone		\$51.12	\$25.69	\$17.75	\$17.51
20mm	1.00	\$56.12	\$30.17	\$18.54	\$18.30
25mm	1.56	\$87.68	\$47.13	\$28.97	\$28.59
32mm	2.56	\$143.68	\$77.23	\$47.47	\$46.83
40mm	4.00	\$224.48	\$120.67	\$74.17	\$73.17
50mm	6.25	\$350.75	\$188.55	\$115.89	\$114.33
65mm	10.56	\$592.77	\$318.67	\$195.86	\$193.24
80mm	16.00	\$897.92	\$482.67	\$296.67	\$292.69
100mm	25.00	\$1,402.99	\$754.18	\$463.55	\$457.33
150mm	56.25	\$3,156.74	\$1,696.91	\$1,042.99	\$1,028.99
200mm	100.00	\$5,611.97	\$3,016.71	\$1,854.20	\$1,829.32
250mm	156.25	\$8,768.75	\$4,714.06	\$2,897.00	\$2,859.00
300mm	225.00	\$12,627.00	\$6,788.25	\$4,171.68	\$4,116.96
350mm	306.25	\$17,186.75	\$9,239.56	\$5,678.12	\$5,603.64
Unmetered		\$464.63	\$430.69	\$418.01	\$412.40

¹ Meter Equivalent Rate applicable from 2016-17.

Water Usage Charge (Metered Properties Only) (\$/kL)	2017-18	2016-17	2015-16	2014-15
Tier 1 (≤ 50,000 kL)				
Filtered water	\$2.30	\$2.25	\$2.22	\$2.19
Unfiltered water	\$2.02	\$1.92	\$1.86	\$1.79
Tier 2 - Filtered Water (> 50,000 kL)				
Kurri Kurri	\$2.27	\$2.22	\$2.20	\$2.17
Lookout	\$2.14	\$2.10	\$2.03	\$2.01
Newcastle	\$2.09	\$2.05	\$1.98	\$1.96
Seaham - Hexham	\$1.90	\$1.86	\$1.72	\$1.70
South Wallsend	\$2.18	\$2.14	\$2.08	\$2.05
Tomago - Kooragang	\$1.85	\$1.81	\$1.67	\$1.65
Dungog - charges only for water sourced from Chichester Dam within Shire	\$1.85	\$1.81	\$1.67	\$1.65
All other locations	\$2.30	\$2.25	\$2.22	\$2.19
Water Usage Charge for Central Coast Council (\$/kL)	\$0.67	\$0.66	\$0.65	\$0.64

SEWER

Sewer Service Charge (\$) (Metered and Unmetered) Residential Properties:	2017-18	2016-17	2015-16	2014-15
Houses	\$618.89	\$604.34	\$593.58	\$585.61
Multi Premises (Residential) - i.e. Flats and Units Per each residential property located in a multi premises (minimum charge) ¹	\$479.63	\$453.25	\$430.34	\$409.93

Non-residential Properties ^{1,2}	Meter Meter Size (mm)	Meter Equivalent	2017-18	2016-17	2015-16	2014-15
20mm stand alone			\$774.94	\$743.81	\$593.58	\$585.61
20mm		1.00	\$1,033.63	\$1,180.28	\$1,179.58	\$1,163.74
25mm		1.56	\$1,583.00	\$1,818.74	\$1,843.09	\$1,818.35
32mm		2.56	\$2,557.24	\$2,950.95	\$3,019.71	\$2,979.18
40mm		4.00	\$3,963.64	\$4,585.41	\$4,718.30	\$4,654.97
50mm		6.25	\$6,161.17	\$7,139.27	\$7,372.34	\$7,273.38
65mm		10.56	\$10,373.13	\$12,034.20	\$12,459.26	\$12,292.02
80mm		16.00	\$15,683.74	\$18,205.97	\$18,873.19	\$18,619.86
100mm		25.00	\$24,473.81	\$28,421.39	\$29,489.36	\$29,093.53
150mm		56.25	\$54,994.89	\$63,891.58	\$66,351.07	\$65,460.45
200mm		100.00	\$97,724.38	\$113,549.85	\$117,957.46	\$116,374.14
250mm		156.25	\$152,663.20	\$177,396.79	\$184,308.53	\$181,834.59
300mm		225.00	\$219,809.95	\$255,431.48	\$265,404.28	\$261,841.81
350mm		306.25	\$299,165.20	\$347,654.29	\$361,244.72	\$356,395.80

¹ Assumes a discharge factor of 100%. Sewer service charge = (meter connection charge x discharge factor) + deemed usage.

² Service charge is determined as the higher of the calculated charge using the charge above or the calculated charge using the 'Residential Properties' prices above.

