BEN LOMOND WATER

cradle mountain WATER

southern water

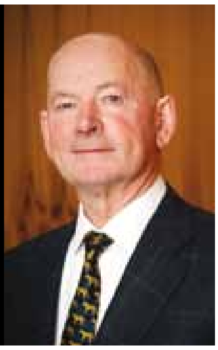
onstream

a year in transition

annual report 2009–2010

Chairman's Report

A year in transition



The first year of operation of the Regional Corporation Delivery Model is well described as a year in transition. The challenge involved was extensive and, on behalf of the Boards of Directors, I am pleased to report that the Corporations embraced change and made steady progress throughout the year.

Planning the 1 July 2009 start-up was a major exercise. The care and effort involved in that planning was well rewarded with a relatively smooth start to our operations. Management appointments, mainly from within the complement of staff transferred to the Corporations, quickly settled the organisations and as the first months progressed, our teams formed the sort of cohesion that would set the pre-conditions for improved business processes.

The Corporations mapped out an extensive program for the first 100 days of operation to ensure that the new legislative requirements were met, that a governance and policy framework was grounded and to ensure that all our staff gained a sense of identity with the new businesses. This was a particularly important phase in structuring the shared services activities of Onstream. Again the attention to planning and careful execution enabled the business fabric to be implemented quickly and effectively.

Our focus continues to be on improving business systems so that water and sewerage services can be delivered efficiently and sustainably. Real progress has been made in this transition year. However, we need to acknowledge that the lack of a ready-made billing system at the outset was a significant issue throughout the year and this prevented community confidence from growing at the same pace as the underlying improvements in the Corporations. Our most important business target for the year ahead is the design, development and implementation of a new billing system.

Strategic planning sessions with the Boards and management set the parameters for the corporate plans for 2011-13. These corporate plans were presented to Owners' Representatives in a series of meetings and were adopted by Owner Councils in April 2010. Together with the Shareholders' Letters of Expectation, the corporate plans provide an agreed and well documented road map for the Corporations. We are very grateful to the Owners' Representatives in fostering these formal relationships between the Corporations and our Owner Councils and we are confident that the effort expended in setting this up will pay off in the years ahead.

The financial performance of the Corporations was credible for year one of operations. For the most part, agreed targets were met or exceeded. In total $16.2 million was distributed to owners by 30 June 2010.

Capital expenditure for all Corporations over the year amounted to $72 million compared with a capital expenditure level of some $30 million per annum in the five years before the Corporations were formed. The capital projects were largely those initiated by councils prior to 1 July 2009 and this lift in the capital plan provides an excellent lead-in to the extensive program now formulated for consideration by the Regulators. The bulk of the capital expenditure was on upgrades to water and sewerage infrastructure, designed to meet licence conditions, thereby reducing public health risks.

The Regional Corporations operate under interim licences and in accordance with the requirements of those licences, draft management plans for water and for wastewater were lodged in July 2010. These plans respond to the Regulators' requirements on each Corporation and set down the work program for the next five years. We consider that the quality of work undertaken in formulating these plans is of the highest order and is a major achievement in our transition year. Further consultation with the Regulators over the next year will see these draft plans finalised and incorporated into the Prices and Services Plan in 2011.

The State Government's decision to cap water and sewerage charges at 5 per cent for the duration of the Interim Price Order remains a concern for the respective Corporations' Boards. The Corporations acknowledge the State Government's decision to pay the rebate; however, once this arrangement ends, the Boards are conscious of the potential pricing impact, its effect on customers, returns to owners and revenue the Corporations require to fund the long-term infrastructure improvements required to satisfy regulatory priorities set by our health and environment regulators. In addition to this, the 5 per cent cap significantly constrains the Corporations' ability to restructure tariffs to achieve equitable pricing for all customers.

A review of the Governance section of the Annual Report will show that your directors met as Boards, or as Committees of the Board, on 88 occasions during the year ended 30 June 2010. It was a massive effort for all involved to carefully shape a governance structure to oversee the business and, at the same time, enable development and change. I am very grateful for the commitment and support provided by the entire complement of directors.

A review of the Corporations' reports will show the dedication and energy of the CEOs and their senior management teams. The challenge of moving from multiple council operations into a corporate structure and taking all the staff on a journey to be a public health and environmental management business is no small feat. Our executives have demonstrated excellent leadership and I thank them for their passion.

Despite the very clear focus on safety and the huge effort to identify and eliminate hazards, we have to acknowledge that workplace safety is not yet where we would like it to be. I ask that we all take greater care to make our workplaces much safer in the future.

Imagine what it must have been like for many of our long-term staff being moved into a completely new environment. There was significant personal adjustment required this year. I thank all of the people in the Corporations for the way they have embraced the challenge.

It is with pleasure that we present the 2010 Annual Reports.

Geoff L Willis

Chairman

Corporate Governance

Industry Governance Structure

The governance structure for the Tasmanian water and sewerage industry was released by the Tasmanian Government Ministerial Water and Sewerage Taskforce early in 2008. Known as the Local Government Owned Regional Model, the structure was formalised under the *Water and Sewerage Corporations Act 2008 (Tas)* (WSCA). The *Water and Sewerage Industry Act 2008 (Tas)* was passed by Parliament at the same time and governs the regulatory framework for the industry, particularly the establishment and operations of the Office of the Economic Regulator.

The WSCA established the four Corporations within the industry which are:

- Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd, trading as Ben Lomond Water
- Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Ltd, trading as Cradle Mountain Water
- Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd, trading as Southern Water
- Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd, trading as Onstream.

Ben Lomond Water, Cradle Mountain Water and Southern Water (Regional Corporations) were incorporated on 13 November 2008 while Onstream was incorporated on 9 December 2008. The four Corporations are proprietary companies limited by shares under the *Corporations Act 2001* (Cth).

The Regional Corporations are owned in equal shares by all local government councils in their respective regions, while Onstream is owned equally by the three Regional Corporations. Each Corporation's Annual Report specifies its owners in more detail.

Amongst other things, the WSCA prescribes several important governance features, including:

- Ownership structure
- Principal objectives of each Corporation
- Roles and powers of owner councils
- Composition, roles and powers of Owners' Representatives
- Composition, roles and responsibilities of the (directors') Selection Committee
- Appointment and removal of directors
- Composition, duties and powers of the Boards
- Requirements for corporate plans for each Corporation
- Requirements for Shareholders' Letters of Expectation (SLEs) for each of the Regional Corporations.

The WSCA also serves to displace certain provisions of the *Corporations Act*, including:

- Appointment and removal of auditors
- Corporation fundraising activities
- Directors' duties.

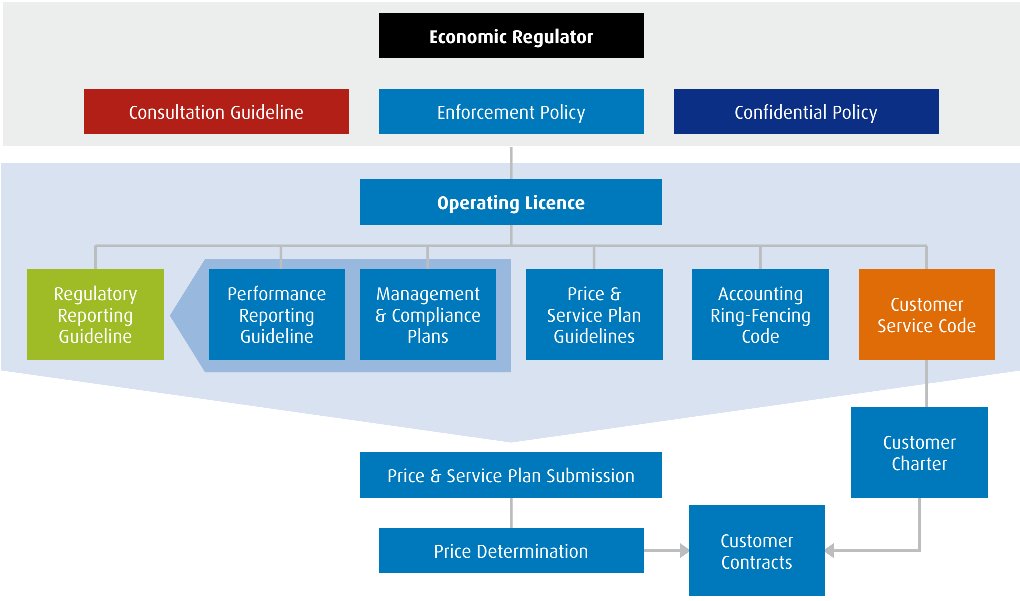
In other areas not formally displaced, the Corporations' rights, powers, responsibilities and obligations are similar to other privately owned, large proprietary limited companies.

Under applicable Treasurer's Instructions designed to comply with National Competition Policy, the four Corporations are obliged to pay income tax equivalents and guarantee fees to Owner Councils. Guarantee fees are paid to ensure each Corporation is exposed to the equivalent commercial pressures and risk associated with borrowings.

Regulation

Each Regional Corporation currently operates under an Interim Licence, which will be converted into a formal Operating Licence. This Operating Licence is part of an integrated Economic Regulatory Framework as shown below:

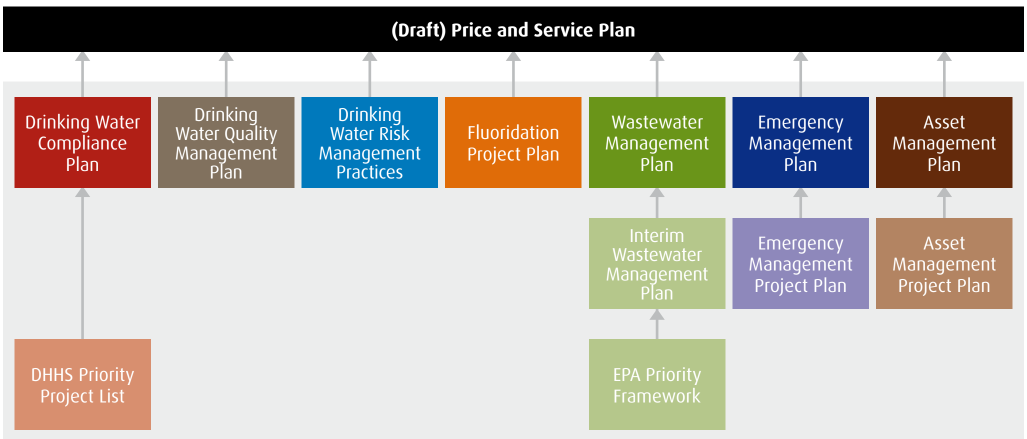
Water and Sewerage Economic Regulatory Framework



The Regional Corporations are currently developing their Customer Charters in accordance with the Customer Service Code and are required to submit a draft Price and Service Plan by 30 June 2011.

