


HUNTER WATER ANNUAL REPORT

2016-2017



ACKNOWLEDGEMENT OF COUNTRY

Hunter Water operates across the traditional country of the Awabakal, Birpai, Darkinung, 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.



Front cover
image of Newcastle
taken by Hunter
Water's First Year
Electrical Apprentice,
Dylan St John

ABOUT THIS REPORT

The 2016-17 Annual Report provides an overview of Hunter Water's activities and performance for the period 1 July 2016 to 30 June 2017.

It includes highlights from the year, financial reports, statistical information and the activities of Hunter Water's 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.

To provide 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
Minister for Industrial Relations
Member for Hawksbury
52 Martin Place
SYDNEY NSW 2000

The Hon. Victor Dominello
Minister for Finance, Services and Innovation
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 2017 for presentation to the Parliament of New South Wales.

Our Annual Report 2016-17 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 2016-17, 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
Chairman



Jim Bentley
Managing Director

CONTENTS

05 ABOUT US

06 A MESSAGE FROM THE CHAIR AND MANAGING DIRECTOR

08 YEAR IN REVIEW

10 DELIVERING THE REGION'S ASPIRATIONS

Introduction to Strategy 2017+3

Purpose/Vision and Values

Sustainable Development Goals

15 2016-17 STRATEGIC PRIORITIES

To be a thought leader in developing
a sustainable and resilient water and
wastewater future

To enable good development

To provide great services to our
customers, consumers and communities

To realise the benefits that being
a digital utility can provide

To lead the water industry in efficiency
and productivity

To be a great employer

28 CORPORATE INFORMATION

Organisation Profile

Board

Organisational Chart

Governance

32 FINANCIAL STATEMENTS

Directors' Report

Independent Auditor's Report

Financial Statements

Directors' Declaration

81 ADDITIONAL INFORMATION

General Statistics

Financial

Employees

Legislation

Public Interest Disclosures

Risk Management and Insurance Arrangements

116 HUNTER WATER AUSTRALIA

Organisational Profile

Directors' Report

Auditor's Independence Declaration

Independent Auditor's Report

Financial Statements

Directors' Declaration

ABOUT US

Hunter Water is a State Owned Corporation (SOC) providing 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 on Tyrrell Street. We are committed to building a better understanding of the water and wastewater system in our community.

We have 466 employees who are committed to delivering safe, affordable and reliable services to our community. Our employees work 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, ensuring a sustainable water future for the Lower Hunter.

OUR NETWORK

Our services, projects and activities cover 6,671 square kilometres in the areas of Cessnock, Lake Macquarie, Maitland, Newcastle, Port Stephens, Dungog and small parts of Singleton. We deliver an average of 188ML (one megalitre equals one million litres) of water per day. Our major water sources are: Grahamstown Dam (182,305ML), Chichester Dam (18,356ML), Tomago Sandbeds (60,000ML) and Anna Bay Sandbeds (16,024ML).

We supply bulk water to small parts of the Great Lakes area and are capable of supplying up to 35ML per day to the Central Coast. We maintain an extensive system to transport wastewater, which includes sewer mains and pumping stations and wastewater treatment works. We own and operate 96km of stormwater assets in parts of Lake Macquarie, Newcastle and Cessnock.

Our dams hold

276,685
million litres

5,033KM

water mains transport
water to the Hunter



We supply
more than

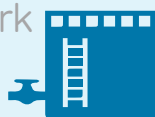
67,000

million litres of
water each
year



78

reservoirs store
water
throughout our
network



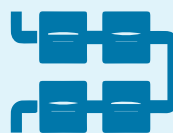
6

water treatment plants
produce high quality
drinking water



5,046KM

of sewer mains
transport sewerage
to our treatment works



Our stormwater
network runs
for more than **96**
kilometres

19

wastewater treatment
works treat the
Hunter's sewage



We treat **70,000**
million litres of sewage
each year

A MESSAGE FROM THE CHAIR AND MANAGING DIRECTOR



With 125 years of continuous service, Hunter Water is one of the Hunter region's oldest organisations. We are proud of our heritage, and appreciate the feedback from our customers which consistently indicates the high regard for our organisation and the services we provide. The history of Hunter Water is one of determination, resilience, and innovation to ensure that the Hunter received the essential services and resources it needed to grow from a coal mining settlement to today's thriving, diverse region.

Looking back at the last 125 years, you can't help but acknowledge how adversity and challenges have been overcome through the ingenuity of the thousands of people who have worked for us as employees or with us as partners. These men and women have supported huge transformations in our region, allowing for the industrial boom of the 20th Century and the post-steel manufacturing reinvention of our city.

As we reflect on the past, we also need to focus on the future, and the new possibilities available in meeting our social and community responsibilities.

Today our region is entering a new and exciting phase with a growing metropolitan area, economic diversification led by a smart economy, and global gateways that are connecting Greater Newcastle to the rest of the world. This transformation is recognised and supported by the NSW Government, which has promoted a strong 20-year blue print for the Hunter being Australia's leading regional economy with a vibrant metropolitan city at its heart.

Reflecting this continued change, in 2016-17 Hunter Water launched the new 2017+3 Strategy which outlines the direction we will take with our communities in the lead up to our next price submission, laying the foundations to develop a Long Term Plan. The 2017+3 Strategy builds on our track record of safe and reliable services, and financial sustainability. However, it also acknowledges that while continued high performance in meeting our compliance obligations is essential, it is not sufficient. This is because the combination of a growing region, and new opportunities through technological development, requires us to adopt a different approach to the services we provide for customers and the community. In addition, we need to build a more sustainable and resilient system which has the ability to adapt to change and move towards carbon neutrality.

Hunter Water has an essential role to play in delivering the vision for our region, enabling sustainable growth and providing services that support the livelihoods expected by the communities in the Hunter.

It is therefore important that we work closely with local councils in our area of operations and with the development sector to ensure that as the population of the region grows, this growth is achieved in line with water sensitive urban design principles. New and emerging technologies will allow residents to reduce their water footprint and have more control over their water and wastewater costs. The uptake of such technologies at the individual home level could significantly enhance the water resilience of the region. Hunter Water must be a thought leader in this area, optimising investment in water supply and wastewater networks by understanding the potential transformation that this technology can enable, rather than over-investing in central, large-scale infrastructure.

In addition to documenting our strategic approach and direction, this Annual Report also outlines our performance in the last financial year. Financially, Hunter Water exceeded forecasts with a net profit after tax of \$54.7 million (up from \$39.1 million in 2015-16). Increased income was primarily due to increases in developer contributed assets (\$33.1 million in 2016-17, up from \$26.5 million in 2015-16). Achieving productivity gains and the early identification of other operational cost savings allowed us to bring forward \$2.4 million of expenditure on projects to reduce safety and environmental risks, while still achieving a saving of \$3.8m compared to budget.

Investment continued across the region with a \$87.8 million capital portfolio spend, delivering a new ultraviolet disinfection system at Burwood Beach Wastewater Treatment Works, upgrades to biosolids storage areas across our Wastewater Treatment

Works and the delivery of a new water reticulation network on behalf of the Commonwealth Government to provide properties within the Williamstown Contamination Investigation Area with access to a safe town water supply.

While an international comparison demonstrates that Hunter Water performs strongly in terms of leakage levels, compared to our Australian peers there is an opportunity to improve. In 2016-17 we commenced work on a new approach to leakage, focusing more attention and investment to improve our performance, and increase the resilience of our supply. This included delivering a major relining of the Black Hill Reservoir, which will reduce leakage by approximately 215 million litres of water each year. This work will be critical in understanding how we provide water security to the people of the region without closing out opportunities available through technology.

Operational performance was generally strong, with a reduction in lost time injuries (from five in 2015-16 to one in 2016-17) and a reduction in complaints (down 34% on 2015-16 levels). We also commenced the delivery of a new Health and Wellbeing Programme centred on physical and mental resilience, a new leadership development programme for all leaders in our business, and the application of world leading research to build Hunter Water as a learning organisation that can harness skills to become better at managing change, innovation and service delivery to our customers.

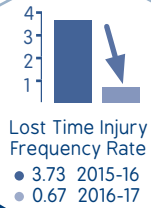
2016-17 has been a year of building new partnerships, highlighted with the historic signing of a detailed Memorandum of Understanding with the University of Newcastle, establishing the University as Hunter Water's principal research partner. Additionally, separate MOUs signed with local authority partners such as Port Stephens Council and Lake Macquarie City Council are already delivering results, with the sharing of resources and stronger capacity to address shared challenges.

We are exploring all opportunities to ensure the long term water security of our region, including understanding how water will be used in homes of the future. This work will allow us to better understand future needs and challenges, and potentially mitigate the need for the delivery of significant new water assets.

2016-17 was not without its challenges. A major break on a trunk main in remote western Lake Macquarie in February 2017 and a break at Wallsend caused by a road maintenance contractor in March 2017, saw 5,000 and 3,000 properties respectively experience water outages, causing Hunter Water to exceed its operating licence condition for unplanned interruptions. Our team responded exceptionally well to these incidents, with a proactive approach to customer notification and provision of alternative drinking water supplies. A number of actions have been undertaken since the incidents to reduce the likelihood of reoccurrence of such outages.

In the year ahead we will continue progress on our strategic priorities. We will focus on improving our understanding of community values and expectations, promoting resilience and sustainability approaches to our long-term water security challenges, and working with communities, partners, regulators and Government to ensure that the best available knowledge is applied to facilitating the region's growth.

YEAR IN REVIEW

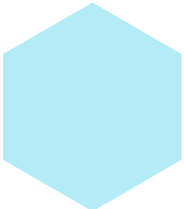
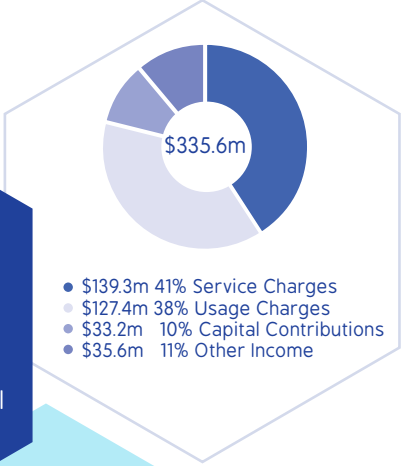


Health and Wellbeing

Hunter Water launched an employee health and wellbeing programme focussing on physical and mental resilience.

Total Income

Total income for 2016-17 was \$336m which was \$5m higher than 2015-16. The primary driver for the increase in income was an increased level of developer contributed assets.



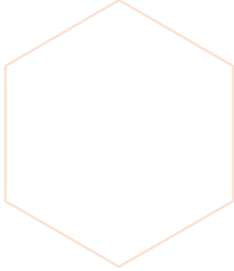
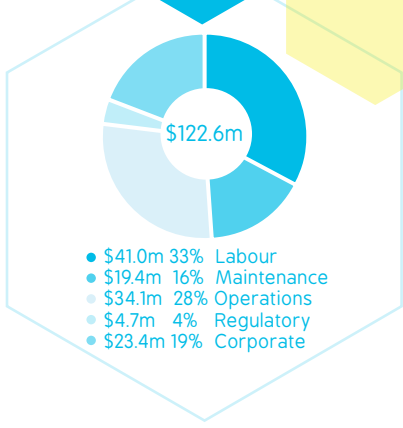
Operating Expenditure

Total operating expenditure for 2016-17 was \$122.6m which was \$2.9m higher than 2015-16 with the increase largely attributable to inflation.



Diversity Partners

We partnered with UoN to launch the 'Hunterwise' initiative to foster the regional innovators and entrepreneurial women of tomorrow.

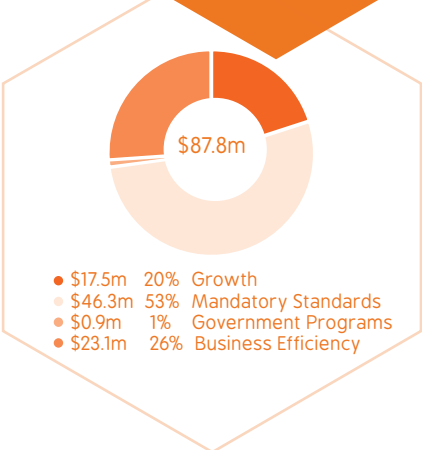
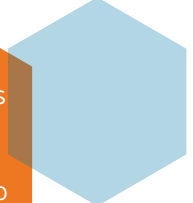




Hunter Water adopted the WSAA Fatal Risk Standards which aim to fatality proof the water services industry.

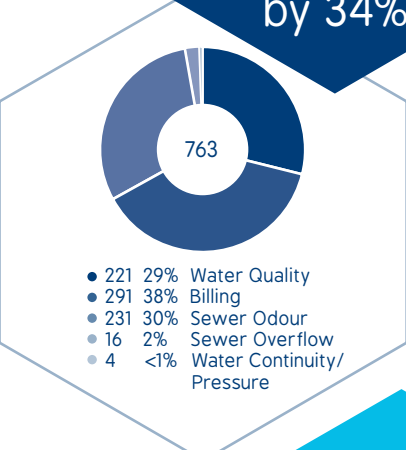
Capital Portfolio

Hunter Water invested \$87.8m on its assets including installing an ultraviolet (UV) disinfection plant at Burwood Beach Wastewater Treatment Works, upgrades to biosolids storage areas across our Wastewater Treatment Works and constructing a water reticulation network at Salt Ash. Investment in 2016-17 continued to focus on meeting regulatory requirements and the ongoing renewal of existing assets.



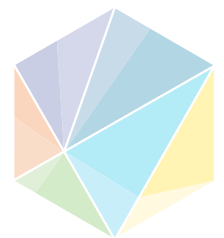
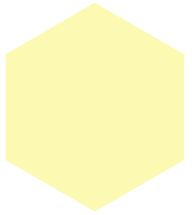
125,000
visits to our top ranked online water usage calculator

Customer complaints reduced by 34%



University of Newcastle Partnership

In May, we signed a Memorandum of Understanding with the University of Newcastle to launch a research partnership that will help shape our region's future. Understanding how our community will want to live in the future, with significant technology and social change, will be essential to Hunter Water's planning.



Productivity

Hunter Water completed its Field Productivity project, to achieve 15% efficiency and \$1.4 million in savings across Maintenance Services.

DELIVERING THE ASPIRATIONS OF OUR REGION



Image of Lake Macquarie taken by Hunter Water's 1st Year Electrical Apprentice Dylan St John

ENABLING THE LIFE OUR COMMUNITIES DESIRE

Hunter Water is at the heart of a rapidly transforming region which is developing towards its vision of being the leading regional economy in Australia with a vibrant new metropolitan city at its heart.

Across the last 125 years, Hunter Water has achieved a strong track record of delivering safe, reliable and efficient water and wastewater services to the region.

Particularly in recent years, we have demonstrated a strong compliance track record and have developed a financially sustainable business. However, continued high performance in meeting our compliance obligations and being financially responsible is essential but not sufficient. We need to build on this success and look to how we can contribute to delivering the vision for the region, informed by what our communities value in terms of sustainability and what lives they want to lead.

The Hunter Water Strategy 2017+3 outlines our approach to developing a Long Term Plan which will

come into effect once the outcome of our next price path is known in 2020. In the next two years, we will engage in a detailed conversation with our community and stakeholders, undertake research and analysis, develop our thinking and build thought leadership credibility. Through this work we will define how we can enable the vision for the region and contribute to its sustainability.

Supporting preparation of the Plan will be development of a deeper understanding of our customer and community values and expectations and of how digital technologies can be best deployed to help transform our business. We will collaborate with our partners to deliver our vision and we will invest in our people so that we have the capabilities and culture to address the challenges ahead. We will harness efficiencies to deliver services that enable the vision for region whilst maintaining affordable prices.

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





OUR VISION

TO BE A VALUED PARTNER IN DELIVERING
THE ASPIRATIONS FOR OUR REGION

OUR PURPOSE

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



OUR VALUES

Our values define who we are as an organisation and how we behave. We will be successful by embodying our values 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 will strive for excellence, to be the best we can be and to continually improve.

COLLABORATION

We are collaborative and recognise that by working with others and sharing information and ideas we can develop better solutions.

COURAGE

We have the courage to turn challenges into opportunities.

OUR STRATEGIC CONTEXT



Hunter Water is facing a number of key challenges and opportunities to which we must respond to ensure we are delivering our services to the expectations of our customers.

These challenges and opportunities include:

- Population Growth - The population in our area of operations is projected to grow by 122,000 people over the next 20 years whilst the greater Hunter Region is projected to grow by 130,000 people over the same period. The Greater Newcastle area will be the focus for much of this growth.
- Changing Planning Environment - With the recent release of the Hunter Regional Plan, and the current development of the Greater Newcastle Metropolitan Plan, the NSW Government has announced fundamental changes to the way in which land-use planning is undertaken in the Hunter, with a greater focus on planning at a regional level.
- Customer, Consumer and Community Expectations - Social and demographic change and evolving customer, consumer and community expectations will challenge the way we operate. There is a trend for increased tracking of personal information and for consumers and the community to demand greater transparency and access to information. We need to understand how these broad trends are manifesting in our region and develop a more detailed and comprehensive understanding of our, customer, consumer and community expectations.
- 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 to old problems and to create new opportunities.
- Climate Change - 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 large parts of our region and our assets.
- Price and cost increases - Increased cost of living pressures and the high relative proportion of working families in our region, 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 whilst 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

The Sustainable Development Goals (SDG) are 17 integrated global goals developed to support people, promote prosperity and protect the planet. The United Nations resolved to adopt the SDGs in September 2015, with Australia being one of 193 member states to endorse their implementation.

The SDGs are intended to stimulate sustainable global action over 15 years (to 2030). They are universally applicable (to both developed and developing nations) and internationally recognised and supported. They provide a common framework for engagement with stakeholders across all industries, public and private, to achieve global goals.

The SDGs offer a new way of thinking that challenge the traditional 'business as usual' approach.

Progressing the SDGs is likely to increase alignment with emerging government policy, increasing resilience and strengthening our 'licence to operate'. Importantly, they offer a roadmap for achieving our regions vision.

Hunter Water is in a unique position to work towards and promote the progression of the SDGs, especially those relevant to our operations. Hunter Water has mapped our current activities through the lens of the SDGs, identifying what aspects are most important to achieving Hunter Water's vision, viewing the scope of the SDGs and evaluating our positive or negative impact on those goals. The outcomes of this work will underpin long-term goals for Hunter Water that are ambitious, outward-looking and provide a holistic approach across Hunter Water's footprint. The alignment of Hunter Water's strategic direction to the SDGs, as outlined in the 2017+3 Strategy, is presented below.





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

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 in this area we aim for our advice and opinion to be sought after, and valued, by our stakeholders.

Sustainability requires the balancing of economic, social and environmental goals to deliver the best outcomes now and for future generations. We will develop decision making processes that allow us to have meaningful and informed engagement with our community and stakeholders.

Climate change, rapid technological change and changing community expectations means the future is uncertain. As an organisation we need to be resilient to change and deliver solutions that can deal with uncertainty.



Key to demonstrating thought leadership is continuing to deliver on the foundations of our business of delivering safe, reliable and efficient services and meeting our compliance obligations. We will not have credibility as thought leaders in sustainability if we do not continue to maintain our performance in these areas.