	2017-18	2016-17	2015-16	2014-15
Sewer Usage Charge - Non-residential only (\$/kL) (metered only)	\$0.67	\$0.67	\$0.67	\$0.67

STORMWATER

Stormwater Service Charge (\$)	2017-18	2016-17	2015-16	2014-15
Residential (Not Within a Multi Premise)	\$75.71	\$73.47	\$71.86	\$79.05
Residential Multi Premise and Mixed Multi Premise	\$28.01	\$27.19	\$26.59	\$29.24
Non-residential				
Small (< 1,000m ²) or low impact	\$75.71	\$73.47	\$71.86	\$79.05
Medium (1,001 - 10,000m ²)	\$183.90	\$153.96	\$129.90	\$142.90
Large (10,001 - 45,000m ²)	\$1,169.59	\$979.16	\$826.21	\$908.90
Very Large (> 45,000m ²)	\$3,716.05	\$3,111.02	\$2,625.07	\$2,887.78

RECYCLED WATER (MANDATORY SCHEMES)

Gillieston Heights	2017-18	2016-17	2015-16	2014-15
Service charge (20mm base \$/year)	\$22.28	\$21.82	\$21.64	\$21.35
Usage charge (\$/kL)	\$2.00	\$1.96	\$1.93	\$1.90
Chisholm	2017-18	2016-17	2015-16	2014-15
Service charge (20mm base \$/year)	\$22.28	\$21.82	\$21.64	\$21.35
Usage charge (\$/kL)	\$2.00	\$1.96	\$1.93	\$1.90

BACKLOG AND OTHER SEWERAGE SERVICES

	2017-18	2016-17	2015-16	2014-15
Environmental Improvement Charge (EIC) (\$):				
(Same for Hunter Water and Dungog)	\$39.69	\$38.87	\$38.37	\$37.86
Clarence Town Sewer Charge (\$) (Dungog Only)	\$43.95	\$43.05	\$78.26	\$77.21

EXEMPT SERVICE

	2017-18	2016-17	2015-16	2014-15
Charged Proportion	20%	20%	20%	20%
Water Service - Exempt				
Residential Properties:				
House	\$10.22	\$5.14	\$3.55	\$3.50
Unit/flat	\$10.22	\$5.14	\$3.55	\$3.50
Non-residential Properties:				
Non-residential Stand Alone	\$10.22	\$5.14	\$3.55	\$3.50
20mm	\$11.22	\$6.03		
25mm	\$17.54	\$9.43	\$5.79	\$5.72
32mm	\$28.74	\$15.45	\$9.49	\$9.37
40mm	\$44.90	\$24.13	\$14.83	\$14.63
50mm	\$70.15	\$37.71	\$23.18	\$22.87
65mm	\$118.55	\$63.73	\$39.17	\$38.65
80mm	\$179.58	\$96.53	\$59.33	\$58.54
100mm	\$280.60	\$150.84	\$92.71	\$91.47
150mm	\$631.35	\$339.38	\$208.60	\$205.80
200mm	\$1,122.39	\$603.34	\$370.84	\$365.86
250mm	\$1,753.75	\$942.81		
300mm	\$2,525.40	\$1,357.65		
350mm	\$3,437.35	\$1,847.91		

Sewer Service - Exempt	2017-18	2016-17	2015-16	2014-15
Residential Properties:				
House	\$123.78	\$120.87	\$118.72	\$117.12
Unit/flat	\$95.93	\$90.65	\$86.07	\$81.99
Non-residential Properties	Sewer service charge x 20%	Sewer service charge x 20%	Sewer service charge x 20%	Sewer service charge x 20%
Pensioner Rebate	\$294.00	\$281.00	\$274.00	\$271.00

Hunter Water has obtained the Treasurer's approval under section 18(2) of the *Independent Pricing and Regulatory Tribunal Act 1992* to make variations to existing IPART determinations:

- IPART's 2006 Pricing Arrangements for Recycled Water and Sewer Mining, Determinations and Report sets the framework that Hunter Water applies for the recovery of costs associated with recycled water projects. In 2014-15 Hunter Water received the Treasurer's approval to set recycled water developer charges for dual reticulation in Gillieston Heights and Chisholm growth areas in real terms at 2012-13 levels, to be adjusted for inflation annually.
- On 4 November 2015, prior to the sale of the Kooragang Industrial Water Scheme (KIWS), Hunter Water obtained the Treasurer's approval to waive the sewer service and usage charges applicable to the land on which the KIWS treatment plant is constructed. These charges have been waived for the term of the existing contract for the supply of recycled water.

STATEMENT OF CORPORATE INTENT

The annual Statement of Corporate Intent (SCI) specifies commercial performance targets agreed by Hunter Water and its voting shareholders. These targets are in turn aligned down through Hunter Water in divisional budgets. The SCI performance targets and actual results for the 2017-18 financial year are as follows:

	Actual 2018 (\$m)	SCI Target 2018 (\$m)
Operating Profit before Income Tax Expense	94.34	67.19
Income Tax Expense	38.64	20.15
Net Debt	1,096.16	1,105.90

Hunter Water achieved favourable operating performance for 2017-18 compared to the SCI target due primarily to higher than budgeted water usage charges, higher than budgeted developer contributed assets received and higher than budgeted non-regulated income along with lower interest expenses compared to budget.

LIABILITY MANAGEMENT PERFORMANCE

Hunter Water contracts the services of an external specialist (currently NSW T-Corp) to actively manage the Entity's debt portfolio. At 30 June 2018 the key statistics on the debt portfolio were as follows:

	Actual 2018 (\$m)	SCI Target 2018 (\$m)
Current capital value (\$)	1,129.37	1,123.60
Average cost of debt (%)	2.80%	
Weighted Average Life:		
Inflation Indexed Debt (years)	5.76	
Nominal Debt (years)	4.76	