As part of this process, each Regional Corporation signed a Compliance Implementation Plan with the Water and Sewerage Economic Regulator, the Director of Public Health and the Director of the Environment Protection Authority. The components required in the development of the draft Price and Service Plan, and included in the Compliance Implementation Plan, are shown in the schematic below:

Compliance Implementation Plan



Details and the status of each of these components are as follows:

Drinking Water Risk Management Practices

The Regional Corporations provided a report to the Health Regulator in December 2009 detailing the adequacy of risk management practices being used to manage drinking water supply systems that are currently non-compliant with the health-based guideline values, as specified in the Australian Drinking Water Guidelines.

Dept of Health & Human Services Priority Project List

In December 2009 the Health Regulator provided public health priority project lists to the Regional Corporations to provide guidance in determining priority projects.

Drinking Water Compliance Plan

Each Regional Corporation submitted a plan to the Health Regulator in early July 2010; a plan, as defined in the Tasmanian Drinking Water Quality Guidelines, detailing agreed long-term strategies and timelines to achieve compliance for all non-compliant drinking water supply schemes. This plan includes the Capital Works Program prepared in accordance with the Health Regulator's priorities.

Drinking Water Quality Management Plan

In early July 2010 each Regional Corporation submitted a Drinking Water Quality Management Plan in accordance with the Tasmanian Drinking Water Guidelines.

Fluoridation Project Plan

Each Regional Corporation submitted a plan in early July 2010 containing agreed long-term strategies and timelines to achieve compliance for non-compliant fluoridation systems.

EPA Priority Framework

In December 2009 the Environmental Regulator provided the Regional Corporations with priority project frameworks to provide guidance in determining project priorities.

Interim Wastewater Management Plan

Each Regional Corporation, in July 2010, submitted an agreed Interim Wastewater Management Plan consistent with Schedule B of the Interim Licence. These interim plans set out the deliverables and associated actions to be undertaken by the Regional Corporations during the period 1 July 2010 to the end of the period covered by the Economic Regulator's first pricing determination, expected to be June 2015. This interim plan includes the Capital Works Program prepared in accordance with the Environmental Regulator's priorities.

Wastewater Management Plan

This plan is a finalisation of the interim plan and is to be agreed and submitted to the Environmental Regulator by 30 June 2011.

Emergency Management Project Plan

In December 2009 each Regional Corporation submitted an Emergency Management Project Plan. This detailed the 'high-level' approach and associated milestones for completing the Emergency Management Plan.

Emergency Management Plan

Each Regional Corporation submitted an Emergency Management Plan to the Economic Regulator in July 2010, prepared in accordance with good industry practice.

Asset Management Project Plan

In December 2009 each Regional Corporation submitted an Asset Management Project Plan setting out the 'high-level' approach and timelines for completing an Asset Management Plan.

Asset Management Plan

By June 2011 each Regional Corporation is to complete and submit to the Economic Regulator an Asset Management Plan in accordance with the Project Plan and good industry practice.

Board Structure

The WSCA prescribes the Boards of each Regional Corporation will comprise the Board Chairman and three non-executive directors who are common to the three Boards and two non-executive directors who are appointed to each individual Board.

Onstream's Board comprises the Board Chairman and the three Regional Corporation CEOs. The WSCA also allows for two additional directors to be appointed on the Treasurer's approval. After receiving this approval and the endorsement of the statewide Owners' Representatives, two additional non-executive directors were appointed to Onstream's Board in August 2009 to strengthen its independence.

The Boards generally hold separate meetings, although three combined meetings and a combined strategic workshop were held during the year. Except where specific issues of particular confidentiality arise, the Board Committees meet together. This allows the knowledge and expertise of the eleven non-executive directors to be shared with all Corporations as well as enhancing the consistency of relevant policies and frameworks across the Corporations.

Geoff Willis B.Comm, MBA, CPA, MAICD
(Appointed 13 November 2008 Term 1)

Geoff has a commercial and industrial background and has undertaken a number of senior leadership roles during the past decade. As Chairman of the Tasmanian Water and Sewerage Corporations, Geoff is a Commissioner of the Tasmanian Planning Commission. Geoff is the Chairman of Colorpak Limited, an ASX listed public company, and director of Aurora Energy Pty Ltd. He is also the Chairman of the Tasmanian Symphony Orchestra and a Trustee of the Tasmanian Museum and Art Gallery. Geoff is the former CEO of the Hydro Electric Corporation.

Brian Bayley Dip.Civ.Eng
(Appointed 26 November 2008 Term 1; Reappointed 1 January 2010 Term 2)

Brian is the former CEO of Melbourne Water and past Chairman of both the Water Services Association of Australia (WSAA) and Victorian Water Association. With over 35 years in the water industry, Brian is currently a Civil Engineering Consultant who brings a portfolio of industry knowledge and change management experience to the new Corporations. Brian is Chair of the respective Safety, Human Resources, Environment and Public Health (SHREP) Committee for each Corporation.

Figure 1: Membership of each Board

Ben Lomond Water Board	Cradle Mountain Water Board	Southern Water Board	Onstream Board
Geoff Willis (Chairman)	Geoff Willis (Chairman)	Geoff Willis (Chairman)	Geoff Willis (Chairman)
Brian Bayley	Grant Atkins	Brian Bayley	Jane Bennett
Miles Hampton	Brian Bayley	Roger Gill	Barry Cash
Sarah Merridew	Miles Hampton	Miles Hampton	Miles Hampton
Dan Norton	Tony MacCormick	Dan Norton	Andrew Kneebone
Liz Swain	Dan Norton	Rob Woolley	Mike Paine

Miles Hampton **B.Ec (Hons), FAICD, FCPA, FCIS**

(Appointed to Regional Corporations 26 November 2008 and Onstream 11 August 2009 Term 1; Reappointed 1 January 2010 Term 2)

Miles is currently a director of MyState Limited, Australian Pharmaceutical Industries Ltd, Forestry Tasmania and the Van Diemen's Land Company, and is Chairman of the UTAS Foundation. Miles was Chairman of Hobart Water from 2005-2009 and has been a director of ASX-listed companies Ruralco Holdings Limited, HMA Limited, Gibsons Limited and Wentworth Holdings Limited. He was Managing Director of ASX-listed agribusiness Roberts Limited for 20 years. Miles is Chairman of the Audit and Risk Committee for each Tasmanian Water and Sewerage Corporation.

Dan Norton **Ph.D., M.Ec, B.Ag.Science (Hons)**

(Appointed 26 November 2008 Term 1)

Dan is currently Chairman, Tasmanian Ports Corporation Pty Ltd; Chairman, Menzies Research Institute; Deputy Chairman, Aurora Energy Pty Ltd and director, Trinitas Pty Ltd. Dan is an experienced Chairman and CEO who has worked in the electricity industry, central government agencies and in international commodity marketing.

He is also a former Managing Director of the Hydro Electric Corporation and Aurora Energy and former Chairman of the National Electricity Market Management Company (NEMMCO).

Liz Swain **MBA, Dip. AppSci (Chemistry), Dip.Metallurgy, Grad.Dip.Bus**

(Appointed 26 November 2008 Term 1; Reappointed 1 January 2010 Term 2)

Liz has been employed by Rio Tinto for over 40 years in various leadership, management and technical roles including research/quality metallurgist; site trainer; health, safety and environment management and superintendent of each of Bell Bay's site operations areas, plus maintenance and engineering accountability. She is currently Technical and Services Superintendent.

Liz has extensive experience working with larger teams in the workforce in areas of health, safety, environment and quality systems and has worked for many years to reduce risk and manage change in the workplace.

Liz is the former Chair of Esk Water and was a director on Esk Water's Board for 10 years. She is the current Chair of Northern Regional Support Group (housing for disabled); Vice President of Diving Tasmania and a director of her family business. Liz's past community involvement includes Youth Suicide Prevention (Time Out), Ben Lomond Ski Patrol, Tasmanian Enterprise Workshop and a former Tasmanian Business Woman of the Year.

Sarah Merridew **B.Ec, FAICD, FCA**

(Appointed 26 November 2008 Term 1)

Sarah is a Chartered Accountant and a director of both MyState Limited and Tasmanian Railway Pty Ltd. Sarah is also Honorary Treasurer of the Royal Flying Doctor Service (Tasmanian Section) Inc and is actively involved with other community organisations.

Sarah was formerly a director of Tasmanian Public Finance Corporation and Tasmanian Perpetual Trustees and a partner of Deloitte Touche Tohmatsu, which included a period as Managing Partner for Tasmania. Sarah has extensive experience in providing audit, risk management, governance, and business advisory services to the public and private sectors.

Grant Atkins **FLGMA, GAICD, JP**

(Appointed 26 November 2008 Term 1; Reappointed 1 January 2010 Term 2)

Grant is a former General Manager of the Latrobe and Kentish Councils and is also a director with the Dulverton Waste Management Authority.

Grant has previously served as a council representative member on various local government authorities including the Cradle Coast Water Authority. He is currently a member of the Tasmanian Local Government Association Standards Panel.

Tony MacCormick B.ChemEng (Hons), Dip.Bus, FAICD

(Appointed 26 November 2008 Term 1)

Tony is presently the Chair of Dulverton Waste Management and was formerly the Chair of Cradle Coast Water. Tony has extensive experience in the water industry with Siemens Water Technologies and was a director of the Cooperative Research Centre for Waste Management and Pollution Control.

Roger Gill B.E, MAICD

(Appointed 26 November 2008 Term 1)

Roger is a qualified Civil Engineer and has over 30 years experience in the renewable energy and water sectors. Roger is Principal Consultant in his Hydro Focus Pty Ltd consulting business which specialises in providing advice on the sustainable development and operation of renewable energy projects and businesses. He has a particular interest in promoting renewable energy growth in developing countries and has recently been active in southern Africa. Roger has extensive corporate governance experience through his other roles as a director of the Tasmanian Irrigation Development Board Pty Ltd, Tasmanian Railway Pty Ltd, and the Tasmanian Renewable Energy Industry Development Board. He has been a Vice President of the UK-based International Hydropower Association (IHA) since 2001. His business capabilities have been enhanced through studies at Harvard Business School.