YEAR IN REVIEW

This year has seen the initiation of Hunter Water's thought leadership journey, which has started with developing new relationships with other utilities and stakeholders for the purpose of finding opportunities for collaboration and innovation.

Hunter Water has also embarked on a new sustainability programme targeted at reducing water consumption and enhancing resilience, and exploring opportunities to reduce carbon emissions through changes in wastewater management

Key initiatives for 2016-17 included:

- Hosting representatives from other utilities to sit alongside academics and world-leading public infrastructure thought leaders to discuss how the latest research can lead to more sustainable water management and improved liveability. The roundtable event was the first of its kind for Hunter Water and

an opportunity to start the conversation with Hunter Water's leaders and partner organisations about the opportunities to break away from traditional thinking for short and long term benefits.

- Launching a historic research partnership with the University of Newcastle to build an understanding of how tomorrow's communities will want to live, and how social and technological innovation will contribute to a more integrated and sustainable future.
- Initiating a Non-Revenue Water (NRW) Programme with a cross organisational approach to reducing water lost from the system through leaks, theft and inefficiencies. So far the team has doubled Hunter Water's active leak detection in the network, identifying an additional 473 leaks which otherwise would have gone unnoticed. NRW has identified a number of other short term initiatives with significant water savings, including lining Black Hill Reservoir, which will save 215 megalitres per year. In total the NRW team has reduced the amount of non-revenue water by 600 megalitres in 2016-17.
- Adopting the United Nations' Sustainable Development Goals (SDGs) and applying them where relevant to each of our strategic priorities. The SDGs will guide project planning and decision making for



CASE STUDY - UON PARTNERSHIP

In May Hunter Water signed a Memorandum of Understanding with the University of Newcastle (UON) to launch a research partnership that will shape the region's future.

With an extra 122,000 people expected to make the Hunter home over the next 20 years, the partners will work to understand how tomorrow's communities will want to live, and how social and technological innovation will contribute to a more integrated and sustainable future.

The University of Newcastle partnership is broad reaching and will take advantage of local research expertise not only in engineering, but also in fields like social science, the environment, and information technology. This research can then feed improvements in how we operate and support the future development of our communities.



Hunter Water in 2017-18 and beyond. The Sustainable Development Goals were used as a lens to assess Hunter Water's current impacts (both positive and negative) across social, environmental and financial aspects. Whilst there was already strong alignment between our 2017+3 Strategy and the SDGs, further opportunities were identified that would contribute to our strategic direction as well as progress the SDGs across local and global levels. These opportunities will be further explored in the development of our long term goals and objectives.

FUTURE DIRECTION

Hunter Water will sharpen its focus on sustainability outcomes in 2017-18, including working towards a strategy for generating renewable energy from wastewater, implementing initiatives to reduce non-revenue water, and working with our communities to reduce water consumption. While ensuring the security of water supply for the region is at the forefront of our focus, we see great value in keeping our major investment options open to allow time for innovation and disruption to cause change in how our region can conserve water, and extend our supplies.

Key initiatives for the coming year include:

- Developing a sustainable wastewater and renewable energy strategy. Hunter Water understands that wastewater collected from households and industry contains valuable resources, and can be used to help meet future demand for water, energy and nutrients. In 2017-18 we will investigate more sustainable opportunities, including cost-effective water recycling and turning sewage into a renewable energy that powers our treatment plants. This scoping is underway, with workshops between Hunter Water and industry experts, researchers and potential partner organisations.
- Hunter Water will build on the early success of the Non-revenue Water project, with a number of initiatives underway to save a projected 1 billion litres of potable water. These include undertaking active leak control of the entire network by August 2018, reducing potable water consumption at wastewater pumping stations through efficiencies and use of recycled water.

CASE STUDY – CENTRE FOR EDUCATION

An essential part of building a smart, resilient water future is ensuring young people understand the value and importance of water. That's why Hunter Water has opened its Centre for Education, a \$1 million purpose-built facility designed to teach children about the local water supply and instil water wise behaviours from a young age.

The Centre for Education is open for school tours with a programme tailored to the school curriculum delivered by education specialists. Hundreds of local students have already toured the Centre, learning about our water system in a hands on environment with experiments, interactive games and working models.

By educating our children about smarter water use, we can reduce the pressure on the water supply as our population grows, making for a more secure and sustainable future.



TO ENABLE GOOD DEVELOPMENT

The NSW Government's Hunter Regional Plan 2036 holds the vision of the Hunter being Australia's leading regional economy, with a vibrant metropolitan city at its heart. Hunter Water's goal of enabling good development is fundamental to achieving this vision.

Our role will be to use our expertise to provide solutions that help deliver on this vision. This will mean thinking beyond just the assets that we own, considering the whole system and partnering with Local Councils and other stakeholders to enable growth that is affordable and sustainable. We will develop and pursue opportunities to contribute to the amenity of new and existing urban areas.

Our objectives to enable the vision for the region are to, provide sustainable services for population growth,

deliver efficient and innovative services and solutions for new development work with developers and planning authorities to improve sustainability for new development, and improve the amenity of our urban areas.

YEAR IN REVIEW

Hunter Water has commenced a comprehensive review of our approach to the delivery and funding of water and wastewater infrastructure that supports urban growth in our area of operations. Part of this review includes a proposed package of initiatives including:

- An annual Growth Plan detailing Hunter Water's planning processes and forward capital works programme. The Plan will also include growth maps showing the likely location and timing of new development across our area of operations.



- A Funding and Delivery of Growth Infrastructure Policy detailing revised funding categories for growth-related assets, including a new category of works where Hunter Water would (subject to certain criteria) enter into a commercial agreement to repay infrastructure costs when development milestones are met.
- Procurement Guidelines for Developer Delivered Infrastructure setting out minimum requirements for developers to demonstrate 'value for money' before Hunter Water would repay infrastructure costs under a commercial agreement.
- Partnering with Local Councils across our area of operations to better coordinate and collaborate on growth plans and delivery. This included agreeing Memorandum's of Understanding with Lake Macquarie City Council and Port Stephens Council in the past year.

Hunter Water also developed another initiative aimed at enabling good development, which is to place more autonomy back with the development community in the delivery of infrastructure where the associated risks are relatively low (Certification of Routine Works).

For more technically challenging works (Complex Works), Hunter Water wishes to remain fully engaged with Accredited Suppliers (Designers and Construction Contractors) in the asset creation process. This allows for a more streamlined process for developers, cutting unnecessary red tape and placing responsibility with the developer.

FUTURE DIRECTION

Hunter Water's current Funding of Growth Infrastructure Policy has remained largely unchanged since it was first implemented in 2003. The Policy has worked as originally designed in an era where there was limited coordination of planning activities across the various local government areas in the Lower Hunter. Today presents an opportunity to reconsider Hunter Water's approach to enabling good development.

Hunter Water will continue to fund those regional assets that form the backbone of our system: bulk water supplies, water and wastewater treatment operations, trunk infrastructure, and key parts of the water distribution and wastewater transport networks. The approved servicing strategy for many new developments requires the developer to construct 'right-sized' assets that provide capacity for nearby development that may connect in the future. Good infrastructure planning should look at the present value of lifecycle costs and avoid individual developers constructing separate assets to connect new developments in the same local area.

Hunter Water's current funding policy relies on reimbursement payments from developers who make use of assets funded by the lead developer at a later time. The lead developer has no guarantee of a reimbursement payment, as it is subject to decisions by other developers about the location and timing of subsequent development projects. This can make it more difficult for the lead developer to raise the project finance necessary to commence works on a new development.

We propose to provide for the repayment of the costs associated with the delivery of connection assets that provide shared capacity for other developments. The key feature of this model is that the lead developer funds the delivery of right-sized assets and Hunter Water would repay those costs if the developer successfully achieves agreed milestones. The developer would have a 'bankable' funding commitment from Hunter Water based on the number of new lots connected within the development.

Along with Hunter Water's annual 'Growth Plan', these changes will improve the way we work with developers, ensuring Hunter Water is helping to deliver on the NSW Government's vision for the region.

CASE STUDY - CERTIFICATION OF DEVELOPER WORKS

Phase one of the Certification of Developer Works project went live in July 2017, providing more autonomy to the development community to deliver lower risk assets. The Urban Development Institute of Australia (UDIA) has offered public praise, citing the quality of the collaboration, engagement and valuing the opportunity to meaningfully help shape the direction Hunter Water takes in enabling good development. Phase two of the project will be delivered over 2017/18 concurrently with other service improvement initiatives.



TO PROVIDE GREAT SERVICES TO OUR CUSTOMERS, CONSUMERS AND COMMUNITIES

Hunter Water exists to serve the community of the Lower Hunter. We serve a diverse range of customers whose needs and expectations for improved services continue to change and grow.

Understanding the expectations of customers, consumers and the community of how they want to live in the future will increasingly need to guide our decision making over the short, medium and long term.

Our objectives in engaging and learning with our customers, consumers and communities are to:

- Understand customer, consumer and community needs and expectations.
- Provide great service to customers, consumers and communities.

- Actively participate as a member of our community.
- Be responsive to the needs of our customers, consumers and communities.

We engage and work with our customers, consumers and communities to find solutions to meet their expectations. By listening and learning with our customers we will be able to better design and deliver the services they want from Hunter Water in the future, including digital tools and platforms to offer more service choice for customers and more intelligent systems and networks to optimise our services.



YEAR IN REVIEW

Key initiatives and highlights for 2016-17 included:

- Delivery of the Williamstown water reticulation project on behalf of the Commonwealth Government, Hunter Water project managed the delivery of nine kilometres of new water mains in the Williamstown Investigation Area by July 2017. Hunter Water is now working with individual customers to connect their property's plumbing to the new drinking water network.
- Hunter Water's Payment Assistance Scheme (PAS) provides an important and responsive service for customer's that may be in financial stress. In the past year the PAS team helped 440 customers and also conducted 68 outreach activities at community events to help customers become aware that help is available in managing bills.
- Our improved focus in customer service also helped realise a 34% decrease in customer complaints across the year.
- Started our Billing System Refresh Programme. This initiative will deliver a contemporary software solution providing a foundation piece for Hunter Water to deliver superior customer service. It will also provide for efficient ways to manage core business processes associated with the meter to cash billing functionality which will enable Hunter

Water to meet the evolving needs of its customers and the community.

- We commenced a new reputation tracking programme to gauge customer and community sentiment of Hunter Water's performance. These regular snapshots will better help guide decision making on the impacts of our work and how we engage with customers and the community.

FUTURE DIRECTION

In developing a long term plan, we will undertake a program of research and engagement to gather insights and learn with our customers, consumers and communities on what the future of direction our plan will be. We need to ensure that we understand what our customers, consumers and communities' views and preferences are, so our future work is relevant, timely and meets expectations.

Our engagement with our customers, communities and stakeholders will be ongoing and iterative over the next three years. Using a range of face-to-face and digital channels, our approach will aim to create opportunities to provide interest in water to foster informed conversation and mutual learning.

Better understanding the aspirations of our community will provide a foundation for our investments and will guide us in providing services that our customers, consumers and communities desire.

CUSTOMER RESPONSE

In March 2017, a large break at Maryland in Newcastle occurred when a third party excavator accidentally hit a 500mm trunk main supplying the suburbs Fletcher, Maryland, Minmi and Black Hill.

Our team was able to redirect some supply to the area, however this needed to come through a smaller main and therefore the system could not fully recharge and return normal service to our customers.

Repairs to the watermain were made especially difficult due to the location being in a wetland.

We were able to provide emergency supplies to residents with bottled water drops, two centralised water collection points and tankers for critical customers. These locations were promoted prominently via our media and social media channels. Repairs were completed early the next morning, with crews working tirelessly through the night to restore services.

Hunter Water's customer-oriented response throughout the incident was well-received by local stakeholders, media and from customers impacted by the disruption.



TO REALISE THE BENEFITS THAT BEING A DIGITAL UTILITY CAN PROVIDE

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.

Digital technologies can provide insight into our customers, consumers and communities, and to focus our performance and how we can improve our utilisation of resources, manual processes, operating model and capabilities to provide better outcomes whilst minimising associated cost increases to our customers.

Our new digital focus will offer greater flexibility and convenience to our customers by establishing highly available and efficient digital channels as well as more

information to help our customers have greater control over their services and be able to make more sustainable choices.

The use of digital technologies will also aid our continuing focus on employee and community safety, doing everything we can to avoid harm and injury, as we also change our posture on environment interaction to move beyond a compliant impact to sustainable.

Our objectives in becoming a digital utility are to:

- Improve customer, consumer and community experience, revenue management, operating performance and risk management.
- Deliver Smart, Easy, Agile, Safe and Stable digital solutions and outcomes.



YEAR IN REVIEW

In the past year we have taken steps to better embrace and harness the digital landscape through the launch of our new Digital Strategy, which aims to re-establish Hunter Water as a modern, forward thinking and innovative organisation.

This has involved commencing an organisation-wide analysis to better identify and use digital technologies across traditional information technology and operating technology domains to deliver new and improved outcomes for our customers and the way we do business.

Earlier in 2017 we conducted a business analysis to identify the transformational state changes required and form a detailed list of initiatives concerning people, process and technology. The initiative also defined end state objectives that can provide long term guidance to decisions over time.

Other programs supporting our transformation this year:

- Concurrent with the early business analysis stage, we have commenced a current technology assessment in preparation for the actual delivery of new capabilities to the organisation.
- Security Management – a range of cyber security focused projects have been completed. Hunter Water continues to improve its posture to this rapidly evolving threat to ensure information is secure and key systems are protected.
- System Availability – several projects to improve the availability and redundancy of critical systems were implemented.
- Asset Management – Geographical Information System (GIS) Upgrade Project. This system is a key component of the management of assets. This enablement project now allows Hunter Water to comment further projects which aim to improve asset management within Hunter Water.

FUTURE DIRECTION

Over the longer term programmes, such as improved customer and community digital channels and modes of interaction, Internet of Things (IoT) adoption and rollout, implementation of an Intelligent Water Network and Field Service Management transformation, will be delivered to help realise our new way of business.

LPWAN (Low Powered Wide Area Networks) will enable technologies like smart water meters and IoT sensors to provide greater and more timely information to customers about service usage and enhance the overall operational network efficiency (eg. leak detection) and resilience.



TO LEAD THE WATER INDUSTRY IN EFFICIENCY AND PRODUCTIVITY

Efficient operations are essential to both ensuring our pricing remains affordable for our customers and our long term sustainability.

Our customers and shareholders expect us to operate in a manner at least as efficient as any comparable business. We will seek efficiencies in our operations to enable our vision to be realised whilst continuing to keep prices affordable.

We have made significant progress in delivering operational efficiencies in recent times and we know there is more that can be delivered.

Our objectives are to:

- Maintain customer prices in the lower quartile of the nation.
- Invest prudently and efficiently.
- Improve investment decision making.
- Continuously improve and harvest productivity savings.
- Deliver improvements in capital works procurement.
- Maintain operational productivity efficiencies obtained to date and deliver further productivity efficiencies of at least \$1 million per year across the 2017+3 Strategy period.
- Maintain an investment grade credit rating.



YEAR IN REVIEW

Hunter Water completed its Field Productivity project, aimed at achieving 15% efficiency and \$1.4 million in savings across Maintenance Services.

The main focus areas were implementing a centralised dispatch job scheduling system and robust maintenance planning process; modernisation of machinery overhaul workshop facilities and capability; optimisation of contracted service/resource augmentation; and improvements in the classification and management of spoil. The result was Hunter Water achieving its efficiency and savings targets, and increasing the reuse of spoil (reducing spoil waste to landfill by more than 20%).

While the initial targets were met at June 2017, an ongoing continuous improvement project has been implemented to coincide with benchmarking annually. Employees are encouraged to identify innovations in work practices, and new initiatives, progress and results are regularly shared at toolbox talks.

FUTURE DIRECTION

Hunter Water examines potential changes to the structure and setting of water, wastewater and stormwater prices at each four-yearly IPART review of prices. Hunter Water is always looking for ways of encouraging efficient consumption decisions as well as ensuring fair pricing outcomes across all customer groups in the Lower Hunter. Hunter Water will focus on economic modelling and customer engagement work to reassess the setting of water usage prices, location-based water prices for industrial customers and stormwater drainage charges in the lead up to the next price review.

Hunter Water is also reviewing best practice methods and governance processes for making investment decisions at the strategic, programme and project levels. This review will consider possible improvements to Hunter Water's current gateway investment process, drawing on recent work associated with 'investment logic mapping' and the 'better business case' framework. A key first step is ensuring that the detailed assessment of initiatives outlined in Hunter Water's 2017+3 Strategy provides a robust platform for considering individual business cases at the project level.



TO BE A 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.

We are a people business. Our success is built on our capability and behaviours to meet and exceed our customer's service expectations.

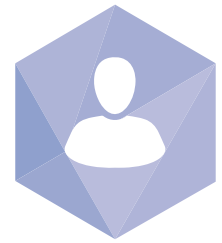
Our objectives in being a great employer are to:

- Have no one injured as a result of their work.
- Have a workforce that embraces learning, innovation and change.
- Be a workplace where diversity is welcomed and respected.
- Have a collaborative, outcome focused culture.
- Behave in accordance with our values.

To continue to meet, and exceed, our customers' expectations we need to become a learning organisation that embraces new thinking that is innovative and adaptable. This will require a shift to a more collaborative culture that is focused on delivering the best outcome for our customers, community and stakeholders. Increasing diversity in our workforce is important in helping become a more robust and resilient organisation.

YEAR IN REVIEW

In the past year we launched our People Plan to lift our performance under five main pillars: Workforce Capability and Skills, Leadership, Learning, Culture and Diversity & Inclusion.



Continuing to improve safety and wellbeing, particularly through a period of significant change, remained an ever-present focus in everything we did over the 2016-17 year. This included improving our safety culture and how we adapt to changes in business process and the potential adoption of new technologies.

Highlights in 2016-17 include:

- Implementing a Work Health and Safety programme to better keep our people, contractors and customers safe by eliminating workplace hazards. Existing practices of safety in design and safety in undertaking hazardous construction activities are being closely monitored and refined as potentially new technologies will be introduced.
- Implementing a Cultural Refresh Programme with participation from over 200 staff to gain a better understanding of what's currently happening in the organisation and identify improvement opportunities or change to help achieve our vision.
- Commencing the Leadership Development Programme to enable leaders in our business to effectively manage change and performance. This programme's first run has been expanded to benefit another cohort of senior leaders in 2017-18.
- Introducing our new Diversity and Inclusion Policy and Standard to ensure a diverse and inclusive workplace, where all workers are treated fairly, with dignity and respect. This approach is supported by a staff Steering Group which is responsible for communicating, championing and aiding the implementation of the diversity and inclusion strategy and key initiatives.
- Our annual staff survey results showed staff were highly engaged and had developed a good understanding of Hunter Water's new vision, objectives and values. Our areas for improvement include better adoption of digital technology, ability to manage change, learning and innovation and senior leadership capability.

FUTURE DIRECTION

Our people's capability and behaviours will be the driving force behind our success as a business and the successful implementation of our long term vision.