MAJOR ACQUISITIONS OVER \$0.5 MILLION

Project	2017-18 Expenditure (\$m)
Duckenfield to Tarro Chichester Trunk Gravity Main (CTGM) Replacement	8.59
Central Coast Inter-Regional Transfer	6.10
Overhead Powerlines Upgrade	5.13
Billing System Refresh	5.11
SCADA Radio Network Replacement	4.39
Elmore Vale Waste Water Network Upgrade	3.87
Hunter River Tunnel CTGM Renewal	3.46
Chisholm and Gillieston Heights Recycle Water Schemes	3.29
Campvale Culvert Renewal	2.96
Black Hill Reservoir Floor Rehabilitation	2.42
Swansea Channel Crossing Renewal	2.34
Design and Construction of Lochinvar	2.16
Waratah West Waste Water Pump Station Upgrade	2.01
Stockton Beach - Exposed Landfill	1.77
PLC and Telemetry Upgrade	1.49
Boulder Bay Emergency Storages	1.46
Newcastle Light Rail Project sewer relocation	1.11
Chisholm Regional Water Network Asset Upgrades	1.09
Depot Upgrades for Spoil Management	0.93
Disinfection Optimisation Strategy	0.91
Williamstown Water Reticulation Scheme	0.90
Dungog Water Treatment Upgrades	0.80
Dungog Waste Water Treatment Upgrade	0.59
Kurri Waste Water Treatment Upgrade	0.57
Other Major Acquisitions (mostly made up of replacements in Hunter Water's water and sewer networks)	25.37
Total Expenditure	88.83

CONSULTANCIES

CONSULTANTS \$50,000 AND OVER

Consultant	Project	Cost \$
Hunter H2O Holdings Pty Ltd	Various Consultancy Services	813,239
Worleyparsons Services Pty Ltd	Various Consultancy Services	668,590
University of NSW	Hydrodynamic Fate and Dispersion	469,550
University of Newcastle	Various Research and Consultancy Services	292,512
University of Technology Sydney	Various Research and Consultancy Services	288,700
Aecom Australia Pty Ltd	Various Consultancy Services	255,851
Pricewaterhousecoopers	Financial Advice & Audit Services	112,902
Quinticon Pty Ltd	Data Centre and Server Consultancy Services	112,650
Alluvium Consulting Aust. Pty Ltd	Water Management and Water Resilience	89,846
Intradata Pty Ltd	Various IT Services	68,325
KPMG	Business Process Review	50,208
Total Consultants	11	3,222,373

CONSULTANTS LESS THAN \$50,000

Category	Number	Cost (\$)
Corporate	10	133,392
Engineering	3	26,275
Finance	1	6,163
Total Consultants	14	165,830

RESEARCH AND DEVELOPMENT

Research and Development (R&D) is about identifying knowledge gaps that are critical to the organisation. The aim of the R&D Programme is to provide the right knowledge to make good decisions, take advantages of new opportunities, and address emerging challenges.

In 2017 – 2018, Hunter Water undertook several R&D Projects as defined in the table over page. The projects span over several topic areas covering water quality, wastewater, asset management, ecology, climate variability, and catchment management. Our research partners for included various universities, government organisations, Water Services Association of Australia, and Water Research Australia (Water RA).

COLLABORATIVE RESEARCH AND DEVELOPMENT PROJECTS WITH EXPENDITURE IN 2017-18

Project	Partners	Funding ('000)
Chichester event-based water quality (incl. bushfire impacts) - Honours Project	University of Newcastle	20
Climate change adaptation planning	Water RA	10
Smart Monitoring for microbial risk assessment	Water RA	10
Ethical and cost effective alternatives for direct toxicity assessments	Water RA	5
Understanding the occurrence, fate and behaviour, management of microplastic in wastewater treatment plants	University of Newcastle	15
Freshwater endocrine disrupting chemicals assay research	NSW Fisheries and University of Newcastle	15
National Wastewater Drug Monitoring Pilot Programme - Newcastle	University of Queensland	7
Benthic cyanobacteria	Water RA	15
LMCC - Environmental Research Grants	Lake Macquarie City Council and University of Newcastle	7
Chichester Dam aeration optimisation	Water Research Laboratory	18
PFAS removal from biosolids	University of Newcastle	10
Grahamstown Dam Inflow Characterisation & Impacts of Stratification on Water Quality - PhD	University of Newcastle	15
Tracking the impacts of sewage overflows on ecosystem function	University of Newcastle	15
Paleoclimate research project	University of Newcastle	150
Community and organisational resilience – three PhD	University of Newcastle and University of Auckland	65
Economics post doctoral research – the value of keeping options open	University of Newcastle	113
Smart lining for pipes	Water Services Association of Australia and Corporate research Centre - Projects	30
TOTAL		520