Rob Woolley B.Ec (Tas), FCA

(Appointed 26 November 2008 Term 1)

Rob is Chairman of Tasmanian Pure Foods Ltd and the Tasmanian Forests and Forest Industry Council; and a director of Tandou Ltd based in Mildura. Rob is also Chairman of Freycinet Coast Financial Services Ltd which owns a Bendigo Community Bank franchise and operates bank branches in Swansea and Bicheno.

Rob is a director of the CRC Forestry Ltd, a Cooperative Research Centre funded by the Federal Government, Forest Industry (Corporate Sector) and six universities.

Rob's background includes partner at Deloitte Touche Tohmatsu in Tasmania and Managing Director of Webster Ltd.

Jane Bennett

(Appointed 11 August 2009 Term 1)

Jane Bennett is Managing Director of Ashgrove Cheese. She has made major contributions to the agricultural sector through the Tasmanian Rural Industry Training Board and the Tasmanian Farmers and Graziers Association. Jane is a member of the Brand Tasmania Council and has received a number of awards and scholarships, including being awarded ABC Radio's Australian Rural Woman of the Year in 1997.

Barry Cash B.Eng (Civil), Grad. Dip. Management, FAICD, MIE (Aust)

(Appointed 12 January 2009)

Barry was appointed CEO of Ben Lomond Water with effect from 12 January 2009 and is the former CEO of Esk Water. He has an engineering and general management background and has been involved in the Tasmanian water industry for over 30 years.

Under WSCA, Barry is a director of Onstream, as part of his responsibilities as a Regional Corporation CEO.

Andrew Kneebone MBA, MAICD

(Appointed 4 June 2010)

Andrew was appointed CEO of Cradle Mountain Water on 4 June 2010 after acting in the role for a period of six months. Andrew moved to Tasmania having spent the previous 12 years in the Victorian water industry where he held a range of senior and executive level positions in the areas of regulation, organisation development, finance, governance and corporate services. He formerly held the roles of General Manager, Finance and Corporate Services at Central Highlands Water and General Manager, Corporate Services at Westernport Water.

Under the WSCA, Andrew is a director of Onstream, as part of his responsibilities as a Regional Corporation CEO.

Mike Paine B.Eng (Civil), Grad. Dip. Eng (Municipal Management), FIE (Aust), RPEQ, GAICD

(Appointed 16 February 2009)

Mike was appointed CEO of Southern Water in January 2010, after moving from the position of CEO Cradle Mountain Water. Mike comes to Tasmania from a career in the Victorian water industry. He is the former General Manager, Customer Services of Barwon Water and CEO of Westernport Regional Water Authority.

Under the WSCA, Mike is a director of Onstream, as part of his responsibilities as a Regional Corporation CEO.

Danny Sutton B.A., MBA Executive

(12 January 2009 – 16 November 2009)

Danny was CEO of Southern Water from 12 January 2009 until 16 November 2009. He is an experienced manager in the water industry, having had several executive management roles at Hobart Water and is now heading up the Water Metering Tasmania Project for the three Regional Corporations.

Under the WSCA, Danny was a director of Onstream, as part of his responsibilities as a Regional Corporation CEO.

Board role

Except for those matters that are within the powers of the collective members, each Board is responsible for managing the business of its respective Corporation, having regard to the requirements of its Shareholders' Letter of Expectation. The statement of Matters Reserved to the Board is on each Corporation's website; however, the major functions of the Board include:

- Appointing and monitoring the performance of the CEO
- Clearly identifying and approving the Corporation's strategic direction
- Identifying and addressing the Corporation's principal risks
- Monitoring the conduct and performance of the Corporation
- Ensuring the business is conducted in an honest, open and ethical manner
- Ensuring that adequate succession planning occurs.

Board Committees

With the approval of Owners' Representatives statewide, each Board has established two permanent Committees: the Audit and Risk (AAR) Committee and the Safety, Human Resources, Environment and Public Health (SHREP) Committee.

Audit and Risk Committee

The Audit and Risk (AAR) Committees are charged with assisting each Board fulfil its responsibilities to the owners in relation to:

- The integrity of the Corporation's financial accounting and reporting practices
- The adoption of appropriate risk management strategies
- Compliance with all legal and statutory obligations.

The Committee Charters and activities seek to align with ASX Corporate Governance Principles 4 and 7.

In respect of financial accounting, the Committees' responsibilities are to ensure the quality and accuracy of published financial reports. They approve accounting policies and oversee the external and internal audit processes.

In 2009-10, a significant undertaking was the Asset Valuation Project, completed for the three Regional Corporations. While the primary aim was to establish Balance Sheet values as at 1 July 2009, the ongoing benefits include the highly detailed asset registers now populated for major asset classes and the standardised approaches to asset lives and depreciation methodologies.

The internal audit function was established late in the year.

In respect of risk management, the Committees seek to ensure that all material business risks are properly considered.

The AAR Committees are charged with establishing the overall framework for risk management for all Corporations. The risk management framework has been designed to comply with AS/NZ 4360:2004 Risk Management Standard and also aligns with the system-wide approach of the new ISO 31000:2009.

Each Regional Corporation Board has reserved the oversight of dam safety as its responsibility and has delegated the management of certain other risks to the respective SHREP Committee. The AAR Committees have responsibility for the identification and management of all risks not reserved for the Board or SHREP.

All major risks have been identified. However, in some instances detailed risk mitigation strategies are yet to be finalised.

The AAR Committees for each Corporation met on six occasions, with Cradle Mountain Water's Committee meeting on an additional occasion to address the fraud discovered in the Corporation.

Safety, Human Resources, Environment and Public Health Committee

The Safety, Human Resources, Environment and Public Health (SHREP) Committee for each Corporation was established to assist each Board in fulfilling its responsibilities relating to:

- The establishment and ongoing maintenance of the highest standards in workplace safety
- The management, engagement and development of the business's people
- Compliance with the business's water quality and public health obligations
- Compliance with environmental obligations.

Onstream's SHREP Committee does not focus on public health (water quality) nor environment (wastewater quality) compliance as these do not apply to Onstream's operations.

The primary focus for the year has been on workplace safety and supporting the Corporations to establish cultures of 'No Harm' throughout. Initiatives included:

- Safety audits and remedial work for high risk chlorine and fluoride installations
- Increased emphasis on the reporting and elimination of safety hazards
- The development of monthly safety performance reports for review by each Board.

The Committees have supported the Corporations to develop and implement employee engagement surveys which underpin actions to ensure that all employees are equipped with the information and resources necessary to deliver excellent business outcomes.

The Committees have also assisted to establish the framework for the negotiation of each Corporation's first Enterprise Agreement.

The focus on public health and environmental compliance has been aimed at establishing data and reporting systems to inform the Regional Corporation Boards on performance towards meeting the public health (drinking water) and environmental (predominantly wastewater treatment plant discharges) standards set down by the State's Public Health and Environmental Regulators respectively. This work has also informed the development of each Regional Corporation's Water and Wastewater Compliance Implementation Plans which provide the 'road map' for infrastructure upgrades necessary to meet these obligations.

Another important initiative has been agreeing protocol for the introduction and lifting of boil water notices with the public health regulator, the Department of Health and Human Services.

The Committees are also responsible for overseeing the development and implementation of mitigation plans for risks captured within the Corporation's Safety, Human Resources, Environment and Public Health risk focus areas.

Each SHREP Committee met on four occasions in the year under review.

Corporate Governance Framework

Although not mandatory, the Corporations' corporate governance framework aligns with the *ASX Corporate Governance Principles and Recommendations, second edition (ASX Principles)*. In accordance with the intent of the ASX Principles, the Corporations' frameworks have been adapted to suit their particular circumstances.

Table 2 summarises how the Corporations comply with the ASX Principles, with explanations where special circumstances exist. A comprehensive description is also available on each Corporation's website.

Corporate Secretariat

In line with the spirit of the Tasmanian water and sewerage industry reform, the four Corporations elected to establish a centralised Secretariat, Chief Financial Officer and Chief Information Officer, located in Onstream.

The Secretariat has been operating since April 2009. One Corporate Secretary, appointed to all Corporations, manages the Secretariat. The Secretariat administers the corporate governance framework for all Corporations, supports all Boards and Committees and the Chairman's office, attends to directors' administration, coordinates all Board and Committee meetings and associated processes, maintains all registers required under Corporations Law, and supports the meetings of statewide Owners' Representatives and the (directors') Selection Committee.

In 2009-10, the Secretariat facilitated four Annual General Meetings and 88 Board and Committee meetings. The Secretariat also established an online Board Portal so all directors can access current and historical Board and Committee papers, Board policies, administrative procedures, and industry and research papers at any time.

The Secretariat also manages the legal compliance framework and internal audit function and coordinates the placement of the insurance portfolio for all Corporations.

Chief Financial Officer

The centralised finance function provides one Chief Financial Officer (CFO) for all four Corporations. This ensures a consistent approach to policy development and advice regarding treasury issues, accounting standards and their interpretations. The CFO provides financial accounting support, and a centralised accounts and payroll processing function. Additional responsibilities include liaison with the Department of Treasury and Finance regarding pensioner concessions, government rebates and guarantee fees along with coordinating external audits and accounting treatments with the Auditor-General, and oversight of the Tascorp loan portfolio. Furthermore, the CFO is a focal point for liaison with the Australian Taxation Office for submission of Fringe Benefits Tax, Income Tax and GST returns.

Chief Information Officer

The Chief Information Officer (CIO) oversees the establishment and monitoring of information technology (IT) governance with the formation of an industry-based IT Steering Committee and IT special interest groups. The CIO also chairs the IT Steering Committee with responsibilities including the development of a commonly-based IT strategy, a three year rolling action plan, and a knowledge management strategy. On behalf of the four Corporations, the CIO provides further liaison with major vendors to ensure supply, support and licensing arrangements, high level client liaison and strategic advice, liaison with ICT industry groups such as TasICT and the Australian Computer Society and with Government regarding ICT policy developments, including the National Broadband Network. The CIO is the Project Director for the Corporations' priority joint project, the implementation of the new Customer Information System.

Governance Focus in 2009-10

In 2009-10, the Boards' governance activities focussed on a number of important matters. The first Strategic Workshop for the four Corporations was held in November 2009. Attended by all directors and representatives from the four executive teams, the Corporations developed strategies to meet the reform objectives, capture statewide benefits, address strategic asset management, achieve operational excellence and manage financial performance. These strategies are incorporated in each Corporation's corporate plan 2010-13.

In August 2009, Onstream appointed Miles Hampton, common director and AAR Chairman, and Jane Bennett, a director independent of all Corporations, to its Board, in line with the approval from the Treasurer and statewide Owners' Representatives.