The roll-out and implementation of our People Plan will provide an impetus towards the required shift in our organisational culture of a more curious, adaptive, resilient and collaborative workforce.

Over the next year we will develop strategies to address current and future capability gaps and how to become a learning organisation, which better fosters an innovative and collaborative culture and embraces new technology. Our progress in these areas will be benchmarked by our annual staff survey which will inform further areas for improvement in future years.



CORPORATE INFORMATION

We operate within a risk-based framework that guides decision making and business controls.

OUR STRUCTURE

Under the *Hunter Water Act 1991*, the Board of Directors includes a Chairperson and up to nine directors, including the Managing Director. 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. This Executive Management Team's key responsibilities include accountability for operational safety, providing leadership to employees, delivering Hunter Water's strategic vision, 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 its shareholders, the NSW Government.

OUR BOARD

The Board of Directors is comprised of up to nine members, including the Managing Director, together with a Chairman and non-executive Directors appointed by the voting shareholders of Hunter Water - the NSW Treasurer and Minister for Finance, Services and Property. Directors, excluding the Managing Director, are appointed for a term of up to three years. Upon completion of their term, Directors may be appointed for a further term or subsequent terms. The maximum term a Director can serve is 10 years. 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.

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

For profiles of Hunter Water's Directors please refer to the Directors' Report on pages 33 and 34.



COMMITTEES



AUDIT AND RISK

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.

Membership

J Eather (Chair) (term ended 31 December 2016)

C Feldmanis (Chair) (term commenced 8 September 2016)

T Lawler

M Gleeson

R Lavery (term ended 22 June 2017, reappointed August 2017)

Frequency

At least four meetings per year.



COMMUNITY AND ENVIRONMENT

To ensure Hunter Water continues to maintain a proactive and strategic approach in relation to sustainable use of resources and delivery of services in the context of its trading, social and natural environment.

Membership

M Gleeson (Chair)

G Clarke (term ended 22 June 2017, reappointed August 2017)

R Lavery (term ended 22 June 2017, reappointed August 2017)

J Bentley

Frequency

At least four meetings per year.



CORPORATE GOVERNANCE

To ensure effective corporate governance within Hunter Water and to advise the Board on remuneration policy and matters concerning Board evaluation and composition.

Membership

T Lawler (Chair)

J Eather (term ended 31 December 2016)

P Dalglish

C Feldmanis (term commenced 8 September 2016)

J Bentley

Frequency

At least four meetings per year.



CAPITAL WORKS

To assist the Board by providing strategic overviews of the Capital Works programs.

Membership

P Dalglish (Chair)

T Lawler, J Eather (term ended 31 December 2016)

G Clarke (term ended 22 June 2017, reappointed August 2017)

R Lavery (term ended 22 June 2017, reappointed August 2017)

J Bentley

Frequency

At least four meetings per year.

GOVERNANCE

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, a 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.

PRICING

Our overall pricing structure is periodically reviewed and determined by IPART. Prices that applied for 2016-17 were set by IPART in 2016 and came into effect July 2016. For further details on pricing refer to the Pricing Structure information on page 105 and the Hunter Water website. 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.

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*.

DRINKING WATER QUALITY

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

Our Operating Licence requires us to comply with the guidelines which provide a solid foundation for assessing drinking water quality. We work closely with NSW Health to ensure that drinking water quality is managed appropriately.

FINANCIAL STATEMENTS



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 2017.

DIRECTORS

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

Mr T Lawler	Chairman
Mr J Eather	Deputy Chairman (retired on 31 December 2016)
Dr J Bentley	Managing Director (from 28 July 2016)
Prof M Gleeson	
Mr P Dalglish	(retired on 1 July 2016 and reappointed on 8 September 2016)
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	(from 8 September 2016)

COMPANY SECRETARY

Mr P Kembrey

AUDITORS

Audit Office of New South Wales

BANKERS

Commonwealth Bank of Australia

INFORMATION ON DIRECTORS

T LAWLER AO, B COM, 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 EATHER B COM, CPA, FGIA, MAICD

Mr Eather was appointed as a Director on 1 January 2008 and retired as a Director on 31 December 2016. Mr Eather is the Managing Director of The Callaghan Institute, a business and economic research and advisory practice he established in 2007. Previously he was CEO Media for the SOUL Group, where he was directly responsible for the running of NBN Television. During his 27 years with the NBN and SOUL Groups, he was actively involved in the expansion of the Group from its media base to the converging world of telecommunications. Mr Eather is the Chairman of the Newcastle Permanent Building Society and has previously been Chairman of the University of Newcastle Foundation.

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. 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 HRMI.

P DALGLISH BSC, GDIPMKTGMGMT, GAICD

Mr Dalglis was appointed as a Director on 2 July 2013 and retired on 1 July 2016. Mr Dalglis was reappointed as a Director on 8 September 2016. Mr Dalglis 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 Dalglis is currently a Director of Chester Consulting Pty Ltd and Strathfield Golf Club who 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, Philippines, Iraq and Vietnam.

R LAVERY MPH, B COMM, MPH, GAICD, CA F.FIN.SIA

Ms Lavery was appointed as a Director on 23 June 2014 and retired as a Director on 22 June 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 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 program 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.

P KEMBREY – COMPANY SECRETARY, BA, LLB, DIP. LEGAL PRAC.

Mr Kembrey was appointed as Hunter Water's General Counsel in January 2013 and appointed by the Board as Company Secretary in November 2013. In March 2015 Mr Kembrey was appointed as acting Executive Manager Corporate and Legal and appointed to the position permanently in October 2015. Mr Kembrey moved to Hunter Water from TressCox Lawyers where he worked for six years in the Commercial Litigation division. Prior to that Mr Kembrey worked in a variety of roles in the non-government sector in Newcastle and the Upper Hunter including Manager of Community Services for the Samaritans Foundation.

MEETINGS OF DIRECTORS

	Board Meetings				Committee Meetings							
	Audit and Risk		Corporate Governance		Community and Environment		Economic Regulatory		Capital Works			
	A	B	A	B	A	B	A	B	A	B		
T Lawler	12	12	4	4	3	3	*	*	*	*	3	4
J Eather ^a	5	6	2	2	2	2	*	*	*	*	2	2
M Gleeson	12	12	4	4	*	*	4	4	*	*	*	*
P Dalglish ^a	9	10	*	*	2	2	*	*	0	0	3	3
R Lavery ^a	11	11	3	3	*	*	4	4	0	0	2	2
G Clarke ^a	11	11	*	*	*	*	4	4	0	0	4	4
C Feldmanis ^b	9	10	3	3	1	1	*	*	*	*	*	*
J Bentley	12	12	4	4	3	3	4	4	0	0	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 (Eather on 31 December 2016), (Clarke and Lavery 22 June 2017), (Dalglish on 1 July 2016 and reappointed 8 September 2016)

b = Director appointed on 8 September 2016.

Directors Clarke and Lavery attended the Board meeting in June 2017 each as an observer. Director Dalglish attended the Board meeting in July 2016 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 2017 was \$82.3m compared with \$78.7m for the previous year. An annual dividend of \$41.6m has been declared for the year ended 30 June 2017.

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 \$18.8m primarily due to higher than budgeted water consumption, higher than budgeted capital contributions and favourable to budget operating costs.

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 the Company Secretary of the Parent Entity and its Controlled Entity.

The indemnity relates to:

- Any civil liability to a third party (other than Hunter Water Corporation or a related entity) unless the liability arises out of conduct involving lack of good faith.
- Any costs or expenses of defending proceedings in which judgement is given in favour of the officer.

No liability has arisen under these indemnities as at the date of this report.

CHANGE IN STATE OF AFFAIRS

Other than matters reported in the Directors' Report, in the opinion of the Directors there were no significant changes in the state of affairs of the Economic Entity during the year ended 30 June 2017.

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:

Mr J Eather	Director, Committee Chair (retired as Chair on 31 December 2016)
Ms C Feldmanis	Director, Committee Chair (from 1 January 2017)
Mr T Lawler	Director, Chairman
Prof M Gleeson	Director
Ms R Lavery	Director (retired on 22 June 2017, reappointed on 31 August 2017)
Mr J Bentley	Managing Director (from 28 July 2016)

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 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 J Eather	Director (retired 31 December 2016)
Mr P Dalglish	Director
Ms C Feldmanis	Director (from 1 January 2017)
Mr J Bentley	Managing Director (from 28 July 2016)

DIRECTORS' BENEFITS

During or since the end of the year 30 June 2017 no Director of the Economic Entity has received or become entitled to receive a benefit, other than those disclosed at Note 29 – Related Party Disclosures of the financial statements, by reason of a contract entered into by the Parent Entity or the Controlled Entity with:

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

CODE OF CONDUCT

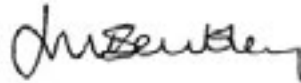
The Parent Entity has a Code of Conduct that must be adhered to by all employees. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia.

ENVIRONMENTAL REGULATION

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



Terry Lawler
Chairman



Jim Bentley
Managing Director

Newcastle

31 August 2017

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 statement of financial position as at 30 June 2017, the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the Corporation and the consolidated entity. The consolidated entity comprises the Corporation and the 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 2017, 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 also fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament further 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.

Directors' Responsibility for the Financial Statements

The directors 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 must assess the ability of the Corporation and the consolidated entity to continue as a going concern except where they intend to liquidate or cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility 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 http://www.auasb.gov.au/auditors_responsibilities/ar3.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 their 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 2017
SYDNEY

FINANCIAL STATEMENTS

START OF AUDITED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Revenue			
Services	2	335,507	330,150
Other revenue	2	58	103
Total Revenue		335,565	330,253
Expenses			
Operational expenses	3	(122,552)	(119,620)
Depreciation and amortisation	4	(51,985)	(49,896)
Finance costs	4	(62,846)	(70,565)
Superannuation expense	4	(7,986)	(7,620)
Asset revaluation increment / (decrement)	4	(3,480)	(1,471)
Other	4	(4,445)	(2,393)
Total Expenses		(253,294)	(251,565)
Profit Before Income Tax		82,272	78,689
Income tax expense	5(a)	(27,539)	(39,630)
Profit from Continuing Operations		54,733	39,058
Profit / (loss) from Discontinued Operation Net of Tax	6	-	(6)
Profit for the Year		54,733	39,052
Profit is attributable to:			
Owners of Hunter Water Corporation		54,733	39,052
		54,733	39,052

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 2017

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Profit for the Year		54,733	39,052
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Net increase/(decrease) in property plant and equipment revaluation reserve	21(a)	948	(168,519)
Income tax effect relating to net (increase)/decrease in property plant and equipment revaluation reserve	21(a)	596	51,618
Remeasurement of defined benefit superannuation liability		33,949	(42,900)
Income tax effect relating to remeasurement of defined benefit superannuation liability	5(c)	(10,185)	12,870
Transfers from revaluation reserve to retained earnings on asset disposal		217	1,912
Other comprehensive income for the period, net of tax		25,526	(145,019)
Total Comprehensive Income for the Year		80,258	(105,967)
Total comprehensive income for the year is attributable to:			
Owners of Hunter Water Corporation		80,258	(105,967)
		80,258	(105,967)
Continuing Operations		80,258	(105,961)
Discontinued Operations		-	(6)
		80,258	(105,967)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Current Assets			
Cash and cash equivalents	8	11,667	11,965
Trade and other receivables	9	43,460	46,900
Inventories	10	2,572	2,475
Assets classified as held for sale	11(a)	30,829	43,292
Total Current Assets		88,528	104,632
Non-Current Assets			
Property, plant and equipment	12	2,575,094	2,504,262
Intangible assets	13	19,590	23,007
Other non-current assets	9	369	443
Total Non-Current Assets		2,595,054	2,527,712
Total Assets		2,683,582	2,632,343
Current Liabilities			
Trade and other payables	15	79,502	88,081
Current tax liabilities	16	3,688	4,181
Borrowings	17	88,012	7,382
Provisions	18	59,242	56,137
Liabilities directly associated with assets classified as held for sale	11(b)	4,124	4,124
Total Current Liabilities		234,568	159,905
Non-Current Liabilities			
Borrowings	17	1,013,344	1,064,182
Provisions	18	118,507	151,232
Deferred tax liabilities	19	102,124	89,136
Total Non-Current Liabilities		1,233,975	1,304,550
Total Liabilities		1,468,543	1,464,455
Net Assets		1,215,038	1,167,887
Equity			
Share capital	20	112,193	103,700
Reserves	21(a)	389,497	390,887
Retained profits	21(b)	713,349	673,301
Total Equity		1,215,038	1,167,887

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 2017

Economic Entity	Notes	Share Capital	Reserves	Retained Profits	Total Equity
		\$'000	\$'000	\$'000	\$'000
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	-	(2,934)	3,151	217
Other comprehensive income	21(a)	-	1,544	23,764	25,308
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
Balance at 1 July 2015					
		102,850	512,264	687,781	1,302,895
Profit for the year		-	-	39,052	39,052
Transfer from revaluation reserve to retained earnings on disposal	21	-	(4,476)	6,388	1,912
Other comprehensive income		-	(116,901)	(30,030)	(146,931)
Net income recognised directly in equity	21	-	-	7,410	7,410
Total comprehensive income for the year		-	(121,377)	22,820	(98,557)
Transaction with owners in their capacity as owners:					
Distributions to owners:					
Dividends provided for or paid	7	-	-	(37,300)	(37,300)
Contributions with owners:					
Equity Injections		850	-	-	850
Balance at 30 June 2016		103,700	390,887	673,301	1,167,887

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Cash flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)		316,017	303,153
Payments to suppliers and employees (inclusive of goods and services tax)		(143,159)	(139,523)
		172,858	163,630
Interest received		71	109
Proceeds from environmental levy and developers		7,104	8,897
Borrowing costs		(66,524)	(69,984)
Income taxes paid		(24,634)	(21,047)
Net cash flows from operating activities	22	88,875	81,605
Cash Flows from Investing Activities			
Purchases of property, plant and equipment		(100,711)	(85,750)
Proceeds from sales of property, plant and equipment		10,841	18,720
Net cash flows from investing activities		(89,870)	(67,030)
Cash Flows from Financing Activities			
Proceeds from borrowings		36,913	219,408
Repayment of borrowings		(7,410)	(214,251)
Equity contribution	20	8,493	850
Dividends paid	7	(37,300)	(21,330)
Net cash flows from financing activities		696	(15,324)
Net Increase / (Decrease) in Cash and Cash Equivalents		(298)	(748)
Cash and cash equivalents at beginning of the year		11,965	12,713
Cash and cash equivalents at end of the year	8	11,667	11,965
Cash Flows from Discontinued Operations	6	-	10

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 all the 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 2017 were authorised for issue in accordance with a resolution of the Board of Directors on 31 August 2017.

A. BASIS OF PREPARATION

The financial statements are general purpose financial statements, which have been prepared in accordance with and are compliant with Australian Accounting Standards (and Interpretations) issued by the Australian Accounting Standards Board (AASB), mandates issued by NSW Treasury and other mandatory and 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 in these mandatory and statutory requirements.

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

HISTORICAL COST CONVENTION

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

- Certain classes of property, plant and equipment and intangibles are measured at the lower of fair value;
- 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.

ROUNDING TO THE NEAREST \$000

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

CURRENCY OF AMOUNTS IN REPORT

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

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the 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 2017. Management has determined the Controlled Entity to be immaterial and therefore has not presented separate balances for the Parent Entity.

The Parent Entity has reviewed AASB 10 and considers that the Parent Entity maintains control of the Controlled Entity under the standard. The Controlled Entity is detailed in Note 32 to the accounts.

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

C. CASH AND CASH EQUIVALENTS

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

D. 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.

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 2017 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 2014-5 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM AASB 15

This standard details the changes to other accounting standards as a result of the release of AASB 15 (as detailed above). This standard shall be applied when AASB 15 is applied. There is no anticipated impact on the Economic Entity from the application of this standard.

(IV) 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 \$20m).

(V) AASB 2016-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. This Standard applies to annual periods beginning on or after 1 January 2017. There is no impact on the financial statements of the Economic Entity from this pronouncement.

F. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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.

G. COMPARATIVE INFORMATION

Where relevant, comparative amounts are restated to conform to the current reporting years presentation. This would arise as a result of the requirements of new or revised Australian Accounting Standards, a voluntary change in accounting policy or a reclassification of items presented.

NOTE 2. REVENUE

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Services - Regulated			
Tariff - service charges		139,348	130,125
Tariff - usage charges		127,431	130,978
Environmental charge		7,058	6,836
Other revenue		5,295	7,105
		279,132	275,044
Gain/(Loss) on disposal of assets		522	(1,165)
Unregulated Revenue		4,215	4,286
		4,737	3,121
Developer contributions – cash		20	2,061
Developer contributions – assets		33,137	26,536
		33,157	28,597
Government Grants - rebates		14,757	14,431
Other		3,724	8,957
		18,481	23,388
		335,507	330,150
Other Income			
Interest income		58	103
		58	103
		335,565	330,253

NOTE 2. REVENUE (CONTINUED)

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) TARIFF INCOME

Reflects revenue raised for the provision of core water and sewer services and includes both fixed service charges and volumetric charges for water. Prices are determined by the Independent Pricing and Regulatory Tribunal (IPART).

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

(II) UNREGULATED REVENUE

External sales relates to the unregulated revenue raised through the provision of recycled water services.

(III) CONTRIBUTIONS FOR CAPITAL WORKS

Contributions from developers can be in the form of both monetary and non-monetary assets. In accordance with Australian Accounting Interpretation 18, where physical asset contributions are received in return for connection to a service delivery network, contributions are recognised as revenue and assets at 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	
		2017 \$'000	2016 \$'000
Employee Related		41,039	38,552
Maintenance		19,372	18,655
Operations		34,126	33,171
Regulatory		4,667	5,473
Corporate		22,611	23,297
Other		738	471
		122,552	119,620

Maintenance expense

Employee related expenses		13,802	13,934
Other		19,615	18,928
		33,417	32,861

NOTE 4. EXPENSES

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Profit before income tax includes the following specific income and expenses:			
(i) Depreciation and Amortisation			
Amortisation	13 (a) and (b)	8,252	8,675
Depreciation	12 (b) and (c)	43,733	41,221
Total depreciation and amortisation expense		51,985	49,896
(ii) Finance Costs			
Amortisation of discount / (premium) on loans		97	(683)
Long term borrowings - interest		45,981	51,875
Short term borrowings - interest		489	78
Net (Gain) / Loss on borrowings refinanced		(0)	6,164
Other interest expense		194	189
Government guarantee fee		18,464	16,545
Capitalised finance costs		(2,378)	(3,605)
		62,846	70,565
(iii) Superannuation Expense			
Superannuation expense - defined benefit funds		2,964	2,978
Superannuation expense - contributions		5,022	4,642
		7,986	7,620
(iv) Asset Revaluation Decrement / (Increment)		3,480	1,471
(v) Net (Gain) / Loss on Disposal of Property, Plant and Equipment		4,445	2,393
(vi) Expenses Include:			
Changes in restoration provision	18	(60)	(1,083)
Other charges against assets - Bad and doubtful debts	9	(36)	-
Rental expenses - Minimum lease payments		4,451	4,402

NOTE 5. INCOME TAX

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
A. INCOME TAX EXPENSE			
Current tax		24,127	24,122
Deferred tax	19	2,309	14,672
Under / (over) provided in prior years		1,104	836
		27,539	39,630
Income tax expense is attributed to:			
Continuing Operations		27,539	39,630
		27,539	39,630
Deferred income tax (revenue)/expense included in income tax expense comprises:			
(Decrease)/increase in deferred tax liabilities		(4,427)	(14,991)
(Decrease)/increase in deferred tax assets		2,118	320
Income tax expense is attributed to:			
Profit from Continuing Operations		82,272	78,689
Profit / (loss) from Discontinued Operations		-	(6)
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE			
Profit from continuing operations before income tax expense		82,272	78,689
Profit / (loss) from discontinued operations before income tax expense		-	(6)
Profit before income tax excluding dividend		82,272	78,683
Tax rate of 30% (2016 - 30%)		24,681	23,605
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:			
Entertainment non-deductible expenses		10	3
Non-deductible expenses		1,136	878
Sundry Temporary Differences		505	(1,039)
Australian owned Research and Development concession claim		(13)	(12)
		26,319	23,435
Deferred tax not recognised on capital loss		116	15,358
Under / (over) provision in prior years		1,104	836
Income Tax Expense		27,539	39,630
C. TAX EXPENSE / (INCOME) RELATING TO ITEMS OF COMPREHENSIVE INCOME			
Net increase / (decrease) in property plant and equipment revaluation reserve	19	596	(51,618)
Actuarial gains / (losses) on defined benefit funds	19	10,185	(12,870)
		10,780	(64,488)

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 2017 and the year ended 30 June 2016.