DONATIONS AND SPONSORSHIP

TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

Organisation(s)	Project	Purpose of Project	Target Clients	Type	Amount
Hunter Region Botanic Gardens	Bio Banking Botanic Gardens	Ongoing sponsorship of the Hunter Region Botanic Gardens (funded by Bio Banking of Hunter Water land that is leased by Botanic Gardens)	Wider Community	Community Partnership	\$50,000
Port Stephens Koalas	Koala hospital	Support towards the development of a new koala hospital in Port Stephens, and integrated conservation based community education programme	Wider Community	Community Partnership	\$35,000
Water Aid	Water Aid partnership	Contribution to partnership with water charity enabling clean water in developing countries	Wider Community	Sponsorship	\$20,000
University of Newcastle Hunter Research Foundation Centre	Economic Breakfast sponsor	Sliver partner for Hunter Research Foundation Centre economic breakfast series that delivery insights into the Hunter community	Business Community	Sponsorship	\$20,000
Hunter Wetlands Centre	Emergency conservation project	In-kind sponsorship of water provided for birds due to dry hot conditions. Funding was also provided to support a new visitor centre to incorporate Love Water themes to help educate our communities about the importance of environmental conservation	Wider Community	Community Partnership	\$11,000
Surfest	Surfest	Sponsorship of a free local surfing and community event that highlights our clean beaches	Wider Community	Event Sponsorship	\$10,000
Hunter Region Botanic Gardens	Signage project	Funding providing to improve the signage for the Botanic Gardens to increase visitation and to help educate the community importance of conservation	Wider Community	Community Partnership	\$10,000
Hunter Water Business Chamber	Love Water Love Business Awards	A business award for a water efficient project judged on innovation, water savings, cost effectiveness and appeal for widespread adoption in the region	Business Community	Sustainability Grant	\$6,000
Tocal Agricultural College	Tocal Scholarships	Scholarship for students studying at Tocal who live within Hunter Water's area of operations. College focus is on sustainable farming practices, including within Hunter Water's drinking water catchments.	Students	Scholarship	\$6,000
Rotary Club of Newcastle	Light Up Newcastle	Support for the Light Up Newcastle event, which promotes multiculturalism and helps raise funds for the Mission to Seafarers	Wider Community	Event Sponsorship	\$5,000
Newcastle Show	Newcastle Regional Show	Support for the Newcastle Regional Show which brings the city and regional communities together	Wider Community	Event Sponsorship	\$5,000
University of Newcastle	HunterWISE Partnership	Partnering with the University of Newcastle to deliver STEM education into local high schools - particular focus on mentoring young women in science, technology, engineering and mathematics.	Students	Community Partnership	\$5,000
FightMND	Big Freeze Newcastle	Support for Big Freeze Newcastle - a community fundraiser to help find a cure for Motor Neurone Disease	Wider Community	Charity event	\$5,000
Oz Harvest	Fundraiser for Oz Harvest	Dollar for dollar employee matched fundraiser for local food based charity that helps feed those in need.	Wider Community	Charity event	\$2,828
Camp Quality	1,000km for Kids	Support for an employee participating in charity fundraiser for a better life for every child living with cancer	Wider Community	Charity event	\$1,000
Office of Environment and Heritage	Biodiversity Day Blue Gum Hills	Children's education day highlighting the importance of keeping our catchments healthy	Students	Event Sponsorship	\$1,000
International Women's Day Breakfast	International Women's Day Breakfast	Sponsorship of International Women's Day Breakfast in Port Stephens.	Business Community	Event Sponsorship	\$500
Total					\$193,328

PAYMENT PERFORMANCE

INVOICES PAID ON TIME WITHIN EACH QUARTER

Quarter	Total Invoices Paid on Time			Total Invoices Paid Within Quarter
	Target %	Actual %	Paid on Time	
September	95%	98%	\$49,738,480	\$50,576,918
December	95%	96%	\$57,105,292	\$58,723,319
March	95%	96%	\$43,452,342	\$44,760,062
June	95%	96%	\$81,375,370	\$82,445,258

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	\$49,738,480	\$613,504	\$208,624	\$1,406	\$14,905	\$50,576,918
December	\$57,105,292	\$1,352,909	\$182,494	\$73,693	\$8,929	\$58,723,319
March	\$43,452,342	\$1,045,164	\$177,759	\$52,618	\$32,179	\$44,760,062
June	\$81,375,370	\$858,521	\$142,543	\$19,523	\$49,301	\$82,445,258

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.

COST OF PRODUCING ANNUAL REPORT

There were no external production costs in the production of this Annual Report.

SIGNIFICANT AUDIT MATTERS

No significant audit matters were identified by Audit Office of NSW during the external audit for 2017-18

LEGISLATION

RIGHT TO INFORMATION

During 2017-18, Hunter Water received eight formal *Government Information (Public Access) Act 2009* (GIPA) applications, all of which were determined within the statutory timeframe.

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

Hunter Water's education programs cater for Preschool to Year 8 students and cover science, geography and history components of the school curriculum. Hunter Water is committed to helping educate our community, especially students, about the many aspects of water supply, treatment, conservation and the health benefits of drinking water.

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

- Events and open days
- Facebook, Twitter, Instagram, YouTube and LinkedIn
- Advertising and media campaigns
- Newsletters and direct mail
- Partnerships and alliances
- Sponsorship and community funding
- Stakeholder briefings
- Media and government relations
- Water efficiency education programme.

Hunter Water proactively releases information on its pollution monitoring programme for the EPA. Information is also made publicly available concerning up-to-date water storage levels, current water outages and incidents, major infrastructure projects, and customer charges.

Hunter Water has social media accounts on Facebook, Twitter, Instagram, YouTube and LinkedIn to provide up-to-date information to customers during incidents involving our assets, the environment, customers and employees.

NUMBER OF APPLICATIONS BY TYPE OF APPLICANT AND OUTCOME¹

	Access Granted in Full	Access Granted in Part	Access Refused in Full	Inform- ation Not Held	Inform- ation Already Available	Refuse to Deal With Applic- ation	Refuse to Confirm/ Deny Whether Information is Held	Application Withdrawn	Total decisions	% of Total
Media	0	0	0	0	0	0	0	0	0	0%
Members of Parliament	0	0	0	0	0	0	0	0	0	0%
Private sector business	3	3	1	0	0	0	0	0	7	70%
Not for profit organisations or community groups	0	0	0	0	0	0	0	0	0	0%
Members of the public (application by legal representative)	0	0	0	1	0	0	0	0	1	10%
Members of the public (other)	0	2	0	0	0	0	0	0	2	20%
Total	3	5	1	1	0	0	0	0	10	
% of Total	30%	50%	10%	10%	0%	0%	0%	0%		

¹ 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 the table which follows.