The directors of all Corporations evaluated their collective and individual performance in 2009-10, with the outcomes discussed with statewide Owners' Representatives. The Boards developed policies and processes for periodically refreshing each Board and commenced the planned rotation of directors' terms accordingly. The Boards also developed policy on the reappointment of incumbent directors as well as a Shareholder Relations Policy that articulates each Board's commitment to continuous disclosure, regular communications with Owners' Representatives and communications with Owner Councils as issues arise. In April 2010, these policies and processes were endorsed by statewide Owners' Representatives on behalf of member councils in all regions.

The Corporate Secretary also works with statewide Owners' Representatives to increase the understanding of owners' roles and rights and to enhance the participation of member councils at Annual General Meetings.

In May 2010, under the terms of the Chairman's appointment, the four Boards recommended to the Selection Committee and Owners' Representatives that the specific requirements of the role of Executive Chairman had been fully met. Both the Selection Committee and Owners' Representatives endorsed the recommendation with effect from 6 May 2010 and from that date the role of Chairman accords with the definition under the WSCA.

Table 1: Directors' attendances at meetings

	Geoff Willis (Board Chair)	Brian Bayley (SHREP Chair)	Miles Hampton (AAR Chair)	Dr Dan Norton	Sarah Merridew	Elizabeth (Liz) Swain	Grant Atkins	Tony MacCormick	Roger Gill	Robert Woolley	Jane Bennett	Barry Cash	Andrew Kneebone	Mike Paine	Danny Sutton
BOARD MEETINGS															
Ben Lomond Water															
Eligible to Attend	12	12	12	12	12	12									
Attended	12	11	12	12	10	11									
Cradle Mountain Water															
Eligible to Attend	12	12	12	12			12	12							
Attended	12	11	11	12			12	12							
Southern Water															
Eligible to Attend	13	13	13	13					13	13					
Attended	13	12	13	13					12	11					
Onstream															
Eligible to Attend	10		10								10	10	1	10	4
Attended	10		9								10	10	1	10	1
AUDIT AND RISK (AAR) COMMITTEE MEETINGS															
Ben Lomond Water															
Eligible to Attend	*		6	6	6										
Attended	6		6	5	6										
Cradle Mountain Water															
Eligible to Attend	*		7	7			7								
Attended	7		7	6			7								
Southern Water															
Eligible to Attend	*		6	6						6					
Attended	6		6	5						6					
Onstream															
Eligible to Attend	5		5								5				
Attended	5		5								5				
SAFETY, HUMAN RESOURCES, ENVIRONMENT AND PUBLIC HEALTH (SHREP) COMMITTEE MEETINGS															
Ben Lomond Water															
Eligible to Attend	4	4				4									
Attended	3	4				4									
Cradle Mountain Water															
Eligible to Attend	4	4						4							
Attended	3	4						4							
Southern Water															
Eligible to Attend	4	4							4						
Attended	3	4							3						
Onstream															
Eligible to Attend	4	4										4	0	4	1
Attended	3	4										4	0	4	0
STRATEGY WORKSHOP	1	1	1	1	1	1	1	1	1	1	1	1	1	1	

* Board Chair is ex-officio member of all Board Committees but a formal member of Onstream Committees.

Table 2:

Tasmanian Water and Sewerage Corporations' Corporate Governance Framework 2009-10

The Corporations are not subject to the ASX Corporate Governance Principles and Recommendations[1]; however, they have elected to align their corporate governance frameworks with the ASX Principles. Where necessary, the ASX Principles have been tailored to suit the Corporations' industry structure, ownership, context and size. The following table summarises where the Corporations comply with the ASX Principles.

A full description of each Corporation's alignment with the ASX Principles is available on their respective websites.

Principle 1 –	LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT Companies should establish and disclose the respective roles and responsibilities of Board and management.
✓	1.1. Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.
✓	1.2. Companies should disclose the process for evaluating the performance of senior executives.
✓	1.3. Companies should provide the information indicated in the Guide to Reporting on Principle 1.

Principle 2 –	STRUCTURE THE BOARD TO ADD VALUE Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
✓RCs ✗ONS	2.1. A majority of the Board should be independent directors. • As required under the *Water and Sewerage Corporations Act*, Onstream's Board comprises three non-executive directors, including the common Chairman, and the three Regional Corporation CEOs. The three Regional Corporation CEO-directors are not considered independent as they have significant commercial arrangements with Onstream.
✓	2.2. The Chair should be an independent director.
✓	2.3. The roles of Chair and Chief Executive Officer should not be exercised by the same individual.
🛠	2.4. The Board should establish a nomination committee. • Information on the composition and operation of the Selection Committee is provided in the Statement of Corporate Governance Disclosures, available on each Corporation's website. The composition of the Committee meets the suggested guidelines of Recommendation 2.4.
✓	2.5. Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.
✓RCs 🛠ONS	2.6. Companies should provide the information indicated in the Guide to Reporting on Principle 2.

KEY:

✓	Process compliant
✗	Process not applicable or not compliant
🛠	Principle adapted to meet Corporations' context but remains compliant
RCs	Regional Corporations
ONS	Onstream

1 ASX Corporate Governance Council, 2007. *Corporate Governance Principles and Recommendations* (2nd edition).

Principle 3 –	PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING Companies should actively promote ethical and responsible decision-making.
✓	3.1. Companies should establish a Code of Conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the company's integrity • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
✗	3.2. Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. • This matter is not relevant as the Regional Corporations are owned by local government in their respective region and Onstream is owned by the three Regional Corporations.
✓	3.3. Companies should provide the information indicated in the Guide to Reporting on Principle 3.

Requests received under the *Freedom of Information Act 1991 (Tas)* in 2009-10:			
BLW: NIL	CMW: NIL	ONS: NIL	SW: NIL
Disclosures received under the *Public Interest Disclosures Act 2002 (Tas)* in 2009-10:			
BLW: NIL	CMW: NIL	ONS: NIL	SW: NIL

KEY:

✓	Process compliant
✗	Process not applicable or not compliant
🛠	Principle adapted to meet Corporations' context but remains compliant
RCs	Regional Corporations
ONS	Onstream

Principle 4 –	SAFEGUARD INTEGRITY IN FINANCIAL REPORTING Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.
✓	4.1. The Board should establish an audit committee
✓	4.2. The audit committee should be structured so that it: • Consists only of non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the Board • Has at least three members.
🛠	4.3. The audit committee should have a formal charter.
✓	4.4. Companies should provide the information indicated in the Guide to Reporting on Principle 4.

Principle 5 –	MAKE TIMELY AND BALANCED DISCLOSURE Companies should promote timely and balanced disclosure of all material matters concerning the company.
🛠	5.1. Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
✓	5.2. Companies should provide the information indicated in the Guide to Reporting on Principle 5.

Principle 6 –	RESPECT THE RIGHTS OF SHAREHOLDERS Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.
🛠	6.1. Companies should design a communications policy for promoting communications with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
✓	6.2. Companies should provide the information indicated in the Guide to Reporting on Principle 6.

Principle 7 –	RECOGNISE AND MANAGE RISK Companies should establish a sound system of risk oversight and management and internal control.
✓	7.1. Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
✓	7.2. The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
✓	7.3. The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with Section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
✓	7.4. Companies should provide the information indicated in the Guide to Reporting on Principle 7.

KEY:

✓	Process compliant
✗	Process not applicable or not compliant
🛠	Principle adapted to meet Corporations' context but remains compliant
RCs	Regional Corporations
ONS	Onstream

Principle 8 –	**REMUNERATE FAIRLY AND RESPONSIBLY** **Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.**
✓	8.1. The Board should establish a remuneration committee.
✓	8.2. Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
✓RCs ✗ONS	8.3. Companies should provide the information indicated in the Guide to Reporting on Principle 8.

KEY:

- ✓ Process compliant
- ✗ Process not applicable or not compliant
- 🛠 Principle adapted to meet Corporations' context but remains compliant
- RCs Regional Corporations
- ONS Onstream

Lake Barrington (Photo Department of Primary Industries, Parks, Water & Environment)

Tasmanian Water and Sewerage Corporation
(North-Western Region) Pty Limited
Trading as: Cradle Mountain Water
ABN 90 133 655 008

annual report 2009–2010

Cradle Mountain Water at a glance

cradle mountain WATER

OWNER COUNCILS

- Burnie City Council
- Central Coast Council
- Circular Head Council
- Devonport City Council
- Kentish Council
- King Island Council
- Latrobe Council
- Waratah-Wynyard Council
- West Coast Council

OWNER REPRESENTATIVES

Cr Mike Downie, Mayor,
Central Coast Council
(6 months from January 2010)

Paul Arnold, General Manager,
Burnie City Council
(6 months to December 2009)

Cr Kevin Hyland, Mayor,
Waratah/Wynyard Council

Ald Lynn Laycock, Mayor,
Devonport City Council

VISION

Provision of superior water and wastewater services and to be recognised for our commitment to customer service and the environment.

MISSION

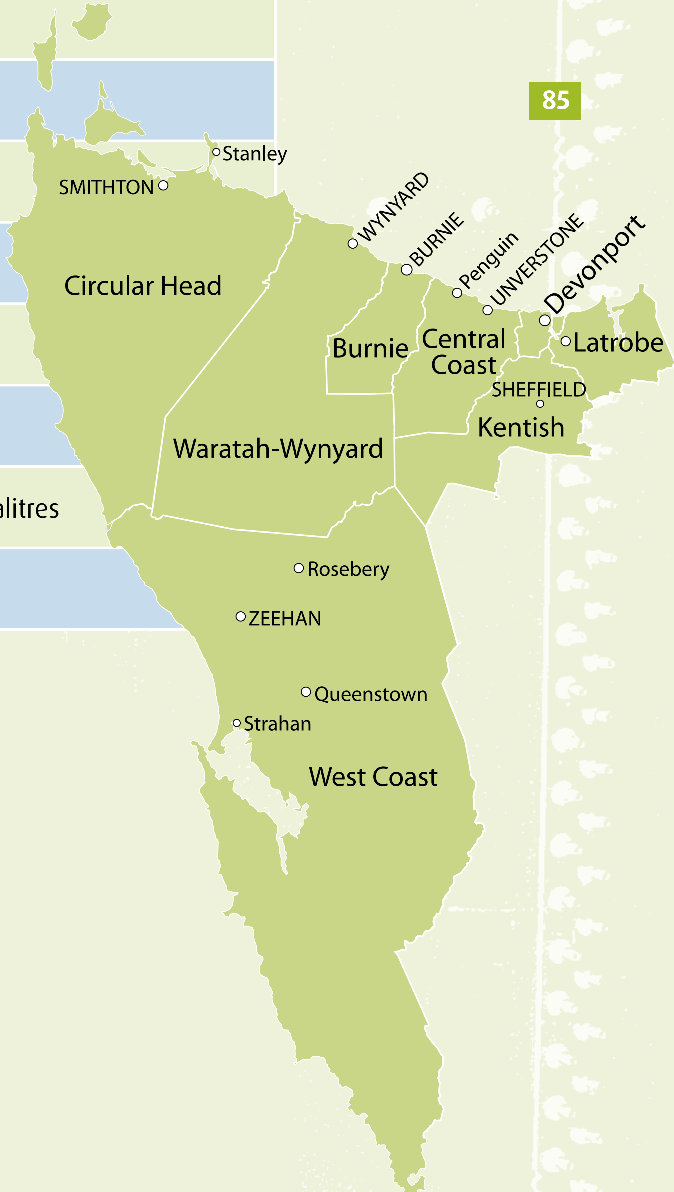
To provide high quality water and environmentally friendly wastewater services to the North West region of Tasmania.