	Economic Entity	
	2017 \$'000	2016 \$'000
Revenue	-	13
Expenses	-	(19)
Profit before income tax	-	(6)
Income tax expense	-	-
Profit after income tax of discontinued operation	-	(6)
Net cash inflows / (outflows) from operating activities	-	10
Net increase / (decrease) in cash generated from discontinued operations	-	10

NOTE 7. DIVIDENDS PAID OR PROVIDED FOR

	Economic Entity	
Notes	2017 \$'000	2016 \$'000
Opening Balance	37,300	21,330
Add: dividend declared at 37.1 cents per share (2016: 36.0 cents per share)	41,600	37,300
Less: dividend paid at 36.0 cents per share (2016: 20.7 cents per share)	(37,300)	(21,330)
	41,600	37,300

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	
		2017 \$'000	2016 \$'000
Cash at bank and on hand		11,667	10,365
Deposits at call		-	1,600
		11,667	11,965

Deposits at call are bearing interest rates between 1.45% and 1.00% (2016: 1.70% and 1.25%).

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)	11,667	11,965
Cash and cash equivalents (per Statement of Cash Flows)	11,667	11,965

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	
		2017 \$'000	2016 \$'000
Current			
Trade debtors		22,679	23,461
Allowance for Impairment on other debtors		(347)	(383)
Accrued revenue - unbilled water usage		19,636	22,728
		41,968	45,805
Prepayments		1,492	1,094
		1,492	1,094
Total Current		43,460	46,900
Non-current			
Stock Receivable		369	443
Total Non Current		369	443

A. MOVEMENT IN THE ALLOWANCE FOR IMPAIRMENT

Balance at beginning of the year	383	383
Amounts written off during the year	(4)	(1)
Amounts recovered during the year	(52)	(119)
Increase/(decrease) in allowance recognised in Income Statement	19	121
Balance at end of year	347	383

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 collectable.

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

NOTE 10. INVENTORIES

	Notes	Economic Entity 2017 \$'000	2016 \$'000
Current			
Consumable stores at cost		2,572	2,475
		2,572	2,475

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 2017 \$'000	2016 \$'000
Current			
Assets held for sale		30,829	43,292
		30,829	43,292

Assets held for sale decreased during the year as three properties were disposed of. There was also a reduction in fair value of the Kooragang Industrial Water Scheme (KIWS). The only asset held for sale at 30 June 2017 is KIWS. Costs to sell assets held for sale total \$0.6m (2016: \$1.5m).

All sales are expected to be settled within 12 months of the reporting date.

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. It is considered probable that a sale will occur.

Refer to Note 14(B) for valuation process.

(b) Liabilities directly associated with Assets Classified as Held for Sale			
	Notes	Economic Entity 2017 \$'000	2016 \$'000
Current			
Liabilities directly associated with Assets Classified as Held for Sale		4,124	4,124
		4,124	4,124

The liability associated with assets held for sale at 30 June 2017 includes deferred income received through a government grant for KIWS.

Sale of KIWS is expected to be settled within 12 months of reporting date.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

A. PROPERTY, PLANT AND EQUIPMENT

Economic Entity	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Work in Progress \$'000	Total \$'000
At 1 July 2015 - Fair Value						
Cost	-	-	-	-	88,346	88,346
Fair value - market valuation	-	-	6,539	3,753	-	10,292
Fair value - income approach	2,509,697	4,188	-	-	-	2,513,885
	2,509,697	4,188	6,539	3,753	88,346	2,612,523
At 30 June 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 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

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 2016	System Assets \$'000	General Support \$'000	Land \$'000	Buildings \$'000	Total \$'000
Net carrying amount 1 July 2015	2,509,697	4,188	6,539	3,753	2,524,177
Additions	79,032	4,064	-	108	83,204
Disposals	(1,190)	(7)	(34,785)	(3,732)	(39,714)
Transfers (to)/from assets held for sale	(56,699)	-	35,105	3,732	(17,862)
Revaluation increments/(decrements)	(143,401)	(360)	(1,691)	65	(145,387)
Depreciation expense	(39,173)	(1,844)	-	(204)	(41,221)
Net carrying amount 30 June 2016	2,348,264	6,041	5,168	3,722	2,363,196

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 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

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

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 4.38% (2016: 7.02%).

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.

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 non-current asset disclosures.

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	15-50
- Water Pump Stations	10-100
- 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	Other \$'000	Work in Progress \$'000	Total \$'000
At 1 July 2015 - Fair Value					
Gross carrying amount	-	-	-	9,825	9,825
Fair value - income approach	1,298	15,178	1,171	-	17,647
	1,298	15,178	1,171	9,825	27,472
At 30 June 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 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

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 2016	Easements \$'000	Software External \$'000	Other \$'000	Total \$'000
Net carrying amount 1 July 2015	1,298	15,178	1,171	17,647
Additions	835	6,309	4,634	11,778
Disposals	-	(1)	(206)	(206)
Transfers (to)/from assets held for sale	-	-	195	195
Revaluation increments/(decrements)	(95)	(762)	(231)	(1,088)
Amortisation expense	-	(7,144)	(1,533)	(8,675)
Net carrying amount 30 June 2016	2,038	13,579	4,030	19,647

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 2017	Easements \$'000	Software External \$'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

NOTE 13. INTANGIBLE ASSETS (CONTINUED)

C. INTANGIBLE ASSETS

Intangible assets consist of easements, software and other intangible assets (including some development projects). Research expenditure is recognised as an expense as incurred. Costs incurred on development projects whereby research findings are applied to the development of substantially new or improved products or processes (for example, relating to the design of new improved systems) are capitalised when:

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

If development costs are capitalised they are recorded as intangible assets and amortised from the point at which benefits are recognised on a straight-line basis over their useful life which is generally five years.

Consistent with NSW Treasury policy, easements (the right of access over land) are recognised as intangible assets and are not amortised. Software is also classified as an intangible asset and is amortised (generally over five years).

Intangible assets are initially recognised at cost. After initial recognition they are carried at fair value in accordance with AASB 13 Fair Value Measurement using the income 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 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
Intangibles	-	16,537	16,537
	41,077	2,490,242	2,531,319

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 2016	Level 2	Level 3	Total Fair Value
	\$'000	\$'000	\$'000
System assets	-	2,348,264	2,348,264
Land and buildings	8,890	-	8,890
General support	-	6,041	6,041
Assets held for sale	43,292	-	43,292
Intangibles	-	19,647	19,647
	52,182	2,373,953	2,426,134

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	At initial recognition fair value is based on a cost approach.	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. Level 3 input
	No active market exists for these assets.	
	Income approach adopted based on current regulated IPART price determination (June 2016).	
Land and Buildings (non-operational)	At initial recognition fair value is based on a cost approach.	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. Level 2 input
	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.	
Assets Held for Sale	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).	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. Level 2 input
	Valuation based on an active market and similar assets (not identical).	
General Support	At initial recognition fair value is based on a cost approach.	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. Level 3 input
	Income approach adopted based on current regulated IPART price determination (June 2016).	

C. RECONCILIATION OF RECURRING LEVEL 3 FAIR VALUE MEASUREMENTS

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

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

TRANSFER BETWEEN LEVEL 2 AND 3 MEASUREMENTS

System assets were transferred to non-system assets during the financial year as it was identified these assets were no longer being utilised as system assets during 2016-17.

The following table represents the changes in level 3 items for the year ended 30 June 2016 for recurring fair value measurements:

Economic Entity 2016	System Assets	Other Fixed Assets	Intangibles	Total Recurring Level 3 Fair Value
	\$'000	\$'000	\$'000	\$'000
Fair Value as at 1 July 2015	2,509,697	4,188	17,647	2,531,532
Additions	79,032	4,064	11,778	94,874
Disposals	(1,190)	(7)	(206)	(1,404)
Depreciation/amortisation	(39,173)	(1,844)	(8,675)	(49,695)
Revaluation increment/(decrement) recognised in other comprehensive income	(143,401)	-	-	(143,401)
Revaluation increment/(decrement) recognised in Consolidated Income Statement	-	(360)	(1,088)	(1,449)
Transfers to Level 2	(56,699)	-	195	(56,504)
Fair Value at 30 June 2016	2,348,264	6,041	19,647	2,373,953

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 2015-16.

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 2017
	\$'000
System Assets	2,466,288
Other fixed assets	7,417
Intangibles	16,537

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

Unobservable Input item	30 June 2017 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: 5.4% (2016: 5.1%)	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.</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 five year forecast period and 5.4% thereafter (2016: 5.4%). 	The higher the discounted future revenues, the higher the fair value.
Estimates of Future Expenditure	<p>Operating expenditure from the final 2017-18 operating budget and Business Plan forecasts.</p> <p>Capital expenditure relating to replacements and capital projects currently in progress from the final 2017-18 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>

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. Beyond that determination a level of pricing support has been assumed to ensure the current asset base is maintained with an acceptable weighted average cost of capital return of 5.4% (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 5.4%. The equivalent post-tax discount rate of 4.1% is based on IPART's long-term WACC projection released in February 2017.

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 2016-17 Hunter Water's fair value model calculated a valuation increment of \$125m (2016: \$145m impairment) 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 \$0.8m 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 weighted average cost of capital return (WACC), 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.

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

	Change in Valuation	
	2017 \$m	2016 \$m
25 basis point change in WACC	150	150
25 basis point change in discount rate	161	160
	11	10

	Change in Valuation	
	2017 \$m	2016 \$m
5 basis point change in long-term growth in net cashflows	39	40

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	
		2017 \$'000	2016 \$'000
Current			
Trade creditors		7,664	7,684
Deposits received for services		12,518	10,112
Accrued expenses		59,321	70,285
		79,502	88,081

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	
		2017 \$'000	2016 \$'000
Provision for Income Tax Payable			
Opening Balance		4,181	948
Under / (over) provision for income tax in prior year		14	158
Amount paid relating to prior year		(4,195)	(1,106)
Amount payable for current year	5	24,127	24,122
Amount paid relating to current year		(20,439)	(19,941)
		3,688	4,181

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	
		2017 \$'000	2016 \$'000
Overdraft		790	-
Other loans		1,100,566	1,071,563
		1,101,356	1,071,563
Represented By:			
Current		88,012	7,382
Non-current		1,013,344	1,064,182
		1,101,356	1,071,563

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 (2016: \$30m), of which \$0.79m was used at 30 June 2017 (2016: nil).

Hunter Water has a contingent loan facility with Commonwealth Bank of Australia of \$0.1m which was not drawn down at 30 June 2017 and a purchase card facility with National Australia Bank of \$0.9m which was not drawn down at 30 June 2017.

The borrowings are classified as non-trading liabilities and are unsecured.

The Treasurer approved funding of up to \$1,227m with NSW TCorp for the three year period until 30 June 2018 (2016: \$1,227m), of which \$1,101m was used at 30 June 2017 (2016: \$1,072m).

The Minister has approved an intercompany loan for \$10m of which \$5.8m was used at 30 June 2017. 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	
		2017 \$'000	2016 \$'000
Current			
Dividends	7	41,600	37,300
Restoration		-	60
Rectification		-	85
Other		-	50
Employee benefits - short term		546	816
Employee benefits - long term*		17,096	17,825
		59,242	56,137
Non-Current			
Employee benefits		118,507	151,232
		118,507	151,232
*Employee benefits expected to be settled after 12 months		7,050	7,469

MOVEMENTS IN DIVIDENDS PROVISION 2017

	Economic Entity
	Current
Carrying amount 1 July 2016	37,300
Less: dividend paid	(37,300)
Add: dividend declared	41,600
Carrying amount at 30 June 2017	41,600

MOVEMENTS IN RESTORATION PROVISION 2017

	Current
Carrying amount 1 July 2016	60
(Payments)/receipts	(60)
Carrying amount at 30 June 2017	-

MOVEMENTS IN RECTIFICATION PROVISION 2017

	Current
Carrying amount 1 July 2016	85
(Payments)/receipts	(85)
Carrying amount at 30 June 2017	-

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.

NOTE 18. PROVISIONS (CONTINUED)

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.

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% (2016: 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 Commonwealth Government 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	
		2017 \$'000	2016 \$'000
Amounts recognised in profit or loss:			
Tax bases without an asset carrying amount		(980)	-
Stock on hand		882	875
Accruals		(397)	(327)
Borrowing costs		1,490	2,091
Provisions		(13,730)	(13,776)
Prepayments		218	226
Property, plant and equipment		(24,374)	(28,187)
		(36,891)	(39,098)
Amounts recognised in the Statement of Comprehensive Income			
Superannuation actuarial gains/(losses)		(29,492)	(39,677)
Revaluation of property, plant and equipment		168,507	167,911
		139,015	128,235
Total		102,124	89,136

ECONOMIC ENTITY

	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

	Opening Balance at 1 July 2015	Prior Year Under /over Provision	To Profit or Loss	Directly to Equity	Closing Balance at 30 June 2016
Movements					
Tax bases without an asset carrying amount	604	(604)	-	-	-
Stock On Hand	810	-	65	-	875
Accruals	(333)	-	6	-	(327)
Borrowing costs	2,049	-	43	-	2,091
Provisions (including doubtful debts)	(40,257)	-	(326)	(12,870)	(53,454)
Prepayments	232	-	(6)	-	226
Property, plant and equipment	171,756	4,695	14,890	(51,618)	139,724
	134,861	4,091	14,672	(64,488)	89,136

The deferred tax liability that is expected to be settled within the next twelve months for the Economic Entity is \$2.3m (2016: \$7.3m 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	
		2017 \$'000	2016 \$'000
At 1 July: ordinary shares each fully paid		103,700	102,850
Shares fully paid and issued during year		8,493	850
At 30 June: ordinary shares each fully paid		112,193	103,700

Hunter Water Corporation's two shareholders at 30 June 2017 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 2017 total 112,193,000 (2016: 103,700,000).

During the reporting period, an additional 8,493,000 shares had been issued by the Corporation due to an equity cash contribution from shareholders of \$8,493,000. 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	
	2017 \$'000	2016 \$'000

A. RESERVES

Asset revaluation	389,497	390,887
	389,497	390,887

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	390,887	512,264
Fixed asset revaluation increments/(decrements) from revaluations		
System assets	-	(166,893)
Buildings	-	65
Land	-	(1,691)
	-	(168,519)
Tax effect - deferred tax liability on revaluation reserve	945	44,839
Tax effect of assets held for sale	(349)	6,780
	596	51,618
Transfer of reserve on disposal	(2,934)	(4,476)
Transfer to fixed assets	948	-
	389,497	390,887

B. RETAINED PROFITS

Retained profits at 1 July	673,301	687,781
Net profit	54,733	39,052
Transfer from revaluation reserve to retained earnings	3,151	6,388
Net income/(loss) recognised direct in equity	23,764	(22,620)
Dividends	(41,600)	(37,300)
Retained profits at 30 June	713,349	673,301

NOTE 22. STATEMENT OF CASH FLOWS - OPERATING ACTIVITIES

	Economic Entity	
	2017 \$'000	2016 \$'000
Reconciliation of profit after income tax to the net cash flows from operating activities:		
Net profit for the year from operations	54,733	39,052
Net superannuation (income)/expense	2,998	2,978
Revaluation decrement	3,480	1,471
Depreciation and amortisation	51,985	49,896
(Profit)/loss on sale of non-current assets	3,923	3,558
Capital asset (non-cash) contributions	(33,137)	(26,536)
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	3,929	(6,551)
(Increase)/decrease in inventories	(24)	(218)
(Increase)/decrease in other operating assets	(398)	522
Increase/(decrease) in trade creditors	1,689	(2,335)
Increase/(decrease) in other operating liabilities	188	5,229
Increase/(decrease) in provision for income taxes payable	(494)	3,233
Increase/(decrease) in net deferred tax liabilities (recognised on the Income Statement)	3,399	15,350
(Increase)/decrease in capitalised borrowing costs	(2,378)	(3,605)
Increase/(decrease) in other provisions	(1,018)	(437)
Net cash inflow from operating activities	88,875	81,605

NOTE 23. CONTRACTUAL COMMITMENTS

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Aggregate capital expenditure contracted for at balance date but not recognised as liabilities:			
Payable within one year		40,460	38,837
Payable later than one year but not later than five years		1,170	3,972
Payable later than five years		-	-
		41,630	42,809

GST component of total contractual commitments for the Economic Entity at 30 June 2017 totals \$3.8m (2016: \$3.9m).

NOTE 24. LEASE EXPENDITURE COMMITMENTS

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Operating lease commitments in relation to operating leases not provided for and payable:			
Within one year		4,661	4,414
Later than one year but not later than five years		15,556	13,291
Later than five years		6,151	8,903
		26,367	26,607
Representing:			
Cancellable operating leases		6,872	4,719
Non-cancellable operating leases		19,495	21,888
		26,367	26,607

NOTE 24. LEASE EXPENDITURE COMMITMENTS (CONTINUED)

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 2017 totals \$2.4m (2016: \$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 next actuarial investigation will be performed at 30 June 2018.

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.

NOTE 25. SUPERANNUATION (CONTINUED)

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 2017 there were no fund amendments, curtailments or settlements during the year.