NUMBER OF APPLICATIONS BY TYPE OF APPLICATION AND OUTCOME¹

	Access Granted in Full	Access Granted in Part	Access Refused in Full	Inform- ation Not Held	Inform- ation Already Available	Refuse to Deal With Application	Refuse to Confirm/ Deny Whether Information is Held	Application Withdrawn	Total decisions	% of Total
Personal information applications*	0	0	0	0	0	0	0	0	0	0%
Access applications (other than personal information applications)	3	5	1	1	0	0	0	0	10	100%
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0	0	0%
Total	3	5	1	1	0	0	0	0	10	
% of Total	30%	50%	10%	10%	0%	0%	0%	0%		

¹A 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).

INVALID APPLICATIONS

Reason for Invalidity	Number of Applications	% of Total
Application does not comply with formal requirements (section 41 of the Act)	2	100%
Application is for excluded information of the agency (section 43 of the Act)	0	0%
Application contravenes restraint order (section 110 of the Act)	0	0%
Total number of invalid applications received	2	100%
Invalid applications that subsequently became valid applications	2	100%

CONCLUSIVE PRESUMPTION OF OVERRIDING PUBLIC INTEREST AGAINST DISCLOSURE: MATTERS LISTED IN SCHEDULE 1 TO ACT

	Number of Times Consideration Used ¹
Overriding secrecy laws	0
Cabinet information	0
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

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

OTHER PUBLIC INTEREST CONSIDERATIONS AGAINST DISCLOSURE: MATTERS LISTED IN TABLE TO SECTION 14 OF ACT

	Number of Times Consideration Used	% of Total
Responsible and effective government	1	14%
Law enforcement and security	0	0%
Individual rights, judicial processes and natural justice	4	57%
Business interests of agencies and other persons	2	29%
Environment, culture, economy and general matters	0	0%
Secrecy provisions	0	0%
Exempt documents under interstate Freedom of Information legislation	0	0%
Total	7	

TIMELINESS

	Number of Applications	% of Total
Decided within the statutory timeframe (20 days plus any extensions)	8	100%
Decided after 35 days (by agreement with applicant)	0	0%
Not decided within time (deemed refusal)	0	0%
Total	8	

NUMBER OF APPLICATIONS REVIEWED UNDER PART 5 OF THE ACT (BY TYPE OF REVIEW AND OUTCOME)

	Decision Varied	Decision Upheld	Total
Internal review	2	0	2
Review by Information Commissioner ¹	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	0	0	2

¹The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made.

APPLICATIONS FOR REVIEW UNDER PART 5 OF THE ACT (BY TYPE OF APPLICANT)

Reason for Invalidity	Number of Applications for Review
Applications by access applicants	2
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0
Total	2

APPLICATIONS TRANSFERRED TO OTHER AGENCIES

	Number of Applications Transferred
Agency-Initiated Transfers	0
Applicant-Initiated Transfers	0
Total	0

LEGISLATIVE CHANGE

The State Environmental Planning Policy (Infrastructure) 2007 was amended in December 2017 to permit certain water and sewer works to approved as complying development, rather than requiring a development application. Any relevant requirements of Hunter Water in relation to such developments must be complied with.

PUBLIC INTEREST DISCLOSURES

REPORTING PERIOD JULY 2017 TO JUNE 2018

Number of public interest disclosures received by Hunter Water	0
Number of public officials who made public interest disclosures to Hunter Water	0

Information on public interest disclosures received:

- Corrupt conduct	0
- Maladministration	0
- Serious and substantial waste of public money	0
- Government information contravention	0
- Local government pecuniary interest contravention	0

Number of public interest disclosures (received since 1 Jan 2013):

That have been finalised in this reporting period	0
Has Hunter Water established an internal reporting policy?	Yes
Has Hunter Water taken action to meet its employee awareness obligations?	Yes

Actions taken to increase awareness include:

- Inductions for new employees
- Provision of intranet resources

RISK MANAGEMENT AND INSURANCE ARRANGEMENTS

Hunter Water has an Enterprise Risk Management Framework. This framework is consistent with ISO 31000 and provides a transparent and consistent approach to risk management, as well as standardised documentation and terminology. In June 2017 the Board of Directors approved a suite of Risk Appetite Statements enabling articulation of their expectations, reducing ambiguity and providing clear direction in organisational decision making. As part of its ongoing risk identification, assessment and management activities Hunter Water continues to establish and refine risk mitigation treatment actions and controls which reduce the impact and likelihood of adverse events. Key risks have been identified and mitigating controls and management strategies established. Details of key risks assessed with a high controlled risk and associated treatment actions are outlined in the table below.