DIRECTORS

- **Mr Geoff Willis — Chair**
- Mr Grant Atkins
- Mr Brian Bayley
- **Mr Miles Hampton**
- Mr Tony MacCormick
- **Dr Dan Norton**

Cradle Mountin Water Board of Directors (L–R): Mr Grant Atkins, Mr Tony MacCormick, Mr Brian Bayley, Dr Dan Norton, Mr Geoff Willis (Chair), Mr Miles Hampton

SCOPE OF BUSINESS	
Service Area	22,500 km²
Population	110,000
Connections	44,000
Water Treatment Plants	14
Wastewater Treatment Plants	29
Employee Positions	155
Length of Water Pipelines	1,100 km
Length of Sewer Main	990 km
Water Supply	20,000 megalitres
Total Asset Value	$423 million



Highlights of the year

cradle mountain WATER

1. Established the executive and operational leadership teams to complement the merged workforces and ensure continued delivery of water and sewerage services during and after the transition
2. Established a customer service function, including three Customer Service Centres in Burnie, Devonport and Queenstown and the 13MYWATER call centre
3. Completed the consolidation of nine Geographic Information Systems (GIS) received from councils into one system in early 2010
4. Submitted, and gained approval for, an Emergency Management Plan, Drinking Water Quality Management Plan, Draft Asset Management Plan and an Interim Wastewater Management Plan in accordance with the Compliance Implementation Plan
5. Completed a business-wide strategic risk assessment which identified health and safety risks relating to employees, contractors and the public. A risk assessment was also carried out on all major transferring assets
6. Established a head office at the Forth Water Treatment Plant site. A redevelopment of the site was undertaken to accommodate the additional staff

7 Completed $18.6 million in capital works during the year

8 Completed a review and revaluation of all transferred assets involving consolidation of some 40,000 assets from the nine councils and Cradle Coast Water into one register with a total value of $397 million

9 Completed a study into potential regional infrastructure solutions in January 2010

10 Undertook a review of headworks and other developer charges to ensure that appropriate pricing signals are provided for efficient property and infrastructure development

11 Conducted Cradle Mountain Water's first annual Employee Engagement Survey. Results indicated a strong desire to make Cradle Mountain Water a great place to work with people at all levels of the organisation willing to make that happen

CEO Report

1 Financial report

In its initial year of operation Cradle Mountain Water achieved an after tax profit of $922,000 with total income of $48.1 million and total expenditure excluding depreciation and interest of $31 million.

Fees and charges for the year were established by an Interim Price Order (IPO) released by the State Treasurer. The IPO stipulated that Cradle Mountain Water had to charge its customers for regulated services on the same basis as that used in 2008-09 by the relevant council or bulk water authority, adjusted to reflect the municipal area customer cap increase. Increases for each municipality are outlined in the following table.

Municipal Area Customer Cap (% nominal increase in revenues allowed)	Water % increase	Sewerage % increase
Burnie City Council	-	10%
Central Coast Council	10%	10%
Circular Head Council	10%	-
Devonport City Council	10%	10%
Kentish Council	10%	10%
King Island Council	-	10%
Latrobe Council	10%	6.73%
Waratah-Wynyard Council	10%	10%
West Coast	-	10%

The original IPO was amended and a revised order issued in November 2009 resulting in the imposition of a 5 per cent cap on the combined water and sewerage charges. As part of this amendment the State Government guaranteed to compensate the Corporation for any shortfall in revenue.

Including the above mentioned State Government receipts, revenue from water and sewerage fees and charges totalled $44.8 million. Fixed service charges for water and sewerage have been calculated using annual billing data. However, as not all water usage billing has been completed, the water usage revenue from residential customers has been calculated using an accrual methodology based on a combination of historical and actual billing data.

Other Income included $1.3 million of developer-contributed assets and $96,000 of revenue that was recognised on the transfer of state fluoride assets. Interest revenue of $179,000 was significantly above the budget.

Total expenditure excluding depreciation and interest of $31 million was $2.9 million or 10 per cent above budget. Depreciation expense was $12.1 million or 12 per cent above original budget. The budget had been based upon the pre-amalgamation due diligence, which had underestimated depreciation. Interest expense was $3.8 million (net of amount capitalised) or 21 per cent below the budget, mainly due to fewer loans being drawn down and the effect of capitalising interest, which was not included in the budget. Excluding depreciation and interest the major contributing factors to the expenditure variance of $2.69 million were:

- Recognition of a provision for impairment of trade receivables $100,000
- Above budget 'operational costs' for de-sludging wastewater lagoons and other

repairs to treatment plants and the reticulation systems

- Above budget expenditure on the initial start-up costs
- Higher than anticipated facilities and IT costs with rates, land tax and communication costs.

The overall result for the year was a profit before tax of $1.1 million, being $609,000 or 35 per cent below budget.

Cradle Mountain Water's balance sheet highlights a strong financial position with net assets to the value of $324.8 million. Significant items of note include:

- A receivables balance being $11 million above budget as a result of the delayed billing and collection cycle
- A reduced property, plant and equipment balance following the initial write-down of contributed asset values and lower capital expenditure for the year
- A higher than expected payables balance due to delays with processing within the accounts payable function
- Other current liabilities include an amount of $2.2 million for unearned income mainly from the transfer of state fluoride assets
- A significant reduction in deferred tax liabilities following the issue of a private tax ruling and reassessment of taxation obligations.

As at 30 June 2010, Cradle Mountain Water held cash totalling $1.5 million. Operating cash flows are significantly less than budgeted due to the noted billing issues. Despite these the Corporation borrowed less than was budgeted. The funding gap was covered by a rundown of cash contributed by owners on 1 July 2009.

During the year, Cradle Mountain Water funded capital works to the value of $18.4 million and distributed dividend, tax equivalent and loan guarantee fee payments to Owner Councils in the amount of $1.5 million.

2 Customer service

The lack of a centralised billing system has made the billing process a very complex and manual undertaking and remains Cradle Mountain Water's number one priority into the next financial year. The initial accounts highlighted the variation in charges and methodologies in use by councils throughout the region. Data and process difficulties were further complicated with the State Government's announcement in November of a 5 per cent rebate and an extension of the instalment payment dates. This action caused substantial delays with the fixed charge accounts and subsequently a backlog of volumetric accounts which are still in process. To overcome these issues Cradle Mountain Water, along with the other two water Corporations, is working closely with Onstream on the implementation of a new Customer Information System.

Three Customer Service Centres have been established, fitted-out and staffed in Burnie, Devonport and Queenstown. The call centre function for 13MYWATER has now been fully integrated into Cradle Mountain Water. This will provide for a more inclusive and consistent approach to customer service. The Customer Service Centre received 23,622 calls with 89.10 per cent of these answered within 30 seconds.

Cradle Mountain Water's Customer Hardship Policy was implemented in September 2009. Since then, five customers have applied

for assistance under the policy and many others have been granted flexible payment arrangements to suit their differing needs.

In accordance with the requirements of the Interim Price Order and its Operating Licence, Cradle Mountain Water has developed and implemented a Complaints Policy.

3 Communication

Internal and external communication, brand awareness and reputation management have all posed challenges for Cradle Mountain Water since 1 July 2009. The Corporation understands the importance of having a fully informed customer base and is endeavouring to ensure that the community is informed and consulted. A range of initiatives have been commenced in 2009-10 including community forums and presentations to a wide range of service groups.

The Corporation's Education Program is in the early stages of development with research underway to gain a better understanding of the educational resources currently in use within the water industry. Consultation with the Department of Education has been coordinated to ensure that the Corporation's program meets the curriculum guidelines for all age groups.

In May 2010, Cradle Mountain Water took the opportunity to spread the good word about water and sewerage services by sharing a site at Agfest with Ben Lomond Water and Southern Water.

4 Public health and environment

Cradle Mountain Water operates 14 water treatment plants and 29 wastewater treatment plants, supplying over 44,000 customers.

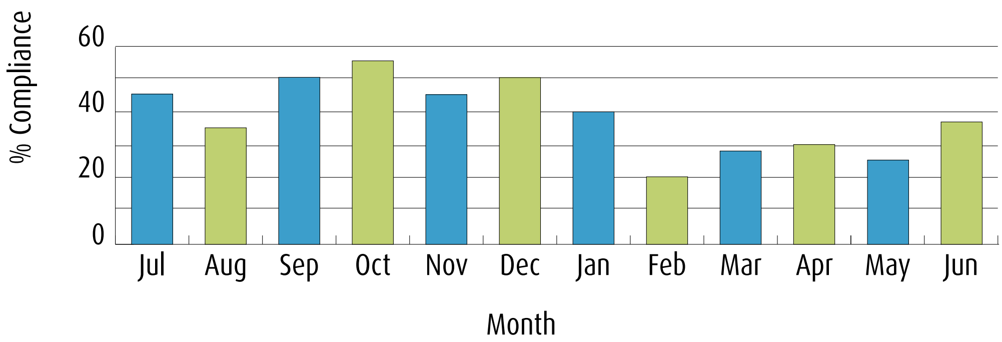
Water quality compliance is stable and at a high level across the region with all plants consistently meeting their water quality compliance targets. However, the townships of Linda and Gormanston remain on a permanent boil water alert. Cradle Mountain Water has agreed on an approach with both the residents and the Environment Protection Authority in relation to a solution for Linda. A temporary boil water alert was put in place during January 2010 for the township of Waratah.

The Queenstown Water Treatment Plant is expected to be opened in September 2010. Once operational, this long awaited treatment plant will produce water which meets health and drinking water standards.