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

Economic Entity at 30 June 2017	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2017	Total \$'000 2016
Net defined benefit liability/(asset) at start of the year	32,488	7,047	111,121	150,656	104,777
Current service cost	799	243	647	1,689	1,189
Net Interest on the net defined benefit liability/(asset)	634	126	2,204	2,964	3,156
Actual return on Fund assets less Interest income	(1,731)	(16)	(6,529)	(8,277)	(93)
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	(6)	(37)	(47)	9,055
Actuarial (gains)/losses arising from changes in financial assumptions	(3,659)	(272)	(18,601)	(22,531)	32,564
Actuarial (gains)/losses arising from liability experience	1,070	(195)	(3,968)	(3,093)	1,374
Employer contributions	(1,232)	(1,460)	(719)	(3,412)	(1,367)
Net defined benefit liability/(asset) at end of year	28,364	5,466	84,118	117,948	150,656

C. RECONCILIATION OF THE FAIR VALUE OF FUND ASSETS

Economic Entity at 30 June 2017	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2017	Total \$'000 2016
Fair value of fund assets at beginning of the year	24,756	136	91,820	116,713	121,497
Interest income	475	7	1,771	2,253	3,552
Actual return on Fund assets less interest income	1,731	16	6,529	8,277	93
Employer contributions	1,232	1,460	719	3,412	1,367
Contributions by participants	387	-	286	673	690
Benefits paid	(1,464)	(465)	(7,018)	(8,947)	(10,261)
Taxes, premiums and expenses paid	(80)	(27)	821	714	(226)
Fair value of fund assets at end of the year	27,038	1,128	94,929	123,094	116,713

NOTE 25. SUPERANNUATION (CONTINUED)

D. RECONCILIATION OF THE DEFINED BENEFIT OBLIGATION

Economic Entity at 30 June 2017	SASS \$'000	SANCS \$'000	SSS \$'000	Total \$'000 2017	Total \$'000 2016
Present value of defined benefit obligations at beginning of period	57,245	7,183	202,941	267,369	226,275
Current service cost	799	243	647	1,689	1,189
Interest cost	1,109	132	3,975	5,217	6,708
Contributions by fund participants	387	-	286	673	690
Actuarial (gains)/losses arising from changes in demographic assumptions	(4)	(6)	(37)	(47)	9,055
Actuarial (gains)/losses arising from changes in financial assumptions	(3,659)	(272)	(18,601)	(22,531)	32,564
Actuarial (gains)/losses arising from liability experience	1,070	(195)	(3,968)	(3,093)	1,374
Benefits paid	(1,464)	(465)	(7,018)	(8,947)	(10,261)
Taxes, premiums and expenses paid	(80)	(27)	821	714	(226)
Present value of defined benefit obligations at end of the year	55,402	6,594	179,047	241,043	267,369

E. RECONCILIATION OF THE EFFECT OF THE ASSET CEILING

Economic Entity at 30 June 2017	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	-	-	-	-

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)
Cash	3,087,307	3,077,362	9,945	-
Australian fixed interest	2,500,725	997	2,499,728	-
International fixed interest	480,991	-	480,991	-
Australian equities	9,446,079	8,947,483	498,572	24
International equities	12,053,503	9,033,497	1,869,112	1,150,894
Property	3,453,107	926,105	533,191	1,993,812
Alternatives	9,066,055	390,899	5,068,137	3,607,020
Total	40,087,767	22,376,343	10,959,675	6,751,750

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.

NOTE 25. SUPERANNUATION (CONTINUED)

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

As at	30 June 2017
Cash	7.7%
Australian fixed interest	6.2%
International fixed interest	1.2%
Australian equities	23.6%
International equities	30.1%
Property	8.6%
Alternatives	22.6%
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 2017 include \$354 million (2016: \$189.6m) in NSW government bonds.

H. SIGNIFICANT ACTUARIAL ASSUMPTIONS AT THE REPORTING DATE

As at	30 June 2017
Discount rate	2.62% pa
Salary increase rate (excluding promotional increases)	2.50% 2017/2018 to 2018/2019; 3.50% 2019/2020 to 2020/2021; 3.00% pa 2021/2022 to 2025/2026; 3.50% pa thereafter
Rate of CPI increase	2.00% 2017/2018; 2.25% 2018/2019; 2.50% pa thereafter
Pensioner mortality	The pensioner mortality assumptions are as per the 2015 Actuarial Investigation of the Pooled Fund. These assumptions are disclosed in the actuarial investigation report available from the trustee's website. The report shows the pension mortality rates for each age.

NOTE 25. SUPERANNUATION (CONTINUED)

SENSITIVITY ANALYSIS

The entity's total defined benefit obligation as at 30 June 2017 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 2017.

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\$)	241,042,819	277,614,480	211,470,569

	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\$)	241,042,819	256,633,708	226,869,108

	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\$)	241,042,819	242,702,617	239,446,754

	Base Case	Scenario G Lower Mortality¹	Scenario H Higher Mortality²
Defined benefit obligation (A\$)	241,042,819	244,917,319	238,771,717

¹Assumes the short term pensioner mortality improvement factors for years 2017-2021 also apply for years after 2021.

²Assumes the long term pensioner mortality improvement factors for years post 2021 also apply for years 2017 to 2021.

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 (2016: 7.8% pa)
- Expected rate of return on fund assets backing other liabilities of 6.4% pa (2016: 6.8% pa)
- Expected salary increase rate of 2.7% pa (2016: 3.0% pa)
- Expected rate of CPI increase of 2.2% pa (2016: 2.5% pa)

EXPECTED CONTRIBUTIONS

	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 13.6 years (2016: 14.7 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 2017 and a deficit of \$13.4m (2016: \$19.2m) was reported for the Economic Entity.

Economic Entity	SASS \$'000	SANCS \$'000	SSS \$'000
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)
2016			
Accrued benefits	35,825	4,776	95,270
Net market value of fund assets	(24,756)	(136)	(91,820)
Net (surplus)/deficit	11,069	4,640	3,450

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 \$2.6m (2016: \$2.3m). No fees were paid by the Controlled Entity during the year.

NOTE 27. CONTINGENT LIABILITIES

The Economic or Parent Entity does not have any contingent liabilities at balance date (2016: nil).

No significant claims for damages are being negotiated (2016: nil). This does not include matters covered by insurance.

NOTE 28. AUDITORS' REMUNERATION

	Notes	Economic Entity	
		2017 \$'000	2016 \$'000
Audit Office of New South Wales			
Audit review of financial statements		231	238
Other audit fees		15	-
		246	238

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 (2016: 100%). Shares held by the Parent Entity in the Controlled Entity total \$0.9m (2016: \$0.9m). All shares held are held at cost by the Parent Entity.

At 30 June 2017 an intercompany loan existed between the Parent Entity and Controlled Entity with \$5.8m payable to the Controlled Entity (2016: \$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 2017.

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

Entity	Economic Entity	
	2017 \$'000	2016 \$'000
Other Transaction with Related Parties		
Purchases		
Labour Hire		
- peoplefusion Pty Ltd	1,157	1,077
Membership and Subscription Fees		
- WSAA *	210*	319
Sponsorships		
- University of Newcastle	203	88
Outstanding balances with Related Parties		
Payables		
- Peoplefusion Pty Ltd	43	78

* WSAA was not a related party of Hunter Water in 2016-17 but Hunter Water made payments to WSAA totalling \$0.2m. The related party relationship ceased in 2015-16.

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

Sales were made to related parties of Directors and the Controlled Entities 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 are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. This comprises all directors, whether executive or non-executive, senior executives who lead the various divisional groups of the Corporation, the Corporation's two Shareholder Ministers and its Portfolio Minister.

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 T Lawler	Chairman
Mr J Eather	Deputy Chairman (retired on 31 December 2016)
Dr J Bentley	Managing Director (from 28 July 2016)
Prof M Gleeson	
Mr P Daghish	(retired on 1 July 2016 and reappointed on 8 September 2016)
Ms R Lavery	(retired on 22 June 2017)
Mr G Clarke	(retired on 22 June 2017)
Ms C Feldmanis	(from 8 September 2016)
Mr P Kembrey	Company Secretary

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:

Jim Bentley	Hunter Water Corporation	Managing Director (from 28 July 2016)
Jeremy Bath	Hunter Water Corporation	Interim Chief Executive Officer (to 27 July 2016)
Jeremy Bath	Hunter Water Corporation	Chief Customer Services Officer (28 July 2016 to 2 December 2016)
Victor Prasad	Hunter Water Corporation	Chief Customer Services Officer (from 1 February 2017)
Richard Harris	Hunter Water Corporation	Chief Information Technology Officer
Fiona Cushing	Hunter Water Corporation	Chief Financial Officer
Darren Cleary	Hunter Water Corporation	Chief Operating Officer (to 23 January 2017)
Darren Cleary	Hunter Water Corporation	Executive Manager Strategy and Planning (from 23 January 2017)
Peter Kembrey	Hunter Water Corporation	Executive Manager Corporate and Legal Services
Clint Thomson	Hunter Water Corporation	General Manager Service Delivery (from 19 April 2017)
Fiona Cushing	Hunter Water Australia Pty Limited	Acting General Manager

C. KEY MANAGEMENT PERSONNEL COMPENSATION

	Economic Entity	
	2017 \$'000	2016 \$'000
Short term employee benefits	2,198	2,220
Termination payments	61	168
Long term employee benefits	-	24
Post employment benefits	196	204
	2,455	2,616

NOTE 32. CONTROLLED ENTITIES

PARENT ENTITY

Hunter Water Corporation

CONTROLLED ENTITIES

	Equity Holding	
	2017	2016
Hunter Water Australia Pty Limited (incorporated in Australia)	100%	100%

Shares held by the Parent Entity in the Controlled Entity total \$0.9m (2016: \$0.9m). All shares held are held at cost by the Parent Entity.

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

NOTE 33. FINANCIAL INSTRUMENTS

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

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

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

The comparative information with regard to the 2016 year is as follows:

2016	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	1.60%	11,957	-	8	11,965
Trade and other receivables	8.00%	-	9,253	31,785	41,038
		11,957	9,253	31,793	53,003
Financial Liabilities					
Borrowings	4.44%	137,802	933,761	-	1,071,563
Trade and other payables	n/a	-	-	81,715	81,715
		137,802	933,761	81,715	1,153,278

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

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	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Economic Entity				
Cash and Cash Equivalents				
If Interest rates are 100 basis points higher	52	66	52	66
If Interest rates are 100 basis points lower	(52)	(66)	(52)	(66)
Borrowings				
If Interest rates are 100 basis points higher	(1,210)	(965)	(1,210)	(965)
If Interest rates are 100 basis points lower	1,210	965	1,210	965

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 (2016: \$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 their 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 Entity has a \$30m (2016: \$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 2017 the Economic Entity continues to trade as a going concern. The Economic Entity has sufficient funds to meet its obligations until 30 June 2018.

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 INSTRUMENTS (CONTINUED)

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

ECONOMIC ENTITY

	Carrying Amount \$'000	Total Contractual Cash Flows \$'000	Within 1 Year \$'000	Maturity Dates		
				Within 1-2 Years \$'000	Within 2-5 Years \$'000	Over 5 Years \$'000
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
2016						
Trade and other payables	81,715	81,715	81,715	-	-	-
Borrowings	1,071,563	1,323,887	52,836	96,650	446,255	728,147
Total	1,153,278	1,405,602	134,550	96,650	446,255	728,147

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 \$'000	Past Due but Not Impaired ¹ \$'000	Considered Impaired \$'000
30- 90 days overdue	7,562	7,562	-
> 90 days overdue	2,783	2,436	347

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' STATEMENT

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:

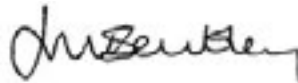
- Exhibit a true and fair view of the financial position of Hunter Water Corporation as at 30 June 2017, and its financial performance for the year then ended.
- Comply with the *Public Finance and Audit Act 1983*, the *State Owned Corporation's Act 1989*, *Public Finance and Audit Regulation 2015*, the Australian Accounting Standards (which include Australian Accounting Interpretations).
- 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.

On behalf of the Directors



Terry Lawler
Chairman



Jim Bentley
Managing Director

Dated 31 August 2017

Newcastle

ADDITIONAL INFORMATION



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			
J Eather (Chair) (term ended 31 December 2016)	Claire Dreincourt	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.
C Feldmanis (Chair) (term commenced 8 September 2016)			
T Lawler			
M Gleeson			
R Lavery (term ended 22 June 2017, reappointed August 2017)			
J Bentley			
Corporate Governance			
T Lawler (Chair)	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.
J Eather (term ended 31 December 2016)			
P Dalglish (term ended 22 June 2017, reappointed August 2017),			
C Feldmanis (term commenced 8 September 2016)			
J Bentley			
Community and Environment			
M Gleeson (Chair)	Victor Prasad	Four meetings per year	To ensure Hunter Water continues to maintain a proactive and strategic approach in relation to sustainable use of resources and delivery of services in the context of its trading, social and natural environment.
G Clarke (term ended 22 June 2017, reappointed August 2017)			
R Lavery (term ended 22 June 2017, reappointed August 2017)			
J Bentley			
Capital Works			
Peter Dalglish (Chair)	Darren Cleary	Four meetings per year	To assist the Board by providing strategic overview of the Capital Works programs.
T Lawler			
J Eather (term ended 31 December 2016)			
G Clarke			
R Lavery (term ended 22 June 2017, reappointed August 2017)			
J Bentley			

COMMUNITY CONSULTATIVE FORUM MEMBERSHIP AND ATTENDANCE

Representative	Orangisation	Attendance at Meetings Held	
		A	B
Cr Brian Adamthwaite	Lake Macquarie City Council	2	3
Cr David Compton	Newcastle City Council	0	3
Cr Geoff Dingle	Medowie Progress Association	2	3
Cr Linda Bowden	Save the Williams River Coalition	3	3
Cr Paul Le Mottee	Port Stephens Shire Council	3	3
Cr Suellen Wrightson	Cessnock City Council	0	1
Cr Melanie Dagg (alternate Cr Mark Lyons)	Cessnock City Council	2	2
Dr Troy Gaston	University of Newcastle	1	3
Mayor Harold Johnston	Dungog Shire Council	3	3
Mr David Beins	Individual	2	3
Mr James Hopson	Williams Water Users Association	2	3
Mr Joe Thompson (alternate Rob Henderson)	Hunter Central Rivers Catchment Management Authority	1	3
Mr Kevin McDonald	Hunter Region Botanic Gardens	3	3
Mr Norbert Lica (alternate Jean McGarry)	Lake Macquarie Sustainable Neighbourhoods Alliance	2	3
Mr Peter Jones	Wetlands Environmental Education Centre	0	2
Mr Rick Banyard	Property Owners Association	3	3
Mr William Lennox	Maitland Masonic Centre	3	3
Ms Anita Hugo	Hunter Business Chamber	1	3
Ms Carol Pasenow	No Tillegra Dam Group	1	1
Ms Joan Lambert (alternate Val Menzies)	Newcastle Older Women's Network	3	3

A=Number of meetings attended.

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

EMPLOYEES

AVERAGE TOTAL REMUNERATION PACKAGE OF EXECUTIVES

Band	Range \$	Average Remuneration*		Gender 2017		Gender 2016	
		2017 (\$)	2016 (\$)	Female	Male	Female	Male
Band 4	422,501-488,100	461,322	488,596	-	1	-	1
Band 3	299,751-422,500			-	-	-	-
Band 2	238,301-299,750	263,631	266,972	1	4	1	2
Band 1	167,100-238,300	232,197	220,000	-	1	-	2
Total				1	6	1	5

* Including superannuation and performance pay.

In 2016-17, 4.27% of Hunter Water's employee-related expenditure was related to senior executives compared with 3.32% in 2015-16. This is due to there being one additional senior executive in 2016-17 compared to 2015-16.

EXECUTIVE POSITIONS AT 30 JUNE 2017

Senior Officer	Position	Qualifications
Jim Bentley	Managing Director	BSc (Chemical Engineering), PhD (Chemical Engineering)
Victor Prasad	Executive Manager Customer Service	BE (Civil) Dip PM
Darren Cleary	Executive Manager Strategy & Planning	BE, ME
Fiona Cushing	Chief Finance Officer	BSc, MAcc, FCPA, GAICD
Richard Harris	Chief Information Technology Officer	BA (Computer Science)
Peter Kembrey	Executive Manager Corporate & Legal	BA, LLB, Dip. Legal Prac.
Clint Thomson	Executive Manager Service Delivery	BE (Hons1) GradDipMEM DipBus DipPM

WORKFORCE PROFILE

	2011	2012	2013	2014	2015	2016	2017
Males	325	326	329	326	314	322	325
Females	156	157	148	140	147	134	141
Total	481	483	477	466	461	456	466
Permanent	350	383	403	405	394	393	406
Temporary	56	47	15	3	15	9	5
Part-time	57	51	59	58	52	54	55
Total	463	481	477	466	461	456	466
Redundancies	3	1	7	7	8	13	2
Recruitment	25	57	52	24	30	39	46
Unplanned absences (%)	2.6	2	2.4	3.7	3.4	3.1	3.2

WORKFORCE DIVERSITY

Hunter Water is committed to ensuring a diverse and inclusive workplace, where all workers are treated fairly, with dignity and respect. Hunter Water is also working towards increasing diversity within the organisation because it brings a wealth of knowledge, backgrounds, ideas and perspectives that create a workforce that is innovative, agile and resilient. We are currently implementing a strategy to increase diversity and inclusion. These include mentoring female university students in non-traditional roles, partnering with Muswellbrook Council to engage and promote female school students to enrol in STEM degrees, sponsoring scholarships through the University of Newcastle to increase the number of females in non-traditional roles, employees with a disability, indigenous employees and employees from an international and/or non-English speaking background. We are also looking to promote flexible working arrangements for men, employees with carer's responsibilities and/or mental health issues. A number of other initiatives are also being currently reviewed for potential roll out. These include implementing unconscious bias training, conducting a gender pay gap analysis, developing a high potential program for women in leadership roles and a recruitment drive for women in field roles.

HUMAN RESOURCES POLICIES AND PRACTICES

Policy Category	Policies and Standards
Attraction and Recruitment	Recruitment, Selection and Appointment Policy Recruitment and Selection Standard Non Employee Engagement 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 Remuneration and Benefits Standards Performance Management Standard Misconduct and Discipline Standard Remuneration and Salary Band Review Standard Annual Incentive Standard
General Employment Conditions	Redundancy and Redeployment Policy Senior Employee Benefits Policy Leave Standard Parental Leave Standard Travel and Accommodation Standard Flexible Work Arrangements Standard Redundancy and Redeployment 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	Code of Conduct Policy Bullying and Harassment Prevention Policy Grievance Resolution Policy Code of Conduct Standard Bullying and Harassment Prevention Standard Grievance Resolution Standard Social Media Standard Employee ID 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						
		2011	2012	2013	2014	2015	2016	2017
Women	50	32.8	34	33	29	30	29	28
Aboriginal people and Torres Strait Islanders	2.6	0.7	0.6	0.8	0.6	0.6	0.6	1.1
People whose first language was not English	19	5.3	5	4.9	4.5	4.8	4.6	4.3
People with a disability	N/A	2.4	1.8	1.7	5.4	3.7	5	2.2
People with a disability requiring work-related adjustment	1.5	0.5	0.4	0.4	4.5	4.6	4.1	1.9

¹ Employee numbers are as at 30 June 2017.

² Excludes casual employees.

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.