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

Key Risks	Description	Treatment Actions
Asset failure	Examines identified structural deficiencies of key assets and the impact on ability to deliver core services should failure occur	<ul style="list-style-type: none"> • Deliver asset condition assessment programs • Deliver capital works upgrades
Environmental compliance	Reviews business practice outcomes that do not meet environmental obligations	<ul style="list-style-type: none"> • Implement Environmental Compliance Improvement Strategy • Deliver upgrade strategies for wastewater treatment works • Implement Environmental Management Plan • Implement Hazardous Chemicals Management Program • Develop climate change adaptation strategy
Unsafe work environment/ behaviours	Reviews work practices that do not sufficiently ensure the safety of employees	<ul style="list-style-type: none"> • Implement Fatal Risk Program • Implement Manual Task Program

MAJOR CAPITAL WORKS

Project	Cost (\$)	Commenced	Status
Central Coast Transfer Capacity Upgrade	6,110,000	May-17	Underway
Overhead Powerlines Upgrade	5,090,000	Sep-15	Complete
SCADA Radio Network Replacement	4,900,000	Mar-17	Underway
Gillieston Heights and Chisholm RW Treatment Plant	4,390,000	Mar-17	Underway
Maitland 14 WWPS Upgrades (Housing Acceleration Fund HAF2 Upgrades)	3,760,000	Jun-17	Underway
Hunter River Tunnel	3,480,000	Nov-16	Complete
Lochinvar 1 Wastewater Upgrades (Housing Acceleration Fund HAF2 Upgrades)	3,410,000	Jan-17	Complete
Telemetry System Upgrade	2,750,000	Jun-16	Complete
Hazardous Chemical Equipment Upgrade	2,310,000	Dec-16	Complete
Black Hill Reservoir Floor Rehabilitation	2,210,000	Jun-17	Complete
Swansea Channel Crossing	2,140,000	Feb-17	Complete
Elermore Vale/ Wallsend Wastewater Network Upgrade	1,920,000	May-17	Underway
Boulder Bay Wastewater Works - Stage 1c	1,820,000	Mar-17	Complete
Campvale Canal Culvert	1,810,000	Jun-17	Underway
Waratah West Wastewater Upgrade	1,240,000	Dec-16	Underway
Chichester Trunk Gravity Main - Duckenfield to Tarro Replacement	1,050,000	Jun-17	Underway
Mayfield Culvert Renewal	1,020,000	May-17	Underway
Dungog Wastewater Upgrade - Stage 1	950,000	May-17	Underway

Note the status is at 30 June 2018.

DEFINITIONS

Underway: Design and/or construction commenced.

Complete: Practical completion achieved, in operation/implemented.

HUNTER WATER AUSTRALIA

FINANCIAL STATEMENTS

ORGANISATIONAL PROFILE

ABOUT US

Hunter Water Australia Pty Limited (Hunter Water Australia) is a fully-owned subsidiary of Hunter Water Corporation that previously operated as an independent commercial enterprise. In June 2014 the Board of Directors of Hunter Water Australia's Parent Company, Hunter Water Corporation, resolved to sell the assets of Hunter Water Australia. The asset sale occurred in two transactions in December 2014 and resulted in Hunter Water Australia ceasing operations on 31 December 2014.

Hunter Water Australia previously operated throughout Australia and internationally, providing a range of specialist technical, management and operational services to water agencies, councils and the private sector.

COMPANY PERFORMANCE

Hunter Water Australia did not operate during the financial year ended 30 June 2018 as it ceased operations in December 2014. No profit or loss was generated for the financial year ended 30 June 2018.

In December 2015 liquidators were appointed by the Directors as part of the voluntary liquidation process which also includes windup and deregistration of Hunter Water Australia. This process is expected to be completed by 30 June 2019.

SIGNIFICANT AUDIT MATTERS

Hunter Water Australia Pty Limited is required to disclose in its Annual Report as per section 7 of the *Annual Reports (Statutory Bodies) Act 1984* No. 87 a response to any significant matters raised by the external auditors, the Audit Office of NSW. No significant matters were raised by the Audit Office in its Client Service Report for the year ended 30 June 2018.

DIRECTORS' REPORT

The Directors submit the following report made in accordance with a resolution of the Directors of Hunter Water Australia Pty Limited (the Company) for the year ended 30 June 2018.

The Directors retain powers to approve and sign these audited financial statements as provided by The Liquidators in accordance with the *Corporations Act 2001*.

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

Mr P Dalglish

INFORMATION ON DIRECTORS

T LAWLER AO, BCOM, FCA, FAICD, FAIM

Mr. Lawler was appointed as Chairman of the Board and Chairman of Hunter Water Corporation on 1 January 2012. Mr. Lawler is also Chair of Life Without Barriers Limited and Chair of Ampcontrol Group. Mr. Lawler is also a Director of Powerdown Australia Pty Limited and Peoplefusion Pty Limited. Mr. Lawler has previously been the Chairman of National Rail Corporation Limited, Newcastle Knights Limited and a Director of Newcastle Port Corporation.

P DALGLISH BSC, GDIPMKTGMT, GAICD

Mr. Dalglish was appointed as a Director on 2 July 2013 and is also a Director of Hunter Water Corporation. Mr. Dalglish is a water industry specialist with over 40 years' experience in all facets of the industry including management of large-scale wastewater treatment operations and infrastructure projects, corporate planning and system performance review. Mr. Dalglish is currently a Director of Chester Consulting Pty Ltd and has held senior management positions with Sydney Water Corporation and URS Australia Pty Ltd where he has worked on strategic projects across Australia and in New Zealand, The Philippines, Iraq and Vietnam.

MEETINGS OF DIRECTORS

No Board meetings were held during the financial year as the company has been placed into liquidation.

PRINCIPAL ACTIVITIES

During December 2014 the Company sold all assets relating to business operations and effectively ceased operations at 31 December 2014. The Company began the process of voluntary winding-up and appointing a liquidator in December 2015. It is expected to be deregistered by 30 June 2019.