Wastewater treatment plant performance remains an area of concern and is highlighted for future action and investment. Due to a range of factors, none of Cradle Mountain Water's wastewater treatment

Level 2 Wastewater Treatment Plants

(Our Goal – All plants fully comply with Environment Protection Authority licence requirements at least 98 per cent of the time)



plants consistently met their licence conditions. During the latter stages of the year, a greater level of consistency in results was achieved.

The Corporation has formed a Wastewater Source Management Customer Reference Group which has met on numerous occasions. The group was formed to provide a direct link between Cradle Mountain Water's Board, its customer base and the consumer advocacy groups that are assisting the Corporation to be responsive to trade waste producer's needs and concerns. Significant progress has also been made in revising statewide trade waste policy and procedures.

Sewage discharges occurred at a number of pump stations as a result of wet weather events during the year. One instance was due to a loss of power supply and another manhole discharge occurred as a result of tree root infestation. Standard notifications to the Environment Protection Authority and the local Environmental Health Officer were made and actions were undertaken to remediate affected areas. The table below highlights spill events.

Work commenced on the Environmental Management Plan, which is expected to be presented to the Board later in 2010. This plan will form part of Cradle Mountain Water's Integrated Management System.

5 Capital works

A total of $18.6 million was invested in capital works in 2009-10. This was short of the $25.1 million budgeted. Four and a half million dollars of this can be attributed to three projects; namely the Cradle Valley Wastewater Treatment Plant, Australian Paper Raw Water Assets and Burnie Water Treatment Plant.

Spill events

	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Totals
Wet Weather (> 1 in 5 rainfall event)		11											11
Wet Weather (≤1 in 5 rainfall event)	11											6	17
Dry Weather			2	3	1	0	0	3	0	1	3		13
Total	11	11	2	3	1	0	0	3	0	1	3	6	41

Major projects commenced prior to and completed during 2009-10

- *Cradle Valley Sewerage Scheme* This $16.1 million construction project was commenced by the Parks and Wildlife Service and was transferred to Cradle Mountain Water as a Work In Progress on 1 April 2010. The system is being commissioned and operated by Cradle Mountain Water as the external contractor for 12 months under the direction of Aquatec - Maxcon.
- *Horsehead Creek Detention Storage Centre* This $4.7 million project commenced by Devonport City Council was completed and was officially opened on 2 October 2009. This storage will allow greater control of flows during wet weather events and reduce overflows.
- *Head Office, Forth* This $1 million project to provide office accommodation at Forth for transferring employees was mostly complete prior to 1 July 2009; however, much of site works and furniture fit-out was completed after this date, with ongoing modifications as required.

Major projects commenced prior to but not completed in 2009-10

- *Treated Water to Spreyton/Melrose area* This $6.6 million project, commenced by Cradle Coast Water, to supply treated water to the above areas of Devonport from the Forth Treatment Plant is well underway

- *Queenstown Water Scheme* This $5 million project was commenced by the West Coast Council and is being completed by Cradle Mountain Water. The work is largely completed
- *Sheffield Wastewater Treatment Plant* Preliminary designs to upgrade the plant have commenced for discussion with the Environment Protection Authority
- *Australian Paper Raw Water Assets, Wesley Vale* With the closure of the mill at the end of March 2010 all works were suspended and negotiations commenced with the Tasmanian Irrigation Development Board for their sale
- *Burnie Wastewater Treatment Plant Marine Outfall Construction* It is expected that this work will be completed by November 2010
- *Burnie (Ridgley) Water Treatment Plant* The project design will be reviewed and the project re-tendered in 2010-11.

Major projects commenced in 2009-10

- *North Caroline Street Sewage Pump Station* A $2.6 million project initiated by Devonport City Council to provide security of wastewater disposal pumping to the Pardoe Treatment Plant.

Capital expenditure to the value of $7.9 million was carried out in 2009-10 on several other projects. These works include occupational health and safety and security improvements, reservoir roofing and lining, filter improvements, installation of instrumentation, chlorinators and some automation at plants. Additional works included the replacement or relining of mains (several in conjunction with council works), telemetry, building the Geographical Information Systems and hydraulic models, and completing the Regional Integration Study.

6 Development activities

During the year 466 development applications, 272 building applications and 14 plumbing applications were processed.

Developer charges and, in particular, headworks charges have been reviewed and implemented across the north-west coast in the past 12 months. New developer charges have been established on a municipal and system basis.

7 Internal projects

A variety of internal projects were undertaken in 2009-10.

A study into regional solutions was completed in January 2010. The outcomes of the study indicated that the integration of systems into the Burnie water system and the Ulverstone, Pardoe and Wynyard wastewater systems will provide significant cost benefits to the Corporation.

A draft Asset Management Plan was completed and circulated for comment in January 2010. Other plans included an Interim Wastewater Management Plan, development of a Drinking Water Quality Management Plan, Compliance Implementation Plan and Emergency Management Plan. These plans outline the process to ensure Cradle Mountain Water achieves compliance with measured operating standards over time.

The Corporation successfully centralised data from the nine Owner Councils and Cradle Coast Water across into one Geographic Information System in early January 2010.

In addition, the capacity of the water and sewer networks also required a calibrated model to assist in infrastructure planning. Modelling software for both water and sewerage systems has been purchased and the following towns have been modelled to date:

Water – Smithton, Stanley, Rosebery, Wynyard, Somerset and Burnie

Sewer – Smithton, Stanley, Sheffield, Wynyard, Somerset, Penguin and Ulverstone

During the year the Corporation completed a valuation of some 40,000 assets which were brought together from the nine Owner Councils and Cradle Coast Water, consolidating them into one register across the three Regional Corporations. Cradle Mountain Water's assets are now valued at $397 million.

8 Our people

The safety of employees is paramount, and the Corporation has worked hard to enforce a 'No Harm' safety principle from 'Day 1'. As a result, Cradle Mountain Water has implemented a range of initiatives to foster a safety focussed culture including:

- Each Cradle Mountain Water employee has completed a standard occupational health and safety induction as well as Safety Circle Training. Additional training has also been provided for responsible officers, accountable persons, employee safety representatives, First Aid and the Health & Safety Consultative Committee
- The Occupational Health & Safety Policy is displayed at all workplaces and reinforces the 'No Harm' commitment. Safety is the number one agenda item for all 'tool box' meetings
- Cradle Mountain Water's internal newsletter *Splash* contains regular health and safety reminders, information and safety alerts

- The Employee Engagement Survey included safety related questions to gather employee feedback and guide team-based action planning around key safety issues
- The Health & Safety Consultative Committee, supported by trained employee safety representatives, meet on a monthly basis.

The Corporation has completed a business-wide strategic risk assessment and has identified health and safety risks relating to employees, contractors and the public which are documented in the Strategic Risk Register. In addition a safety risk assessment has also been carried out on all major transferring assets. The assessment schedule was prioritised according to the initial risk audit conducted by Injury Prevention & Management. A project plan for the implementation of a health and safety upgrade has commenced.

An Occupational Health & Safety Policy has been developed, reviewed and approved by Cradle Mountain Water's Board. A prioritised action plan has also been implemented for the development of health and safety procedures. An Occupational Health & Safety Manual has also been developed, in support of a systems-based approach to occupational health and safety which is consistent with the requirements of Australian Standard AS/NZS 4801.

Cradle Mountain Water conducted its first annual Employee Engagement Survey in March 2010. The purpose of the survey was to gauge the levels of satisfaction and engagement of employees. Over 80 per cent of employees completed the survey, with many employees indicating that they have a strong desire to make Cradle Mountain Water a great place to work. The survey results also indicated the Corporation has a number of opportunities for improvement, particularly in relation to systems, software and procedures with several actions now in place to address these.

The future

Cradle Mountain Water has established a number of strategic objectives for 2010-11 which apply to all aspects of the Corporation including customers, finance, assets, business processes and people. These objectives, incorporated into our corporate plan, are:

- To be recognised as leaders in the provision of high quality products and responsive service to our clients
- To have engaged, loyal and highly satisfied clients who perceive our services as value for money
- To be recognised as a sustainable business that delivers returns to our shareholders and maintains an investment grade credit rating
- To develop a Price and Services Plan that transitions to cost reflective pricing
- To ensure our assets will not pose an unacceptable risk in terms of our business continuity or the safety of our employees, the public or the environment
- To have no boil water alerts
- To have no sewage spills
- To deliver water services that meet the requirements of the regulators and our customers
- To deliver reliable wastewater services that progressively meet the requirements of the regulator and our customers
- To develop an accredited, integrated management system that supports efficient customer oriented business processes
- To establish a culture of continual improvement and innovation

- To optimise the efficiencies between Cradle Mountain Water and our service provider, Onstream
- To support the efficiency of our processes through an integrated information technology system
- To develop a workforce which is engaged and aligned with our business strategy where personal goals are linked to organisational goals
- To solidify the structure, job roles and reporting lines of our business with the right people in the right place at the right time.

With these objectives in mind, we have established some key priorities to deliver in 2010-11.

In conjunction with Onstream, Ben Lomond Water and Southern Water, we have secured a Customer Information System (CIS) that will be implemented in stages over the next 12 months. The implementation of the CIS will overcome the current billing issues and facilitate access to information for customers and customer service officers. This billing and customer service system will establish the basis for providing excellent customer service.

Cradle Mountain Water is also in the process of preparing its first Price and Service Plan for submission to the Economic Regulator in July 2011. This plan will determine the service levels, revenue and investment capability of the Corporation for the period from July 2012 to 2015. The Price and Service Plan will combine the compliance plans developed to date in regards to the capital program and support the transition to full regulatory compliance.

The Price and Services Plan will be the vehicle for developing the future pricing of services and the implementation of the Corporation's pricing model. The process of developing the Price and Service Plan and associated pricing strategy involves a significant commitment to community and regulatory consultation to ensure there is broad ownership of the outcome.

Cradle Mountain Water is also participating in the Water Metering Tasmania Project, which will result in a consistent approach to metering across the state.

We believe that the key to delivering excellent and consistent service is the policy and procedural base that underpins these processes. As a result, Cradle Mountain Water is developing an integrated management system that ensures a standardised approach to environmental, occupational health and safety, service and product quality and risk management aspects of our service delivery. This system will take time to develop but we are confident that once implemented the benefits will be seen right across the organisation extending to improved customer service performance.