TRENDS IN THE DISTRIBUTION OF EEO GROUPS¹

DISTRIBUTION INDEX:

	Benchmark/ Target	2011	2012	2013	2014	2015	2016	2017
Women	100	89	86	88	88	88	89	91
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	N/A	N/A	N/A	66
People whose first language was not English	100	102	109	102	103	105	101	103
People with a disability	100	103	103	100	98	91	95	85
People with a disability requiring work-related adjustment	100	N/A	N/A	N/A	96	90	93	84

¹ Employee numbers are as at 30 June 2017.

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 PROGRAM (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.

EQUAL EMPLOYMENT OPPORTUNITY STATEMENT

Hunter Water aims to recognise, create opportunities and continuously work on strategies to promote and reinforce the principle of equal employment opportunity. Hunter Water is committed to ensuring that positive employment practices are followed, employment discrimination is eliminated, equality of opportunities and outcomes is promoted for all employees and to reflect the diverse nature of the Hunter Water community.

EEO AND MULTICULTURAL POLICIES AND SERVICES ANALYSIS

Hunter Water values and recognises the importance of achieving workplace diversity by identifying and eliminating all forms of discrimination and putting measures in place to overcome the employment disadvantage faced by people from all backgrounds and needs. Recruitment activities and documentation have been revised to include equal employment opportunity aims and to better position Hunter Water as an employer to minority groups. Hunter Water workforce planning has identified the need to increase awareness of equal employment opportunity as both a recruitment and workforce skill gap issue. Hunter Water supports NSW public sector cultural diversity initiatives and is working to develop and sustain relationships with local organisations and educational centres to promote such aims and to provide industry scholarship pathways for people from diverse backgrounds. Examples include Indigenous Scholarship Program, SEAD (Students Experiencing A Disability) Scholarship, Empower Mentoring Program and Diversity and Inclusion/Unconscious Bias Training. Hunter Water has implemented a Diversity and Inclusion Dashboard which is updated quarterly to track our progress.

WOMEN

Hunter Water is predominantly an engineering and technical services discipline based organisation. When allied with the field-based maintenance operations, where approximately 20% of our workforce are engaged in physically intensive labour, this has resulted in lower female participation in these roles despite merit-based and EEO principles always being enforced in the recruitment and selection process. Hunter Water is currently developing a recruitment campaign aimed at women in field based roles. Hunter Water continues to participate in the University of Newcastle Empower Mentoring Program where senior female employees act as mentors to female university students including coaching and facilitation of work experience. Hunter Water is developing a High Potential Program for Women in Leadership roles and encouraging flexible working arrangements.

ABORIGINAL PEOPLE AND TORRES STRAIT ISLANDERS

Hunter Water continues to foster a merit based recruitment and selection process whereby people of an Aboriginal and Torres Strait Islander background are encouraged to apply for roles at Hunter Water and receive support in their application. Hunter Water has also participating in an Indigenous Scholarship Program through the University of Newcastle to promote cultural diversity in the workplace.

PEOPLE WHOSE FIRST LANGUAGE IS NOT ENGLISH

Hunter Water continues to foster a merit based recruitment and selection process whereby people whose first language was not English are encouraged to apply for roles at Hunter Water and receive support in their application. Recruitment and advertising services are written in plain English to encourage a wider and more diverse range of applicants. Hunter Water provides applicant assistance during a selection process to support individuals from non English speaking backgrounds. Hunter Water will be participating in a Scholarship Program for International Students.

PEOPLE WITH A DISABILITY

Hunter Water continues to foster a merit based recruitment and selection process whereby people with a disability are encouraged to apply for roles at Hunter Water and receive support in their application. Hunter Water is participating in the Student Experiencing a Disability (SEAD) Scholarship through the University of Newcastle to promote employment opportunities for young professionals with a disability. Hunter Water is partnering with a Disability Agency to provide employment opportunities for people with a disability.

PEOPLE WITH A DISABILITY REQUIRING WORK-RELATED ADJUSTMENT

Hunter Water continues to foster a merit based recruitment and selection process whereby people with a disability are encouraged to apply for roles at Hunter Water and receive support in their application. Hunter Water's strong safety focus will ensure that the needs of employees with a disability requiring work-related adjustment are facilitated.

EMPLOYEE SAFETY PERFORMANCE

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Lost time frequency rate	0	0	2.8	4.1	5.1	1.3
Total hours lost	1,189	1,149	1,079	2,762	3,930	1,052
Lost time injuries	0	0	3	4	4	1
First Aid injuries	14	5	18	29	23	7
Prosecutions	0	0	0	0	0	0

One of the most positive aspects in WHS performance has been the improvement in the LTIFR in 2016-17 and the reduction in First Aid Injuries. 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 a 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 2016-17

In 2016-17 there were two Hunter Water overseas trips that received Ministerial approval:

24/09/16 – 12/10/16: David Derkenne (Manager Wastewater Planning) travelled to France and Denmark on a Veolia Water Australia funded study tour.

13/02/17 – 14/02/17: Jim Bentley (MD) travelled to New Zealand for a Water Services Association of Australia members meeting (Hunter Water funded).

CUSTOMER AND SERVICE PERFORMANCE

CUSTOMER BASE

Customer	Number of Properties 2016-17	Income Raised 2016-17 \$m Actual
Residential	188,299	190.41
Multi-Residential ¹	43,434	31.48
Commercial	9,881	32.31
Industrial	1,170	16.08
Bulk Supply	4	0.39
Other ²	3,223	15.7
Total	246,011	286.37

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
2010-11	1,022	1,001	1,225
2011-12	1,091	1,423	1,735
2012-13	959	1,085	1,343
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
Long Term Average	1,119	1,048	1,268
Years of Record	152	50	90

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	2011	2012	2013	2014	2015	2016	2017
Chichester	25,277	22,113	23,996	27,086	23,580	19,606	23,026
Tomago	0	0	0	1,123	0	5,993	1,255
Grahamstown	40,398	38,921	42,094	40,167	40,7023	39,837	43,057
Total Major Sources	65,675	61,035	66,060	68,3763	64,2823	65,437	67,337
Anna Bay ¹	1,572	1,444	1,793	2,295	1,941	2,195	1,931
Lemon Tree Passage	761	714	768	812	792	828	834
Total²	680,081	631,931	686,221	71,483	67,015	68,460	70,103

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

	2011	2011	2012	2012	2013	2013	2014	2014	2015	2015	2016	2016	2017	2017
	ML	(%)	ML	(%)	ML	(%)	ML	(%)	ML	(%)	ML	(%)	ML	(%)
Domestic	37,087	55%	34,911	55%	38,370	56%	40,150	56%	37,723	56%	37,936	55%	39,834	57%
Non-Domestic	21,068	31%	19,225	30%	21,026	31%	21,306	30%	18,572	28%	18,171	26%	19,062	27%
Bulk Supply	315	0%	11	0%	29	0%	299	0%	380	0%	484	1%	487	1%
Total Consumption	58,470	86%	54,147	86%	59,424	87%	61,755	86%	56,675	84%	56,591	82%	59,383	84%
Authorised (HWC own use)	2,226	3%	2,058	3%	2,004	3%	2,139	3%	2,045	3%	2,450	4%	1,924	3%
Apparent Losses	1,255	2%	1,168	2%	1,281	2%	1,333	2%	1,225	2%	1,225	2%	1,272	2%
Real Losses	6,058	9%	5,820	9%	5,912	9%	6,523	9%	7,327	11%	8,514	12%	7,917	11%
Gross Non-Revenue Generating	9,539	14%	9,046	14%	9,198	13%	9,995	14%	10,597	16%	12,189	18%	11,113	16%
Total Supply	68,009		63,193		68,622		71,750		67,271		68,780		70,491	

¹ Includes water received from a bulk supplier, 267ML in 2014, 257ML in 2015 and 321ML in 2016.

WATER SYSTEM INCIDENTS

Incident / Solution	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Poor pressure	115	56	90	63	76	80	66
Pump problem	4	5	1	3	40	14	4
Seepage	201	332	249	178	234	296	198
Main flush	690	692	788	1,191	1,264	2,185	2,211
Main repair	1,534	1,246	1,539	1,479	1,431	1,335	1,248
Hydrant defect	745	716	744	866	905	911	1,038
Valve defect	249	231	212	237	229	290	230
Repair pathcock/maincock	2,875	2,711	2,680	2,788	2,793	3,160	3,080
Meter defect	525	518	599	694	994	740	651
Service defect repaired by HWC's Operations employees	1,664	1,507	1,682	1,555	1,958	2,035	2,367
Service defect repaired by private plumber	640	727	631	688	899	806	746
Complaint unconfirmed	430	408	324	373	416	459	398
Other	1,667	1,536	1,473	1,417	1,519	1,537	1,439
Tap rewashers	69	85	50	45	26	59	30
Trunkmain repairs	3,012	2,725	2,500	2,666	2,856	2,463	1,325
Total	14,420	13,495	13,562	14,243	15,640	16,370	15,031

WATER TRANSPORT SYSTEM RELIABILITY

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Main breaks per 100kms main - trunkmains included in length of mains	31.2	25.2	31.91	30.21	28.9	26.8	24.8
Discoloured water complaints per 1000 properties connected (tenancy)	1.9	2.1	3	2.9	2.7	3.6	3.8

¹ Water breaks includes all breaks, bursts and leaks in all diameter mains in the reporting period. It excludes those in the service connection to internal plumbing. It does not completely exclude those minor repairs to above ground mains that can be fixed without shutting the main down (as in WSAA and IPART definitions) as these repairs could not be identified in the current system, depending on job call off.

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

WASTEWATER SYSTEM INCIDENTS

Incident /Solution	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Chokage cleared - main	2,773	2,116	1,938	2,529	2,515	2,024	2,374
Chokage cleared - branch	2,665	1,969	1,837	2,175	2,205	1,917	2,129
Private plumbers job ¹	547	536	431	490	586	532	449
House drains cleared	0	3	4	4	4	5	6
Storm overflow	232	310	386	239	460	436	60
Gravity sewer break	25	28	35	35	46	43	56
Rising main break	32	37	39	40	45	29	30
Pump Station malfunction	13	16	12	6	66	9	3
Vacuum Sewer Jobs	63	58	40	21	46	36	40
Pump Effluent Line	5	8	4	10	12	14	5
No work required	135	122	88	117	112	122	128
Complaint unconfirmed	212	276	208	187	244	379	281
Charge job ²	2	0	1	1	1	1	0
Other	853	838	784	1,091	1,219	743	609
Total	7,557	6,317	5,807	6,945	7,561	6,290	6,170

¹Problem in customer's private drains or fittings.

²Completed by Hunter Water and customer billed.

WASTEWATER TRANSPORT SYSTEM RELIABILITY 2016-17

	Number of Main Breaks and Chokes	Length of Sewermain (km)	Ratio of Main Breaks /Chokes Per 100km of Main
Total	2,502	5,031	49.6

	Number of Property Breaks and Chokes	Number of Wastewater Properties	Ratio of Property Breaks and Chokes per 1,000 Properties
Total	2,188	234,376	9.3

GENERAL STATISTICS

Water	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Population in area ^{1,2}	560,603	567,526	561,549	572,092	578,523	583,659	589,955
Population supplied with water ¹	539,364	539,909	545,256	550,347	558,390	563,611	571,389
Properties where water is available ³	236,369	237,164	239,036	242,590	247,355	250,875	255,016
Properties connected to water (metered) ³	227,695	230,140	232,964	235,835	238,822	242,277	246,011
Capacity of major sources (ML)	288,000	288,000	288,000	276,686	276,686	276,686	276,686
Total supply from sources (ML) ⁴	67,100	62,275	68,622	71,750	67,272	68,781	70,103
Average day net supply (ML) ⁴	183.8	170.2	188	196.6	184.3	187.9	192.1
Maximum day net supply (ML) ⁴	317.4	240.8	313.9	315.5	277.7	271.1	299.7
Maximum week net supply (ML/day) ⁴	298.3	212.2	273.3	293.4	251.4	253.8	263.1
Minimum day net supply (ML) ⁴	120.4	136.2	138.5	142	140	123.7	132.3
Average consumption per residential tenement (kl/annum)	174.8	162.9	175.8	181.3	167.8	166.3	172.0
5 year rolling average consumption ⁵	182	176.4	175.4	175.7	172.5	170.8	172.6
Watermains laid during year (km)	58	58.3	48.6	65.5	59.1	50.4	67.5
Watermains abandoned during year (km)	21.2	24	8	21.2	3.5	11.7	22.6
Watermain length revisions during the year (km)	2.62	-0.9	-150	-2.2	-3.3	0.5	1.4
Total watermains in service (km) ⁷	4,898	4,930	4,820	4,893	4,945	4,985	5,031
Length of watermain per connected property (m)	21.51	21.42	20.69	20.75	20.71	20.58	18.18
Water supplied free of charge: charitable, public and miscellaneous purposes (kl)	423,194	415,704	449,055	458,848	433,560	416,211	399,487
Water supplied free of charge: dollar value (\$)	723,662	789,838	934,034	977,346	949,497	923,989	898,846
Wastewater	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Population supplied with water and sewer ¹	519,858	516,726	523,211	527,692	535,010	539,585	546,348
Properties where sewer is available ³	224,986	227,690	229,938	232,861	235,830	239,308	243,244
Properties connected to sewer ³	215,748	218,459	221,434	224,326	227,514	230,618	234,376
Sewermains laid during the year (km)	68.2	65.1	68.3	54.5	44.3	52.5	53.7
Sewermains abandoned during the year (km)	0.4	3.5	1.3	3.5	3.5	5.8	4.5
Sewermain length revisions during the year (km)	-4.9	0.1	-7.0	0.6	-0.3	3.6	3.7
Total sewer mains in service (km)	4,730	4,792	4,852	4,903.1	4,944.8	4,995.0	5,048.0
Length of sewermain per liable property (m)	21	21	21.1	21.1	21.0	20.6	20.5
Wastewater supplied free of charge: dollar value (\$)	107,775	109,205	127,229	144,155	138,048	134,104	137,136
Drainage	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Properties liable ³	67,938	68,387	68,848	69,287	69,732	69,978	70,620

Dissection of Population - June 2017 ¹		2016-17	
Region	Population in Area	Served Water	Served Sewer
Newcastle	164,220	164,220	163,465
Lake Macquarie	207,251	205,860	198,131
Maitland	79,544	78,181	75,323
Cessnock	57,166	50,518	45,704
Port Stephens	72,328	68,930	62,689
Dungog	9,446	3,427	942
Sub Total	589,955	571,136	546,254
Singleton (Part Branxton)	-	168	94
Total	583,659	571,304	546,348

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Ratio of properties connected to water and sewer, and water only ⁶	96.4%	95.7%	96.0%	95.9%	95.8%	95.7%	95.6%

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

² Population in area for 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.

⁷ 2012-13 - Length of mains adjusted with new GIS data. Total length dropped compared to previous years due to more accurate data.

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 2016-17, 74% of solid waste was reused or recycled. Effective management of waste spoil from operational activities continues to be a major focus. Spoil storage facilities were upgraded at a number of site depots in the last twelve months. Effective management of waste spoil from operational activities continues to be a major focus. Spoil storage facilities were upgraded at a number of site depots in the last 12 months. The reduction in percentage of waste being recycled or reused is due to the removal of water residuals from the lagoons at Grahamstown Water Treatment Plant (WTP) and Dungog WTP. One lagoon at Dungog WTP was excavated in July 2016 and one lagoon at Grahamstown WTP excavated in January 2017. None of this material has yet been taken off site and was stockpiled onsite during the financial year. It is estimated that 10,840 tonnes of water residuals were excavated from the pond at Grahamstown WTP. The residuals were generated over a much longer period than 12 months. Once the Grahamstown WTP residuals are taken off site for either disposal to landfill or alternatively reused if opportunities are identified, the tonnage will be less because the residuals would dry on site in 2017-18. At Dungog WTP the volume of residuals excavated and dried was approximately 2,200 tonnes.

CONSUMER RESPONSE

The volume of customer complaints is 34% lower than last year. This is largely attributed to a change in the definition for water quality complaints to bring this figure in line with the National Performance Reporting Standard. The figure for billing complaints is also much lower. This reduction is attributed to initiatives that have improved the customer experience by minimising bill errors, providing payment assistance and increasing awareness of assistance programs through an outreach program.

WATER QUALITY

The volume of customer complaints is 45% lower than last year. This is attributed to a change in the definition for water quality complaints to bring this figure in line with the National Performance Reporting Standard. The following actions have been put in place to improve our service and enhance our customer's experience 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

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

BILLING

The volume of billing complaints is 40% lower than last year. The following initiatives are being implemented 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 and 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 2016-17 were 18% lower than last year. This is attributed to working closely 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 COMPLAINTS

TABLE 1. TOTAL NUMBER OF COMPLAINTS (EXCLUDING EWON)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Water and Sewer Complaints	1,690	1,650	1,621	1,577	1,506	1,160	764
Per 1,000 Properties	7.4	7.3	7	6.8	6.3	4.8	3.2

TABLE 2 - MAIN FEATURES OF COMPLAINTS BY CATEGORY

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Water quality	636	660	684	794	708	407	221
Per 1000 properties	2.8	2.9	2.9	3.4	3	1.7	0.9
Water services	60	39	54	17	15	13	4
Per 1000 properties	0.3	0.2	0.2	0.1	0.1	0.05	0
Sewer services	483	481	344	173	233	247	247
Per 1000 properties	2.3	2.2	1.6	0.8	1	1	1
Drainage	21	18	16	2	9	5	1
Per 1000 properties	0.09	0.08	0.08	0.03	0.04	0.02	0
Billing	490	477	523	591	541	488	291
Per 1000 properties	2.2	2.1	2.2	2.5	2.3	2	1.2

TABLE 3 - EWON COMPLAINTS

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
EWON	104	123	126	127	120	126	103

FINANCIAL

REVIEW OF ALL MAJOR ITEMS 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 \$43.83m.

	June 2017 \$m	June 2016 \$m
Tariff Income - billed	16.30	15.82
Tariff Income - unbilled	19.64	22.73
Sundry Debtors	1.03	1.42
Net GST Receivable from ATO	4.10	5.21
Community Service Obligations	1.04	0.81
Prepayments	1.49	1.09
Miscellaneous Debtors	0.57	0.65
	44.18	47.73
Less Provision for Doubtful Debts	(0.35)	(0.38)
Total Receivables	43.83	47.34

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 2017 (inclusive of accruals) and included in receivables was \$4.10m.
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 2016-17 were for rebates given to pensioners and exempt properties, for example churches. The 2016-17 claim and cash received were as follows:

	Amount Claimed \$m	Cash Received \$m	Outstanding (Prepayment) \$m
Pensioner Rebate	12.78	11.82	0.96
Exempt Properties	1.98	1.89	0.09
Total CSO Claim and Cash Received	14.76	13.71	1.04

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 2017 \$m	June 2016 \$m
Cash at Bank	11.67	10.36
T-Corp Deposits	-	1.60
	11.67	11.96
Interest Earned	0.06	0.11
Average Interest (on average monthly investment balance)	1.07%	1.60%

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

FIXED ASSETS - PROPERTY, PLANT AND EQUIPMENT

	June 2017 \$m	June 2016 \$m
Opening WDBV	2,363.20	2,524.18
Less - Depreciation Charge	(43.73)	(41.22)
Less - Disposals	(1.69)	(39.71)
Add - Additions	132.10	56.67
Add - Externally Funded Assets	33.14	26.54
Add - Transfers Between Classes	0.95	(17.86)
Revaluation - Increment	-	0.07
Revaluation - Decrement	-	(145.45)
Total Fixed Assets - Property, Plant and Equipment	2,483.95	2,363.20

The total assets of \$2,484m at 30 June 2017 represents an increase of \$121m on the balance as at 30 June 2016 of \$2,363m.