RESULTS AND DIVIDENDS

No profit or loss was generated for the financial year ended 30 June 2018 as the company has ceased operations.

REVIEW OF OPERATIONS

All business activities ceased on 31 December 2014 following the sale of Company assets.

As a result of the asset sales and the ceasing of operations the financial statements have been prepared on a liquidation basis and not as a going concern. Liquidators were appointed in December 2015.

SUBSEQUENT EVENTS

In August 2018 an outstanding legal matter was resolved which was delaying the winding-up of the Company. As the issue is now resolved activities will focus upon the winding-up and deregistration of the Company which is expected to be completed by 30 June 2019.

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.

DIRECTORS' INDEMNIFICATION

The Company has an agreement to indemnify the Directors and Secretary of the Company. 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

During December 2014 completion of sales transactions of the Company's assets occurred. This resulted in the operations of the Company ceasing on 31 December 2014.

The financial statements of the Company are prepared on a liquidation basis as the liquidation of the Company is expected in the foreseeable future. The Company will continue to meet all obligations as they fall due until such time that the Company is dissolved.

TRUE AND FAIR VIEW

In the opinions of the Directors the financial statements and notes give a true and fair view of the financial position as at 30 June 2018 and the performance for the financial year ended 30 June 2018.

FUTURE DEVELOPMENTS

The Company sold all assets and ceased operations in December 2014. Future activities will focus upon deregistration and wind-up of 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 128.

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 (In Liquidation).



Mr T Lawler
Chairman



Mr P Dalglish
Director

Dated 30 August 2018
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 2018, 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 cursive script that reads 'James Sugumar'.

James Sugumar
Director, Financial Audit Services

28 August 2018
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

Opinion

I have audited the accompanying financial statements of Hunter Water Australia Pty Limited (the Company), which comprise the Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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.

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 2018 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* (PF&A Act) and the Public Finance and Audit Regulation 2015.

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

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Company in accordance with the requirements of the:

- Australian Auditing Standards
- *Corporations Act 2001*
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles 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
- precluding the Auditor-General from providing non-audit services.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

I confirm the independence declaration, required by the *Corporations Act 2001*, provided to the directors of the Company on 28 August 2018, would be in the same terms if provided to the directors as at the time of this Independent Auditor's Report.

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

Other Information

Other information comprises the information included in the Company's annual report for the year ended 30 June 2018, other than the financial statements and my Independent Auditor's Report thereon. The directors of the Company are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Director's Report.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements 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 and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

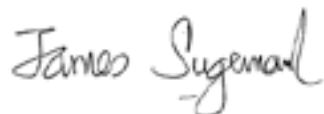
Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements are located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My opinion does not provide assurance:

- that the Company carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



James Sugumar
Director, Financial Audit Services

31 August 2018
SYDNEY

FINANCIAL STATEMENTS

Start of audited financial statements

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Profit for the year from Discontinued Operations	2	-	-
Income Tax		-	-
Profit for the year net of tax		-	-
Other Comprehensive Income		-	-
Total Comprehensive Income for the year		-	-

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	2018 \$'000	2017 \$'000
Current Assets			
Other financial assets	3	5,805	5,805
Total Current Assets		5,805	5,805
Total Non-Current Assets		-	-
Total Assets		5,805	5,805
Total Current Liabilities		-	-
Total Non-Current Liabilities		-	-
Total Liabilities		-	-
Net Assets		5,805	5,805
Equity			
Contributed equity	4	900	900
Retained earnings		4,905	4,905
Total Equity		5,805	5,805

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Retained Earnings	Contributed Equity	Total
		\$'000	\$'000	\$'000
Opening balance at 1 July 2017		4,905	900	5,805
Profit / (loss) for the year		-	-	-
Total comprehensive income for the year		-	-	-
Transaction with owners in their capacity as owners		-	-	-
Balance at 30 June 2018		4,905	900	5,805

	Notes	Retained Earnings	Contributed Equity	Total
		\$'000	\$'000	\$'000
Opening balance at 1 July 2016		4,905	900	5,805
Profit / (loss) for the year		-	-	-
Total comprehensive income for the year		-	-	-
Transactions with owners in their capacity as owners		-	-	-
Balance at 30 June 2017		4,905	900	5,805

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

DISCONTINUED OPERATIONS

	Notes	2018 \$'000	2017 \$'000
Cash Flows from Operating Activities		-	-
Net cash flows from operating activities	5	-	-
Cash Flows from Investing Activities		-	-
Net cash flows from investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash at the beginning of the financial year		-	-
Cash at the end of the financial year		-	-

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for Hunter Water Australia Pty Limited (the Company) which is a fully owned subsidiary of Hunter Water Corporation (the Parent Entity).

The Company's financial statements for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the Board on 30 August 2018.

A. BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001*, Part 3 of the *Public Finance & Audit Act 1983* and *Public Finance and Audit Regulation 2015*.

The Board has determined that the Company is a for-profit entity for financial reporting purposes. The accounting policies applied are based on the requirements applicable to for-profit entities on these mandatory or statutory requirements. As a result of the asset sales in December 2014 the financial statements have been prepared on a liquidation basis as the Company is in the process of liquidation including voluntary wind up and deregistration. The Company expects to wind up liquidation by 30 June 2019.

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

ROUNDING

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

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.