Andrew Kneebone
Chief Executive Officer

cradle mountain WATER

Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Limited
Trading as: Cradle Mountain Water
ABN 90 133 655 008

financial report 2009–2010

Directors' Report

The Directors of Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Limited, trading as Cradle Mountain Water, present the financial report of the Corporation for the financial year ended 30 June 2010. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Legislative Authority

Cradle Mountain Water was formed on 13 November 2008 under the *Corporations Act 2001* and pursuant to the *Water and Sewerage Corporations Act 2008*. It is governed by the Constitution for the Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Limited, which is approved by the Tasmanian Parliament.

The primary purposes of the Corporation are:

- To promote the efficient delivery of water supply and provision of sewerage services;
- To encourage water conservation, demand management of water and the re-use of water on an economic and commercial basis;
- To be a successful business and, to this end:
  - operate its activities in accordance with good commercial practice; and
  - maximise sustainable returns to its shareholders.

Principal Activities

The principal activities of the Corporation during the course of the financial year were:

- providing water and sewerage services for residential and commercial customers throughout north-western Tasmania;
- undertaking maintenance, upgrading and development works on water and sewerage assets, and preparing strategic asset development plans for the future;
- developing a robust database of customer information, collated from data previously held by Owner Councils, to facilitate the charging of customers and responding to changes in the regulatory environment.

Review of Operations

At the commencement of the financial year, assets, liabilities, employees and other resources were transferred to the Corporation from Owner Councils, the previous north-western Tasmanian water authority, Cradle Coast Water, and from the State of Tasmania.

During the financial year, 44,000 customers were provided with services, involving the provision of 15,973 megalitres of drinking water and the quantity of treated wastewater is not available.

The Corporation reported a profit after tax of $922,000 for the year ended 30 June 2010 (2008-09: $676,000 loss).

A more detailed review of the Corporation's operations during the year is contained elsewhere in the Annual Report.

Environmental Regulations

The Corporation's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Board has the responsibility to monitor compliance with environmental regulations. The Directors are not aware of any significant breaches during the year covered by the report.

Dividends

On 8 April 2010 the Board of Cradle Mountain Water approved the payment of a $455,000 (2008-09: nil) interim dividend from 2009-10 estimated profits. This dividend was paid on 30 April 2010.

On 10 August 2010 the Board approved the payment of a final dividend of $467,000 (2008-09: nil), making a total dividend of $922,000 (2008-09: nil) for the 2009-10 financial year. In accordance with accounting standards the final dividend was not recognised in the financial statements at 30 June 2010.

Subsequent Events

Since 1 July 2010, there have been no events that would significantly affect the Corporation's operations in future financial years.

Likely Future Developments

Information on likely future developments in the operations of the Corporation is included elsewhere in this Annual Report.

Directors

The directors of Cradle Mountain Water during or since the end of the financial year and their terms of directorship are as follows:

Geoff Willis (Chairman)	from 13 November 2008
Grant Atkins	from 26 November 2008
Brian Bayley	from 26 November 2008
Miles Hampton	from 26 November 2008
Tony MacCormick	from 26 November 2008
Dan Norton	from 26 November 2008

Other details regarding directors and their attendance at board meetings and relevant committee meetings are provided elsewhere within the Annual Report.

Remuneration of Directors and Senior Management

Information about the remuneration of directors and senior management is set out in Note 15 to the financial statements.

Corporate Governance

The Board of Directors is responsible for the overall corporate governance of the Corporation. Corporate governance is the system by which the activities of the Corporation are controlled and coordinated in order for the Corporation to achieve its desired outcomes.

The Board performs this role by:

- Appointing and monitoring the performance of the Chief Executive Officer;
- Clearly identifying and enunciating the strategic direction for Cradle Mountain Water;
- Identifying and addressing the principal risks for Cradle Mountain Water;
- Monitoring the conduct and performance of the Corporation through an integrated framework of controls;
- Ensuring that all of Cradle Mountain Water's business is conducted in an honest, open and ethical manner;
- Ensuring that adequate succession planning is undertaken.

Management has reported to the Board as to the effectiveness of internal control and risk management systems, and provided its declaration in accordance with relevant parts of s.295A of the *Corporations Act 2001*.

Audit and Risk Committee

Cradle Mountain Water has an Audit and Risk Committee, comprising three directors and is chaired by Director Miles Hampton. The committee has a documented charter, approved by the Board. The committee's responsibilities under its charter include consideration and monitoring of matters relating to external reporting, risk management, internal and external audit functions

SHREP Committee

The Safety, Human Resources, Environment and Public Health Committee (SHREP) comprises three non-executive directors and the CEO. This committee has its own charter and it is chaired by Director Brian Bayley. The role of the SHREP committee is to assist the Board to fulfil its responsibilities relating to workplace health and safety, human resource management and development, employee remuneration and performance management, environmental management and compliance, and public health performance and compliance.

Indemnification of Directors and Officers

During the financial year, the Corporation paid a premium in respect of an insurance policy covering the liability of all current directors and officers of the Corporation.

The Corporation has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Corporation against a liability incurred as such by an officer or auditor.

Proceedings on Behalf of the Corporation

No person has applied for leave of the Court to bring proceedings on behalf of the Corporation or intervene in any proceedings to which the Corporation is a party for the purpose of taking responsibility on behalf of the Corporation for all or any part of those proceedings.

The Corporation was not a party to any such proceedings during the year.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 103.

Rounding off of amounts

The Corporation is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

Geoff Willis
Chairman

Miles Hampton
Director

10 August 2010

Index

Directors' declaration	102
Auditor's independence declaration	103
Independent audit report	104
Statement of Comprehensive Income	106
Statement of Financial Position	107
Statement of Cash Flows	108
Statement of Changes in Equity	109

Notes

1	Summary of significant accounting policies	110
2	Revenue	116
3	Expenses	116
4	Income tax equivalents	117
5	Dividend provided for or paid	120
6	Current assets	120
7	Property, plant and equipment	121
8	Intangible assets	123
9	Current and non-current liabilities	124
10	Members' equity	125
11	Superannuation and defined benefit plans	126
12	Commitments for expenditure	130
13	Contingent liabilities	130
14	Remuneration of auditors	131
15	Compensation of key management personnel	131
16	Related party disclosures	132
17	Notes to the statement of cash flows	134
18	Financial instruments	135
19	Controlling entities	139
20	Investment in associate	139
21	Transfer of assets from owners	140
22	Subsequent events	140

10 August 2010

FINANCIAL REPORT 1 JULY 2009 TO 30 JUNE 2010
DIRECTORS' DECLARATION

The directors declare that:

a) The attached financial statements and notes thereto comply with accounting standards;

b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Corporation;

c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* (Cth); and

d) In the directors' opinion, there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable.

e) The directors have been given the declarations as set out in Section 295A of the *Corporations Act 2001* (Cth) from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the *Corporations Act 2001* (Cth).

Geoff Willis
Chairman

Miles Hampton
Director

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | *TO MAKE A DIFFERENCE*

Enquiries: Ric De Santi
Email: Ric.DeSanti@audit.tas.gov.au

Our Reference: TAO10/134
Your Reference:

Level 4, Executive Building
15 Murray Street
Hobart Tasmania 7000

Postal Address
GPO Box 851
Hobart Tasmania 7001

Phone: 03 6226 0100
Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

18 August 2010

The Board of Directors
Tasmanian Water & Sewerage Corporation
(North-Western Region) Pty Ltd
PO BOX 3147DC
ULVERSTONE TAS 7315

Dear Board Members

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, I provide the following declaration of independence.

As the auditor of the financial report for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Pursuant to section 298(1)(c) of the *Corporations Act 2001* a copy of this declaration must be included in the Directors' report.

Yours sincerely

E R De Santi
DEPUTY AUDITOR-GENERAL
Delegate of the Auditor-General

INDEPENDENT AUDIT REPORT

To the Tasmanian Water & Sewerage Corporation (North-Western Region) Pty Ltd

Financial Statements for the Year Ended 30 June 2010

Report on the Financial Statements

I have audited the accompanying financial statements of the Tasmanian Water & Sewerage Corporation (North-Western Region) Pty Ltd (the Company), which comprise the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The Responsibility of the Directors 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 (including Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1.2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. The *Audit Act 2008* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

I confirm that the independence declaration required by the *Corporations Act 2001*, was provided to the directors on the same day as this audit opinion and is included in the Directors' report.

Auditor's Opinion

In my opinion:

(a) the financial statements of the Tasmanian Water & Sewerage Corporation (North-Western Region) Pty Ltd are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of the Tasmanian Water & Sewerage Corporation (North-Western Region) Pty Ltd as at 30 June 2010 and its financial performance for the year ended on that date, and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.2.

TASMANIAN AUDIT OFFICE

E R De Santi
DEPUTY AUDITOR-GENERAL
Delegate of the Auditor-General
HOBART
18 August 2010

Statement of Comprehensive Income

for the financial year ended 30 June 2010

	Notes	1 July 2009 to 30 June 2010 $'000	13 Nov 2008 to 30 June 2009 $'000
Continuing Operations			
Sales Revenue	2	44,852	-
Other Income from Operating Activities	2	3,051	-
Share of Net Profit (Loss) of Associate - equity method	20	16	-
Raw Materials and Consumables	3	(4,321)	-
Depreciation and Amortisation Expenses	3	(12,129)	-
Employee and Related Expenses	3	(10,745)	(398)
Operations and Maintenance Expenses	3	(6,619)	(5)
Administration Expenses	3	(8,717)	(563)
Net Profit (Loss) before Financing Costs		5,388	(966)
Financial Income	2	179	-
Financial Expense	3	(4,439)	-
Net Financing Costs		(4,260)	-
Net Profit (Loss) before Income Tax Equivalents Expense		1,128	(966)
Income Tax Equivalents (Expense) Benefit	4.1	(206)	290
Net Profit (Loss) after Income Tax Equivalents Expense		**922**	**(676)**
Other Comprehensive Income			
Actuarial Gain (Loss) on Defined Benefit Plan	11.1	(112)	-
Share of other comprehensive income of associates	20	(2)	-
Income tax relating to components of other comprehensive income	4.2	33	-
Total Comprehensive Income for the Period		**841**	**(676)**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Financial Position

for the financial year ended 30 June 2010

	Notes	30 June 2010 $'000	30 June 2009 $'000
Current Assets			
Cash and Cash Equivalents	6.1	1,538	-
Receivables	6.2	11,572	12
Inventories	6.3	604	-
Prepayments		36	3
Assets Held for Resale	6.4	3,008	-
Total Current Assets		16,758	15
Non-current Assets			
Property, Plant & Equipment	7	400,660	332
Intangibles	8	930	-
Deferred Tax Assets	4.4	5,032	290
Investment in Associate	20	14	-
Total Non-current Assets		406,636	622
Total Assets		423,394	637
Current Liabilities			
Borrowings	9.1	9,249	-
Employee Benefits	9.3	2,668	10
Payables	9.4	5,565	1,303
Unearned Income	9.5	123	-
Current Tax Liability	4.3	1,059	-
Total Current Liabilities		18,664	1,313
Non-current Liabilities			
Borrowings	9.1	69,306	-
Employee Benefits	9.3	1,408	-
Unearned Income	9.5	2,041	-
Deferred Tax Liabilities	4.4	7,157	-
Total Non-current Liabilities		79,912	-
Total Liabilities		98,576	1,313
Net Assets (Deficit)		324,818	(676)
Equity			
Retained Profits (Accumulated Losses)	10.1	(290)	(676)
Contributed Capital	10.2	325,108	-
Total Equity (Deficit)		324,818	(676)