INTANGIBLE ASSETS

	June 2017 \$m	June 2016 \$m
Opening WDBV	19.65	17.65
Less - Amortisation Charge	(8.25)	(8.68)
Less - Disposals	-	(0.21)
Add - Additions	5.14	11.78
Add - Transfers Between Classes	-	0.20
Revaluation - Decrement	-	(1.09)
Total Intangible Assets	16.54	19.65

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

BORROWINGS

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

During 2016-17 the capital value of the Economic Entity's financial liability portfolio increased by \$29.79m.

The average interest yield cost of debt held at 30 June 2017 was 3.05%. A profile of the Economic Entity's Financial Liability.

Portfolio is as follows:

	June 2017 \$m	June 2016 \$m
Number of Loans	35	34
Face Value	1,167.17	1,066.35
Net Premium / Discount on Loans	(65.82)	5.22
Current Capital Value	1,101.36	1,071.56
Market Value	1,177.27	1,194.65
Come and Go Facility	0.79	-
Interest bearing liabilities included in the Statement of Financial Position are:		
Current	88.01	7.38
Non-Current	1,013.34	1,064.18
Total Market Value Borrowings	1,101.36	1,071.56
Debt Maturity Profile		
Within 1 year	88.01	-
Between 1-5 years	638.17	403.25
Over 5 years	375.17	668.31
	1,101.36	1,071.56

EMPLOYEE PROVISIONS

At 30 June 2017 the liability for Employee Provisions totalled \$136.15m representing a decrease of \$33.72m during the year.

	June 2017 \$m	June 2016 \$m
Long Service Leave	13.53	14.22
Defined-Benefit Superannuation	117.95	150.66
Accrued Sick / Annual Leave	4.67	4.76
Other	-	0.24
	136.15	169.87

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

	June 2017 \$m	June 2016 \$m
Current	17.64	18.64
Non-Current	118.51	151.23
	136.15	169.87

At 30 June 2017 the Economic Entity's defined benefit superannuation provision was \$117.95m (2016: \$150.66m).

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 2017

Code	Description	Number of Properties	Value \$m
1	Land fully utilised as an integral part of the Parent Entity's system.	379	29.16
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.	28	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 2017		445	37.48

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 re-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 2016-17 financial year.

MATERIAL CAPITAL EXPENDITURE CONTRACTS AS AT 30 JUNE 2017 (GST-EXCLUSIVE)

(CONTRACTED FOR AT BALANCE DATE BUT NOT PROVIDED FOR)

Contract Number	Contract Description	Committed Amount \$m
CP3329	Central Coast Inter-Regional Transfer - Design and Construction	5.46
CP3334	High Voltage Network Overhead Powerlines Upgrade	4.89
CP3303	Hunter River Tunnel Construction	4.62
CP3316	Design & Construction of Lochinvar Wastewater Pump Station	3.77
CP3315	Swansea Channel Crossing Construction	1.95
CP3318	Boulder Bay Wastewater Pump Station Emergency Storages Construction	1.79
CP3297	Waratah West Wastewater Pump Station Upgrade - Construction	1.68
CP3317	Tillegra Riparian Improvement Project	1.63
CP3332	PLC and Telemetry Upgrade	1.27
CP3326	SCADA Radio Network Upgrade	1.02
CP3246	Rehabilitation of Sewer mains	0.63
CP3346	Depot Upgrades for Spoil Management - Construction	0.58
CP3324	Wastewater Treatment Works Biosolids Storage Upgrade - Construction	0.48
CP3309	Farley Wastewater Treatment Works Interim Upgrade - Design & Construction	0.45
CP3380	Elmore Vale Network Upgrade - Construction	0.44
CP3340	Dungog Wastewater Treatment Works Upgrade - Concept Design	0.39
CP3198	Belmont & Cessnock Wastewater Treatment Works Inlet Remediation	0.38
CP3327	Hazardous Chemicals Asset Improvement Upgrade	0.33
CP3401	Seaham Weir Modifications - Design and Consultancy	0.32
CP3343	Wyee Backlog Sewer Scheme - Design & Consultancy	0.30
CP3347	Williamtown Water Reticulation Scheme - Design & Construction	0.28
CP3003	Farley Wastewater Treatment Works Stage 3 Upgrade - Treatment Program Alliance	0.26
	Other Commitments less than \$0.25m	4.92
		37.85

FINANCIAL SUMMARY AND RATIO ANALYSIS OF THE ECONOMIC ENTITY FOR THE YEAR ENDED 30 JUNE 2017.

OPERATING PROGRAM 2017 ECONOMIC ENTITY

A summary of actual and budgeted results for 2016-17 and comparisons with 2015-16 results and budget is as follows:

	Actual 2017 \$m	Budget 2017 \$m	Actual 2016 \$m	Budget 2016 \$m
Income				
Net Tariff Income	293.89	292.97	293.76	284.28
Interest on Investments	0.06	0.07	0.10	0.15
Profit / (Loss) on Sale of Assets	(3.92)	-	(3.56)	-
External Sales	4.21	0.47	-	0.06
Contribution from Capital Works	33.16	19.15	28.60	18.94
Other (inc Non-Regulated Income)	3.72	2.97	8.96	3.02
Total Income	331.12	315.63	327.86	306.46
Expenditure				
Operating Expenses	127.57	131.26	124.26	129.33
Superannuation Interest Expense	2.96	4.73	2.98	4.61
Revaluation Expense	3.48	-	1.47	-
Depreciation and Amortisation	51.99	49.24	49.90	48.19
Interest Expense	45.15	51.54	55.28	53.93
Financial Charges	17.70	15.37	15.28	14.04
Total Expenditure	248.85	252.13	249.17	250.10
Profit Before Tax	82.27	63.50	78.69	56.36

OPERATING PROGRAM 2018 ECONOMIC ENTITY

	Budget 2018 \$m
Income	
Net Tariff Income	308.41
Interest on Investments	0.06
Profit / (Loss) on Sale of Assets	-
External Sales	0.41
Contribution from Capital Works	23.55
Other (inc Non-Regulated Income)	3.00
Total Income	335.43
Expenditure	
Operating Expenses	141.12
Superannuation Interest Expense	3.75
Depreciation and Amortisation	57.59
Interest Payable	46.36
Financial Charges	19.41
Total Expenditure	268.24
Operating Profit Before Tax	67.19

FIVE YEAR FINANCIAL SUMMARY AND RATIO ANALYSIS

1. STATEMENT OF FINANCIAL POSITION (ECONOMIC ENTITY)

	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
Current assets					
Cash and cash equivalents	11.67	11.97	12.71	7.29	31.64
Trade and other receivables	43.46	46.90	41.01	46.87	45.67
Inventories	2.57	2.48	2.28	2.68	2.67
Assets held for sale	30.83	43.29	26.99	25.21	5.52
Total current assets	88.53	104.63	82.99	82.05	85.50
Non-current assets					
Fixed assets	2,594.68	2,527.27	2,639.99	2,676.40	2,599.29
Investments / other	0.37	0.44	0.42	-	-
Total non-current assets	2,595.05	2,527.71	2,640.42	2,676.40	2,599.29
Total assets	2,683.58	2,632.34	2,723.41	2,758.44	2,684.80
Current liabilities					
Trade and other payables	79.50	88.08	76.67	77.79	81.80
Borrowings	88.01	7.38	100.69	61.94	1.37
Provisions	59.24	56.14	41.62	62.81	40.79
Current tax liabilities	3.69	4.18	0.95	12.95	9.02
Other liabilities	4.12	4.12	-	-	-
Total current liabilities	234.57	159.91	219.93	215.49	132.98
Non-current liabilities					
Borrowings	1,013.34	1,064.18	960.35	969.71	984.72
Provisions / other	220.63	240.37	240.24	251.46	261.32
Total non-current liabilities	1,233.98	1,304.55	1,200.59	1,221.18	1,246.04
Total liabilities	1,468.54	1,464.46	1,420.52	1,436.66	1,379.02
Net assets	1,215.04	1,167.89	1,302.90	1,321.78	1,305.78
Equity					
Share capital	112.19	103.70	102.85	100.00	100.00
Reserves	389.50	390.89	512.26	555.94	557.71
Retained profits	713.35	673.30	687.78	665.84	648.07
Total equity	1,215.04	1,167.89	1,302.90	1,321.78	1,305.78

2. INCOME STATEMENT (ECONOMIC ENTITY)

Trading Operations	2017 \$m	2016 \$m	2015 \$m	2014 \$m	2013 \$m
Revenue					
Tariff	279.13	275.04	280.29	282.57	271.65
Other	23.22	26.51	7.71	3.82	23.32
Less: operating costs	122.55	119.62	124.42	114.83	133.77
Gross margin	179.80	181.94	163.58	171.55	161.20
Other income					
Investments	0.06	0.10	0.18	0.26	0.35
Other expenditure					
Financing charges	62.85	70.56	67.85	68.12	73.57
Depreciation and amortisation	51.99	49.90	41.47	40.87	43.93
Superannuation adjustment	7.99	7.62	7.90	7.38	7.69
Other	7.93	3.86	28.65	14.14	34.19
Profit before contributions for capital works	49.11	50.10	17.89	41.31	2.17
Contributions for capital works	33.16	28.60	34.35	23.34	23.19
Net Profit	82.27	78.69	52.24	64.65	25.36

Note: Movement in superannuation liabilities as advised by Pillar Administration, including actuarial gains / (losses). The superannuation expense was restated for 2013-14 as there was a change to AASB 119 Employee Benefits that became effective from 1 July 2014 which required a retrospective adjustment to prior period results.

3. FINANCIAL RATIOS

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

	2017	2016	2015	2014	2013
A - Gross Profit (%)	59.47	60.33	56.80	59.90	54.65
B - Working Capital (ratio)	0.38	0.65	0.38	0.38	0.64
C - Cash Ratio	0.05	0.07	0.06	0.03	0.24
D - Equity to Total Liabilities (ratio)	0.83	0.80	0.92	0.92	0.95
E - Interest Cover (times)	2.32	2.21	1.95	2.11	1.90
F - Return on Equity (%)	6.92	7.43	3.26	6.77	0.29
G - Real Rate of Return (%)	4.69	5.15	3.60	4.63	3.44
H - Return on Total Net Assets (%)	4.70	4.94	1.98	3.90	0.75

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. Marginally decreased in 2016-17 driven by increased operating costs compared to the previous year.

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 decreased in 2017 compared to 2016 as there was an increase in current borrowings at 30 June 2017 from the previous 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 decreased during the 2016-17 year as a result of increased current borrowings compared to the previous year.

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 steady in 2017.

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. This ratio shows that Hunter Water is achieving profits sufficient to cover financing costs.

F - RETURN ON EQUITY

Return on Equity is calculated as operating profit divided by the sum of Issued Capital and Retained Profits. Return on Equity for 2016-17 is 6.92%, which is lower than the previous year due to increased retained profits.

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 works 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 a RRR in order to capture the major economic indicators of commercial performance i.e. capital costs, recurrent costs and revenue. The rate of return Hunter Water may earn is used to pay real interest costs on debt and a return on equity which may in fact be a contribution to the State Government by way of dividends or re-investment in the organisation. The current year's result is 4.69%.

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 2017 return on total net assets is lower than 2016 due to increased net assets.

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 driven down through Hunter Water in divisional budgets.

The SCI performance targets and actual results for the 2016-17 financial year are as follows:

	Actual 2017 (\$m)	SCI Target 2017 (\$m)
Operating Profit before Income Tax Expense	82.27	63.50
Income Tax Expense	27.54	19.07
Net Debt	1,089.69	1,078.16

Hunter Water achieved favourable operating performance for 2016-17 compared to the SCI target due primarily to higher than budgeted developer assets received along with lower interest expenses and operating costs 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 2017 the key statistics on the debt portfolio were as follows:

	Actual 2017 (\$m)	SCI Target 2017 (\$m)
Current capital value (\$)	1,101.36	1,083.61
Average cost of debt (%)	3.05%	4.84%
Weighted Average Life:		
Inflation Indexed Debt (years)	6.75	
Nominal Debt (years)	4.84	

MAJOR ACQUISITIONS OVER \$0.5 MILLION

Project	2016-17 Expenditure (\$m)
Hunter River Tunnel CTGM Renewal	5.41
Biosolids Storage Upgrade for Wastewater Treatment Works	5.24
Burwood Beach Wastewater Treatment Works Ultra Violet Disinfection System	4.38
Lochinvar Wastewater Network Upgrade	3.91
Overhead Powerlines Upgrade	3.49
SCADA Radio Network Replacement	2.63
Williamstown Water Reticulation Scheme	2.47
Lochinvar Water Trunkmain	2.26
Switchboard Replacement Program	2.21
Farley Wastewater Treatment Works Interim Upgrade	2.14
Maitland 14 Wastewater Pump Station upgrades	2.09
Waratah West Wastewater Pump Station Upgrade	1.85
Tarro to Beresfield CTGM Renewal	1.62
Hazardous Chemicals Asset Improvements	1.57
PLC and Telemetry Upgrade	1.34
Anna Bay Emergency Storage	1.31
Integrated Quality Management System	0.97
Depot Upgrades for Spoil Management	0.89
Boulder Bay Wastewater Pump Station Emergency Storages	0.84
Central Coast Inter-Regional Transfer	0.69
Inlet Works Belmont and Cessnock Wastewater Treatment Works	0.67
Other Major Acquisitions (mostly made up of replacements in Hunter Water's Water and Sewer Networks)	17.76
Total Expenditure	65.72

CREDIT CARD CERTIFICATION

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

CONSULTANCIES

CONSULTANTS \$50,000 AND OVER

Consultant	Project	Cost \$
GHD Pty Ltd	Various Consultancy Services	503,867
AECOM Australia Pty Ltd	Various Consultancy Services	477,535
Hunter H2O Holdings Pty Ltd	Various Consultancy Services	218,606
Ramboll Environmental Australia	Hydrogeology Investigation	144,704
Footbridge Consulting	Consulting and Cultural Refresh Program	113,547
Marchmont Hill Consulting	Maintenance Services Review	96,663
Rainbow Creative	Strategic Development	94,363
BMT WBM Pty Ltd	Non Revenue Water Audits and Throsby Creek Sediment Study	83,492
Water Futures Pty Ltd	Grahamstown Dam Water Resource Planning Investigation	62,820
Coffey Geotechnics	Hydrogeology Investigation	53,000
Total Consultants	10	1,848,598

CONSULTANTS LESS THAN \$50,000

Category	Number	Cost (\$)
Corporate	22	381,330
Engineering	27	376,834
Finance	2	39,241
Total Consultants	51	797,405

PAYMENT PERFORMANCE

INVOICES PAID ON TIME WITHIN EACH QUARTER

Quarter	Total Invoices Paid on Time		Paid on Time	Total Invoices Paid Within Quarter
	Target %	Actual %		
September	95%	96%	\$88,384,563	\$90,111,404
December	95%	96%	\$81,833,059	\$82,556,264
March	95%	96%	\$67,705,443	\$68,891,284
June	95%	96%	\$83,944,109	\$84,713,736

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	\$88,384,563	\$1,407,992	\$154,222	\$155,850	\$8,777	\$90,111,404
December	\$81,833,059	\$518,041	\$42,990	\$124,852	\$37,322	\$82,556,264
March	\$67,705,443	\$776,140	\$108,187	\$166,328	\$135,187	\$68,891,284
June	\$83,944,109	\$570,214	\$107,347	\$68,444	\$23,622	\$84,713,736

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.

SIGNIFICANT AUDIT MATTERS

No significant audit matters were identified by the Audit Office of NSW during the external audit for 2016-17.

COST OF PRODUCING ANNUAL REPORT

The design template for this year's Annual Report was outsourced due to limitations with our in-house resources. The total expenditure on external production for the Annual Report 2016-17 was \$3,612.

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 2016-17 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 real increase in most prices and charges over the price period, moderated in part by forecast growth in Hunter Water's water sales and customer connections.

IPART's 2016 determination made a number of changes to Hunter Water's prices, including:

- Rebasing water and sewerage service charges and continuing the transition towards area based stormwater charges, to remove cross-subsidies between residential and non-residential customers.
- Continuing to increase the sewer service charge for apartments relative to houses, so that by 2019-20 apartments will pay 82.5% of the sewerage service charge applicable to houses.
- Introducing a low-impact customer category for stormwater charges for residential customers equal to the charge for apartments.

WATER

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

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

¹ Meter Equivalent Rate applicable from 2016-17.

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

SEWER

Sewer Service Charge (\$) (Metered and Unmetered) Residential Properties:	2016-17	2015-16	2014-15
Houses	\$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	\$453.25	\$430.34	\$409.93

Non-residential Properties ^{1,2} Meter Size (mm)	Meter Equiva- lent³	2016-17	2015-16	2014-15
20mm stand alone		\$743.81	\$593.58	\$585.61
20mm	1.00	\$1,180.28	\$1,179.58	\$1,163.74
25mm	1.56	\$1,818.74	\$1,843.09	\$1,818.35
32mm	2.56	\$2,950.95	\$3,019.71	\$2,979.18
40mm	4.00	\$4,585.41	\$4,718.30	\$4,654.97
50mm	6.25	\$7,139.27	\$7,372.34	\$7,273.38
65mm	10.56	\$12,034.20	\$12,459.26	\$12,292.02
80mm	16.00	\$18,205.97	\$18,873.19	\$18,619.86
100mm	25.00	\$28,421.39	\$29,489.36	\$29,093.53
150mm	56.25	\$63,891.58	\$66,351.07	\$65,460.45
200mm	100.00	\$113,549.85	\$117,957.46	\$116,374.14
250mm	156.25	\$177,396.79	\$184,308.53	\$181,834.59
300mm	225.00	\$255,431.48	\$265,404.28	\$261,841.81
350mm	306.25	\$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.

3 Meter Equivalent Rate applicable from 2016-17.

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

STORMWATER

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

RECYCLED WATER (MANDATORY SCHEMES)

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

BACKLOG AND OTHER SEWERAGE SERVICES

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

EXEMPT SERVICE

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

Sewer Service - Exempt	2016-17	2015-16	2014-15
Residential Properties:			
House	\$120.87	\$118.72	\$117.12
Unit / flat	\$90.65	\$86.07	\$81.99
Non-residential Properties	Sewer service charge x 20%	Sewer service charge x 20%	Sewer service charge x 20%
Pensioner Rebate	\$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 Height 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.