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 and its Parent Entity decided to implement the tax consolidation from 1 July 2003.

The Parent Entity, 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.

D. FAIR VALUE HIERARCHY

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring fair value, the valuation technique used maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Refer Note 3 for further disclosures regarding fair value measurements of financial and non-financial assets and liabilities.

E. 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.

F. 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.

Cash flows of GST are included in the Statement of Cash Flows on a gross basis.

G. ACCOUNTING STANDARDS AND AUSTRALIAN ACCOUNTING INTERPRETATIONS ISSUED BUT NOT YET OPERATIVE

Certain new accounting standards and interpretations applicable to the Company have been published that are not mandatory for the year ended 30 June 2018 and beyond. As the Company has entered liquidation the impact of new accounting standards issued but not yet operative are not material as assessed by management.

NOTE 2. DISCONTINUED OPERATIONS

DESCRIPTION

In July 2014, the Board of Hunter Water Corporation resolved its intention to sell its subsidiary, the Company. The associated assets and liabilities which made up the operations of the Company were sold through two separate transactions. The laboratory assets were sold on 18 December 2014, and the engineering assets were sold on 31 December 2014. Financial information relating to the discontinued operations for the year up to the balance date are set out below.

	2018 \$'000	2017 \$'000
Profit from Discontinued Operations		
Revenue	-	-
Expenses	-	-
Profit before Income Tax	-	-
Income Tax Expense	-	-
Profit from Discontinued Operations	-	-

Audit fees for 2018 of \$4,500 (2017: \$5,000) were paid by the Parent Entity.

Liquidation fees for 2018 of \$13,936 (2017: \$10,195) were paid by the Parent Entity.

NOTE 3. OTHER FINANCIAL ASSETS

Current	2018 \$'000	2017 \$'000
Loan to Parent Entity	5,805	5,805
	5,805	5,805

The intercompany loan is interest free and unsecured. It is measured at amortised cost and is expected to be settled at the conclusion of the liquidation process by 30 June 2019.

The Company's exposure to interest rate risk is discussed in Note 10. The maximum exposure to credit risk at the end of the reporting period is the carrying amount mentioned above.

Fair Value Hierarchy

The loan to the Parent Entity is measured under the fair value hierarchy as a level 3 input.

NOTE 4. CONTRIBUTED EQUITY

	2018 \$'000	2017 \$'000
Issued and paid up capital 900,010 ordinary shares each fully paid	900	900

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 5. STATEMENT OF CASH FLOWS - OPERATING ACTIVITIES

There were no cash flows for the company during the financial years 2017 or 2018.

NOTE 6. CONTINGENT LIABILITIES AND ASSETS

During August 2018 a legal matter regarding an outstanding claim with Hunter Water Australia Pty Limited was resolved. The company expects to proceed with full wind up and liquidation by 30 June 2019. Management does not expect to incur any cash outflows relating to this matter as it is covered by insurance.

No other contingent assets or liabilities identified at balance date (Nil at 30 June 2017).

NOTE 7. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors (the Audit Office of NSW), from the Company:

	2018 \$'000	2017 \$'000
Audit of financial reports (exclusive of GST)	5	5
	5	5

Audit fees for 2018 and 2017 were paid for by the Parent Entity.

NOTE 8. 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 Parent Entity Hunter Water Corporation owns 100% of the issued ordinary shares of Hunter Water Australia Pty Limited.

A. PARENT ENTITY

Outstanding Balances at Year End	2018 \$'000	2017 \$'000
Receivables		
Inter-company loan to Parent Entity	5,805	5,805
Total receivables	5,805	5,805

B. RELATED ENTITY/PARTY

No related party transactions have been entered into over the past two financial years other than transactions through the intercompany loan account.

NOTE 9. 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

Mr P Dalglish

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 Company, directly or indirectly, during the financial year:

Name	Position
Ms F Cushing	Acting General Manager (to 30 April 2018)
Mr P Kembrey	Acting General Manager (from 1 May 2018) Company Secretary

C. KEY MANAGEMENT PERSONNEL COMPENSATION

No compensation has been provided to Key Management Personnel since operations ceased in December 2014.

NOTE 10. FINANCIAL RISK MANAGEMENT

CREDIT RISK

Credit risk is the risk of financial loss to the Company if the Parent Entity fails to meet its loan obligations, which is considered to be a very low risk.

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 rate on classes of financial assets and liabilities. The Company's loan to the Parent Entity is unsecured and interest free. The interest rate risk is considered to be very low.

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:

	Notes	2018 \$'000	2017 \$'000
Loan to Parent Entity	3	5,805	5,805
		5,805	5,805

NOTE 11. EVENTS OCCURRING AFTER BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affect or may affect the operations of the Company, the results, or the state of affairs of the Company.

END OF AUDITED FINANCIAL STATEMENTS.

DIRECTORS' DECLARATION

Pursuant to section 41C of the *Public Finance and Audit Act 1983* and Section 295A of the *Corporations Act 2001* we state that in the opinion of the Directors of Hunter Water Australia Pty Limited (In Liquidation), the financial statements and notes:

- a) Exhibit a true and fair view of the financial position of the Company as at 30 June 2018 and its performance as represented by the results of its operation and its cash flows for the year then ended.
- b) Comply with 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 2015*.

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 of Hunter Water Australia Pty Limited (In Liquidation):



Mr Terry Lawler AO
Chairman



Mr Peter Dalglish
Director

Dated 30 August 2018
Newcastle

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