RESEARCH AND DEVELOPMENT

During 2016-17, Hunter Water undertook and collaborated on research and development on eight projects covering water quality, wastewater, asset management, ecology and catchment management subjects. This research was conducted in association with other organisations such as University of New South Wales, University of Newcastle, University of Technology, Water Services Association of Australia and Water Research Australia. The projects were undertaken either to address identified knowledge gaps in areas of Hunter Water's operations to meet strategic business goals or to provide information for regulatory authorities regarding the Corporation's operations.

COLLABORATIVE RESEARCH AND DEVELOPMENT PROJECTS WITH EXPENDITURE IN 2016-17

Project	Partners	Funding ('000)
Destratification of Chichester Dam (Masters project)	WaterRA, UNSW (Water Research Lab)	10
Grahamstown Dam Inflow Characterisation & Impacts of Stratification on Water Quality (PhD)	University of Newcastle	15
Climate Change Adaptation Planning	Water Research Australia	10
Smart Monitoring for Microbial Risk Assessment	Water Research Australia	15
Ethical And Cost Effective Alternatives For Direct Toxicity Assessments	Water Research Australia	10
Understanding The Occurrence, Fate And Behaviour, Management of Microplastic in Water And Water Treatment Plants	Global Centre for Environmental Remediation, University of Newcastle	15
Good Practice Guide to Sanitary Surveys and Operational Monitoring to Support Catchment and Source Water Management	Water Research Australia	5
National Wastewater Drug Monitoring Pilot Program - Newcastle	University of Queensland	7
Total		87

DONATIONS AND SPONSORSHIP

TO NON-GOVERNMENT COMMUNITY ORGANISATIONS

Organisation(s)	Project	Purpose of Project	Target Clients	Type	Amount
CPA	Newcastle Economic Convention	Contribution to a local financial convention to learn and influence	Financial professional community	Event Sponsorship	\$8,000
Cross Connections	A Plastic Ocean	Raise awareness of plastic waste impact on the environment	Wider Community	Sustainability Grant	\$500
Dungog Arts Foundation	One night in Dungog	A film festival in Dungog to help boost the community and showcase the regions talents	Residents of Dungog and surrounding areas	Community Grant	\$10,000
Hunter Academy of Sport	Sports Fest	Sponsorship for sporting event to draw attention to the importance of staying hydrated.	Young athletes and spectators	Event Sponsorship	\$5,000
Hunter Business Chamber	Business Water Savers Award	Encourage small businesses to implement water saving strategies	Small businesses	Sustainability Grant	\$16,000
Hunter Region Botanic Gardens	Hunter Region Botanic Gardens Bio Banking	Contribute to the ongoing viability of Hunter Region Botanic Gardens	Hunter community and tourists	Sustainability Grant	\$50,000
Hunter Sports Centre	Hunter Sports Water Partnership	Encourage and inform children about positive environmental and health benefits of water	Local and interstate visitors to the sports centre	Community Grant	\$10,000
Port Stephens Koalas	Koala Ambulance	Fund a vehicle that can be used to transport injured or sick koalas in and around Hunter Water catchments	Port Stephen community and wild life	Community Grant	\$10,000
Life Education	Water for Life Challenge	Program that encourages children to drink water and rewards the positive behaviour change	Primary school children	Education Partnership	\$20,000
Port Stephens Council	Drinking Station	Partnership with the council to provide free drinking stations and bottle refills in high traffic areas	Wider Community	Sustainability Grant	\$10,000
Surfing for Autism	Surfing for Autism	A free event for children on the spectrum to enjoy clean beaches in a non-judgemental environment	Families and children with autism in the Hunter	Event Sponsorship	\$2,000
Surfest	Surfest	Sponsorship for local surfing event that draws attention to the high quality of Newcastle beaches	Hunter and international surfing community	Community Grant	\$5,000
Warrens Bay Landcare	Warners Bay Creek Improvement Project	Intensive localised bush regeneration of Warners Creek for banks stabilisation and encourage native plants	Lake Macquarie community	Sustainability Grant	\$5,600
Williams River Landcare	Williams River Project	Rehabilitation work of the Williams River at Frank Robinson Park complementing the over improvement of our catchment	Williams River / Dungog Community	Sustainability Grant	\$10,000
Camp Quality	1,000km's For Kids	Employee participating in charity activity	Wider community	Charity	\$1,000
Cancer Council	Australia's Biggest Morning Tea	Fundraising event donation matched by staff contributions	Wider community	Charity	\$2,055
Carrie's Place	Christmas Toy Rally	Donation for Christmas toy drive	Wider community	Charity	\$1,000
Nathan Gremmo Community Fund	Jersey Day	Fundraiser for organ donation and awareness	Wider community	Charity	\$415
Lifeline Newcastle	Lifeline Hunter Central Coast	Fundraising event donation matched by staff contributions	Wider community	Charity	\$3,832
Mark Hughes Foundation	Beans for Brain Cancer	Employee fundraising event	Wider Community	Charity	\$2,045
Oz Harvest	Oz Sizzle	Fundraising event donation matched by staff contributions	Wider community	Charity	\$1,500
Riding for the Disabled	Emergency water grant	Donation for charity	Wider community	Charity	\$545
Westpac Rescue Helicopter	Lower Hunter Region	Donation matched by employee contributions	Wider community	Charity	\$3,300
Total	Total Agricultural College Scholarships	For students studying in areas of catchment health	Students studying catchment health	Scholarship	\$6,000
Newcastle University	Newcastle University Scholarships	For students studying in areas relating to Hunter Water and undergoing hardship	Students undergoing hardship	Scholarship	\$20,000
Total					\$213,792

LEGISLATION

RIGHT TO INFORMATION

During 2016-17, Hunter Water received 12 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
- Publications and promotional material
- Advertising / media campaigns
- Newsletters and direct mail
- Partnerships and alliances
- Sponsorship and community funding
- Stakeholder briefings
- Media and government relations
- Water efficiency education program

Hunter Water proactively releases information on its pollution monitoring program for the 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 also has an established Twitter account @HunterWater to provide up-to-date information to customers during incidents involving our assets, the environment, customers or employees.

NUMBER OF APPLICATIONS BY TYPE OF APPLICANT AND OUTCOME¹

	Access Granted in Full	Access Granted in Part	Access Refused in Full	Information Not Held	Information Already Available	Refuse to Deal With Application	Refuse to Confirm/ Deny Whether Information is Held	Application Withdrawn	Total	% of Total
Media	1	0	0	0	0	0	0	0	1	7%
Members of Parliament	0	0	0	0	0	0	0	0	0	0%
Private sector business	0	2	0	0	0	0	0	0	2	14%
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	3	0	0	0	2	0	0	5	36%
Members of the public (other)	3	2	0	0	1	0	0	0	6	43%
Total	4	7	0	0	1	2	0	0	14	
% of Total	29%	50%	0%	0%	7%	14%	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	Information Not Held	Information Already Available	Refuse to Deal With Application	Refuse to Confirm / Deny Whether Information is Held	Application Withdrawn	Total	% of Total
Personal information application ¹	0	0	0	0	0	0	0	0	0	0%
Access applications (other than personal information applications)	4	7	0	0	1	2	0	0	14	100%
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0	0	0%
Total	4	7	0	0	1	2	0	0	14	
% of Total	29%	50%	0%	0%	7%	14%	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)	0	0%
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	0	0%
Invalid applications that subsequently became valid applications	0	0%

CONCLUSIVE PRESUMPTION OF OVERRIDING PUBLIC INTEREST AGAINST DISCLOSURE: MATTERS LISTED IN SCHEDULE 1 TO ACT

	Number of Times Consideration Used ²
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

² 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	5	71%
Business interests of agencies and other persons	1	14%
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)	11	100%
Decided after 35 days (by agreement with applicant)	0	0%
Not decided within time (deemed refusal)	0	0%
Total	11	

NUMBER OF APPLICATIONS REVIEWED UNDER PART 5 OF THE ACT (BY TYPE OF REVIEW AND OUTCOME)

	Decision Varied	Decision Upheld	Total
Internal review	0	0	0
Review by Information Commissioner ³	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
Total	0	0	0

³The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made.

APPLICATIONS FOR REVIEW UNDER PART 5 OF THE ACT (BY TYPE OF APPLICANT)

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

APPLICATIONS TRANSFERRED TO OTHER AGENCIES

	Number of Applications Transferred
Agency-Initiated Transfers	1
Applicant-Initiated Transfers	0
Total	1

LEGISLATIVE CHANGE

The *Land Acquisition (Just Terms Compensation) Amendment Act 2016* commenced on 1 March 2017. The key changes include the introduction of a 6 month negotiation period prior to commencing the compulsory acquisition process, changes to the compensation methodology and procedures and a first right of refusal to the former land owner if the acquired land is not required for a public purpose.

The *Biodiversity Conservation Act 2016* (NSW) was passed by Parliament in November 2016 and is due to commence 25 August 2017. It will repeal the *Threatened Species Conservation Act 1995*, the *Nature Conservation Trust Act 2001* and parts of the *National Parks and Wildlife Act 1974*. The *Biodiversity Conservation Act 2016* introduces a number of reforms to achieve ecologically sustainable development including a new Biodiversity Offsets Scheme and a new scientific method, known as the Biodiversity Assessment Method (BAM), for assessing biodiversity values and impacts. The reforms will affect how Hunter Water assesses the impacts of proposed activities on biodiversity and how these impacts are offset if a significant impact on biodiversity is likely to occur. A Biodiversity Assessment Report (BDAR) replaces the requirement to prepare a Species Impact Statement. However, under Part 5 of the *Environmental Planning and Assessment Act 1979*, Hunter Water can choose to prepare either a Species Impact Statement or a BDAR.

PUBLIC INTEREST DISCLOSURES

REPORTING PERIOD JULY 2016 TO JUNE 2017

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 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 program 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
Environmental compliance	Business practice outcomes 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
Service continuity	Imbalance in water supply / demand and wastewater service /demand	<ul style="list-style-type: none"> • Annual planning and risk review for water and wastewater networks and water and wastewater treatment works • Progress adaptation planning, including vulnerability mapping
Asset failure	Operational asset failure with resultant inability to deliver core services	<ul style="list-style-type: none"> • Deliver asset condition assessment program • Deliver capital works upgrades
Unsafe work environment / behaviours	Work practices do not sufficiently ensure the safety of employees	<ul style="list-style-type: none"> • Implement Fatal Risk Program • Implement Manual Task Program
Illegal or unethical behaviour	Sustained and systemic Breach of Code of Conduct	<ul style="list-style-type: none"> • Implement updated Fraud Control Strategy

MAJOR CAPITAL WORKS IN PROGRESS

Project	Cost	Commenced	Status
Central Coast Transfer Capacity Upgrade	6,110,000	May-17	Underway
Overhead Powerlines Upgrade	5,090,000	Sep-15	Underway
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	Underway
Lochinvar 1 Wastewater Upgrades (Housing Acceleration Fund HAF2 Upgrades)	3,410,000	Jan-17	Complete
Telemetry System Upgrade	2,750,000	Jun-16	Underway
Hazardous Chemical Equipment Upgrade	2,310,000	Dec-16	Underway
Black Hill Reservoir Floor Rehabilitation	2,210,000	Jun-17	Underway
Swansea Channel Crossing	2,140,000	Feb-17	Underway
Elmore Vale / Wallsend Wastewater Network Upgrade	1,920,000	May-17	Underway
Boulder Bay Wastewater Works - Stage 1c	1,820,000	Mar-17	Underway
Campvale Canal Culvert	1,810,000	Jun-17	Underway
Waratah West Wastewater Upgrade	1,240,000	Dec-16	Underway
Chichester Trunk Gravitational 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 2017.

DEFINITIONS

Underway: Design and/or construction commenced.

Complete: Practical completion achieved, in operation/implemented.

HUNTER WATER AUSTRALIA



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 2016-17 as it ceased operations in December 2014. No profit or loss was generated for the financial year ended 30 June 2017.

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 in 2017-18.

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 2017.

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 2017.

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 J Eather	(to 31 December 2016)
Mr P DalGLISH	

INFORMATION ON DIRECTORS

T LAWLER AO, B COM, 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.

J EATHER B COM, CPA, FGIA, MAICD

Mr Eather was appointed as a Director on 1 January 2008 and retired as a Director on 31 December 2016. Mr Eather is the Managing Director of The Callaghan Institute, a business and economic research and advisory practice he established in 2007. Previously he was CEO Media for the SOUL Group, where he was directly responsible for the running of NBN Television. During his 27 years with the NBN and SOUL Groups, he was actively involved in the expansion of the Group from its media base to the converging world of telecommunications. Mr Eather is Chairman of the Newcastle Permanent Building Society and has previously been Chairman of the University of Newcastle Foundation.

P DALGLISH BSC, GDIPMKTGMGMT, 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 deregister in 2017-18.

RESULTS AND DIVIDENDS

No profit or loss was generated for the financial year ended 30 June 2017 as the company has ceased operations. A net loss after tax of \$6,095 was recorded for the previous year.

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

There were no significant reportable events after the reporting date. Activities will focus upon the winding-up and deregistration of the Company.

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 2017 and the performance for the financial year ended 30 June 2017.

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 120.

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 31 August 2017
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 2017, I declare, to the best of my knowledge and belief, there have been no contraventions of:

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

A handwritten signature in black ink that reads "James Sugumar".

James Sugumar

Director, Financial Audit Services

30 August 2017
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 the Company

Opinion

I have audited the accompanying financial statements of Hunter Water Australia Pty Limited (the Company), which comprise the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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 2017 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

I confirm the independence declaration, required by the *Corporations Act 2001*, provided to the directors of the Company on 30 August 2017, 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.

Directors' Responsibility 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 are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors must assess the Company's ability to continue as a going concern except where they intend to liquidate the Company or cease operations. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to:

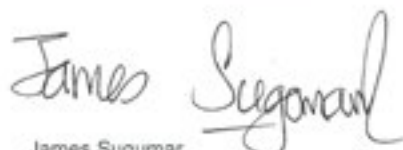
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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: http://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 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 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 2017
SYDNEY

FINANCIAL STATEMENTS

START OF AUDITED FINANCIAL STATEMENTS.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$'000	2016 \$'000
Loss for the year from Discontinued Operations	2	-	(6)
Other Comprehensive Income			-
Income Tax		-	-
Other Comprehensive income for the year net of tax		-	(6)
Total Other Comprehensive income for the year		-	(6)
Discontinued Operations		-	(6)
		-	(6)

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Notes	2017 \$'000	2016 \$'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 2017

	Notes	Retained Profits \$'000	Contributed Equity \$'000	Total \$'000
Opening balance at 1 July 2016		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 2017		4,905	900	5,805

	Notes	Retained Profits \$'000	Contributed Equity \$'000	Total \$'000
Opening balance at 1 July 2015		(2,222)	900	(1,322)
Profit / (loss) for the year		(6)	-	(6)
Total comprehensive income for the year		(6)	-	(6)
Transactions with owners in their capacity as owners				
Defined benefit superannuation liability transfer to Parent Entity		7,132	-	7,132
Balance at 30 June 2016		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 2017

DISCONTINUED OPERATIONS

	Notes	2017 \$'000	2016 \$'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)		-	66
Payments to suppliers and employees (inclusive of GST)		-	(63)
		-	3
Interest received		-	7
Net cash flows from operating activities	5	-	10
Cash Flows from Investing Activities			
Loan to Hunter Water Corporation		-	(2,552)
Net cash flows from investing activities		-	(2,552)
Net increase / (decrease) in cash held		-	(2,542)
Cash at beginning of financial year		-	2,542
Cash at the end of the financial year		-	-
Cash Flows from Discontinued Operations		-	-

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 2017 were authorised for issue in accordance with a resolution of the Board on 31 August 2017.

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*, the *Public Finance and 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 financial statements have been prepared on an accruals basis using the historical cost convention with the exception of Provisions and Superannuation defined benefit liability.

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 11 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 2017 and beyond. As the Company intends to voluntarily wind up operations in the future years, the impact of new accounting standards issued but not yet operative are not assessed by management.

NOTE 2. DISCONTINUED OPERATIONS

A. 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. During December 2015 the Company entered liquidation with a view to winding up the Company.

	2017 \$'000	2016 \$'000
Profit from Discontinued Operations		
Revenue	-	13
Expenses	-	19
Profit before Income Tax	-	(6)
Income Tax Expense	-	-
Profit from Discontinued Operations	-	(6)

Audit fees of \$5,000 for 2017 (2016: \$16,000) were paid by the Parent Entity.

NOTE 3. OTHER FINANCIAL ASSETS

	2017 \$'000	2016 \$'000
Current		
Loan to Parent Entity	5,805	5,805
	5,805	5,805

The intercompany loan is reported at amortised cost and will be settled at the conclusion of the liquidation process.

The Company's exposure to interest rate risk is discussed in Note 11. The maximum exposure to credit risk at the end of the reporting period is the carrying amount mentioned above.

NOTE 4. CONTRIBUTED EQUITY

	2017 \$'000	2016 \$'000
Current		
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

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

	2017 \$'000	2016 \$'000
Profit for the Year	-	(6)
(Increase)/decrease in trade debtors	-	23
(Increase)/decrease in other operating assets	-	13
Increase/(decrease) in trade creditors	-	(20)
Net cash flows from operating activities	-	10

NOTE 6. CONTINGENT LIABILITIES AND ASSETS

There are no contingent assets or liabilities identified at balance date. (Nil at 30 June 2016).

NOTE 7. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors (the Audit Office of NSW), from the Company:

	2017 \$'000	2016 \$'000
Audit of financial statements (exclusive of GST)	5	16
	5	16

Audit fees for 2016 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	2017 \$'000	2016 \$'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 loans noted above.

NOTE 9. KEY MANAGEMENT PERSONNEL

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 J Eather	(to 31 December 2016)
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
Mr P Kembrey	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

A. CREDIT RISK

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

INVESTMENTS

The Company limits its exposure to credit risk by only investing in liquid securities and only with the Parent Entity. Management does not expect its counterparty (Hunter Water Corporation) to fail to meet its obligations.

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	2017 \$'000	2016 \$'000
Investments	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 2017 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 T Lawler
Chairman



Mr P Dalglish
Director

Dated 31 August 2017
Newcastle

INDEX

About this report.....	3
Australian Drinking Water Quality Guidelines.....	31
Board committees.....	29-30, 35, 82
Board members.....	29, 33-35
Community Consultative Forum.....	83
Consultants.....	74
Contact us.....	133
Drinking water quality.....	31
Environment Protection Authority.....	31
Equal employment opportunity.....	86-87
Executive team	29
Financial statements.....	40-79
General statistics	92
Government Information (Public Access) (GIPA).....	111-113
Hunter Water Australia Pty Limited.....	116-131
Independent Pricing and Regulatory Tribunal.....	48, 103, 106
Managing Director’s Overview.....	6-7
Multicultural polices and services program.....	87
Operating expenditure.....	8
Operating Licence.....	31
Organisational structure.....	29
Overseas travel.....	88
Pricing.....	24-25, 103-106
Property sales.....	48, 53
Recycled water.....	48, 56, 107-108
Research and development.....	109
Risk management and insurance.....	114
Vision and Purpose.....	12
Waste Statement	93
Workplace health and safety.....	27

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