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the financial year ended 30 June 2010

	Notes	1 July 2009 to 30 June 2010 $'000	13 Nov 2008 to 30 June 2009 $'000
Cash Flows from Operating Activities			
Receipts from Customers		36,135	-
Receipts from other Sources		2,950	-
Payments to Suppliers and Employees		(31,105)	-
Interest Received		179	-
Interest Paid		(3,622)	-
Income Tax Equivalents Paid	4.3	(442)	-
Net Cash from Operating Activities	17.1	4,095	-
Cash Flows from Investing Activities			
Payments for Property, Plant & Equipment		(18,389)	-
Proceeds from Sale of Property, Plant & Equipment		311	-
Net Cash from / (Used in) Investing Activities		(18,078)	-
Cash Flows from Financing Activities			
Owner Cash Contributions	21	12,542	-
Proceeds from Borrowings		49,265	-
Repayment of Borrowings		(45,831)	-
Dividends Paid	10.1	(455)	-
Net Cash from Financing Activities		15,521	-
Net Increase (Decrease) in Cash and Cash Equivalents		1,538	-
Cash and Cash Equivalents at the Beginning of the Year		-	-
Cash and Cash Equivalents at the End of the Year	17.2	**1,538**	-

The above statement of cash flows should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the financial year ended 30 June 2010

	Notes	Retained Profits $'000	Contributed Capital $'000	Total Equity $'000
Balance as at 13 November 2008 (1)		-	-	-
Net Profit (Loss) after Income Tax Equivalents Expense	10.1	(676)	-	(676)
Other comprehensive income		-	-	-
Balance as at 30 June 2009		(676)	-	(676)
Payment of dividends	10.1	(455)	-	(455)
Net Profit (Loss) after Income Tax Equivalents Expense	10.1	922	-	922
Other comprehensive income		(81)	-	(81)
Capital contributed by owners (2)	10.2	-	325,108	325,108
Balance as at 30 June 2010		(290)	325,108	324,818

(1) Each of the nine owner councils hold one share having equal voting rights and a value of $1.
(2) At the commencement of operations on 1 July 2009, net assets were contributed by the owners.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

1 Summary of Significant Accounting Policies

1.1 Basis of Preparation

The financial report of Tasmanian Water and Sewerage Corporation (North-Western Region) Pty Limited, trading as Cradle Mountain Water, is a general-purpose financial report, prepared in accordance with the *Corporations Act 2001 (Cth)*, relevant Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and other laws where applicable. The financial report is prepared on an accrual accounting basis in accordance with the historical cost convention except for certain non-current assets and financial instruments, which are at amortised cost. All figures unless indicated otherwise are reported in Australian dollars and rounded to the nearest thousand dollars ($'000).

The Corporation was incorporated on 13 November 2008. No revenue was generated by the Corporation during the period ended 30 June 2009 as it did not commence providing water and sewerage services until 1 July 2009. The Corporation did not have any cash transactions prior to 1 July 2009 and all expenditure incurred by the Corporation was funded by an associate company, Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd, trading as Onstream. Accordingly the Corporation reports no cash flows in the Statement of Cash Flows for the period ended 30 June 2009.

The Corporation has a shared interest in Onstream, together with Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd, trading as Southern Water, and Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd, trading as Ben Lomond Water. Each owner holds one share in Onstream, with each share attracting equal voting rights.

Any costs incurred by Onstream attributable directly to Cradle Mountain Water are charged to the Corporation. All other costs incurred by Onstream during the year ended 30 June 2010 were charged on the basis of 25% to both Ben Lomond Water and Cradle Mountain Water and 50% to Southern Water.

As the Corporation has significant influence, but not control, over the financial and operating policies of Onstream, it is deemed to be an associate company, and is accounted for using the equity method in accordance with AASB 128 Investments in Associates. For further details refer Note 20.

1.2 Statement of Compliance

The financial report comprising the financial statements and the notes thereto complies with Australian Accounting Standards including Australian Interpretations adopted by the AASB. The financial report also complies with International Financial Reporting Standards (IFRS) and Interpretations adopted by the International Accounting Standards Board.

The financial report was approved by the Board of Directors on 10 August 2010.

The Corporation has elected not to early adopt the following applicable accounting standards and amendments:

AASB Amendment	Affected Standards	Nature of change to accounting policy and impact	Application date of standard	Application date for the Corporation
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	No change, no impact	1 January 2010	1 July 2010
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 & interpretations 2, 4, 16, 1039 & 1052]	No change, no impact	1 January 2011	1 July 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	No change, no impact	1 July 2010	1 July 2010
AASB 1053	Application of Tiers of Australian Accounting Standards	No change, no impact	1 July 2013	1 July 2013

1 Summary of Significant Accounting Policies (continued)

1.2 Statement of Compliance (continued)

AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation]	No change, no impact	1 January 2011	1 July 2011
Interpretation 19	Extinguishing Liabilities with Equity Instruments	No change, no impact	1 July 2010	1 July 2010

The following amendments are not applicable to the Corporation and therefore have no impact.

AASB Amendment	Affected Standards
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
AASB 2009-9	Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1]
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
AASB 2010-1	Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters [AASB 1 & AASB 7]

1.3 Significant accounting judgements, estimates and assumptions

In the application of AASB standards management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Fair Value of Property Plant & Equipment

Various assumptions and judgements are utilised in determining the fair value of the Corporation's property, plant and equipment. These assumptions are discussed in Notes 1.10, 1.13 and 7.

Defined benefit superannuation fund obligations

Various actuarial assumptions are utilised in the determination of the Corporation's defined benefit superannuation fund obligations. These assumptions are discussed in Notes 1.14 and 11.

1.4 Revenue Recognition

Revenues are recognised at the amount of the consideration received, net of the amount of goods and services tax (GST) payable to the Australian Taxation Office (ATO).

Sale of Water (Including Irrigation Income)

Fixed water charges are billed and recognised on a quarterly basis. Variable water sales are recognised when water is metered as passing from the Corporation's distribution system to the customer. Unbilled water sales is an estimate of the value of water supplied to the customer between the date of the last meter reading and the year end, and is included in water sales and in the statement of financial position as a receivable.

Sewerage Income

Fixed charges for the collection and treatment of sewerage are billed and recognised on a quarterly basis. Variable sewerage charges are recognised when waste is metered as passing from the customer to the Corporation's collection system. Unbilled sewerage income (including trade waste) is an estimate of the value of sewerage treated on behalf of the customer between the date of the last meter reading and the year end, and is included in sewerage income and in the statement of financial position as a receivable.

Interest Income

Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

1 Summary of Significant Accounting Policies (continued)

1.4 Revenue Recognition (continued)

Sale of Non-Current Assets

The net gain (loss) on non-current asset sales are included as income at the date the control of the asset passes to the buyer, usually at the point an unconditional written contract is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

Government Funded Price Cap

On 30 November 2009 the State Government announced that customers would only pay a maximum of 5% more than the previous year's water and sewerage charges. The difference between the maximum price allowed by the economic regulator and this 5% price cap is reimbursed to the Corporation by the State Government and is reported as water and sewerage income.

Government Funded Pensioner Concessions

The Corporation has an agreement with the Crown in right of the State of Tasmania to provide community services in the form of a concession and for the Corporation to be reimbursed for the community services costs and administration costs. Any such reimbursements are recorded as revenue on an accrual basis.

Grants

Grants are recognised when received or when the Corporation obtains control over the assets comprising the contributions. Government grants of a revenue nature are recognised as income over the periods necessary to match related costs. Government grants related to assets are recognised in the statement of financial position as a deferred liability and are recognised as revenue on a systematic basis over the useful life of the asset.

Customer Contributions and Developer Charges

Customer contributions and developer charges received for no consideration are recognised at fair value and treated as revenue when received unless they are directly associated with an incomplete capital project, in which case they are included as a liability and capital work in progess in the statement of financial position and recognised when the project is completed.

1.5 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables are stated with the amount of GST included.

The GST recoverable from and payable to the ATO is disclosed on a net basis as a receivable within current assets or where the net is a payable, as a current liability. Cash flows receivable from customers and payable to suppliers are shown on a gross basis in the Statement of Cash Flows.

1.6 Taxation

Income tax equivalents expense on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Income tax equivalent payments are distributed to owner councils in accordance with the Treasurer's Allocation Order.

Deferred tax is provided using the balance sheet liability method and represents the temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial report. Deferred tax assets relating to deductible temporary differences and tax losses are only brought to account when their realisation is probable (refer Note 4).

1.7 Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and in banks and investments in money market instruments which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis. Cash assets are brought to account at cost.

1 Summary of Significant Accounting Policies (continued)

1.8 Inventories

Inventories comprise stores and materials used in the construction of new works and for the repair and maintenance of existing assets. All inventories are valued at the lower of cost or net realisable value.

1.9 Receivables

Trade receivables are recognised at their amortised cost less an allowance for impairment losses. Doubtful debts are written off when collection is no longer probable. Trade receivables comprise residential, industrial and irrigation customers and other sundry debtors. Settlement terms for customers range from 14 to 31 days from invoice date. Receivables include unbilled water and sewerage income as detailed in Note 1.4.

1.10 Property, Plant and Equipment

(a) Construction of Property, Plant and Equipment
The cost of property, plant and equipment constructed by the Corporation includes the cost of all materials used in construction and the cost of direct labour on the project.

(b) Acquisition of Property, Plant and Equipment
Property, plant and equipment are initially recorded at the cost of acquisition. Cost is determined as the purchase value of the asset at the date of acquisition plus costs incidental to the acquisition. Developer contributions received for no consideration are recorded at fair value.

(c) Valuations and Recoverable Amounts of Property, Plant and Equipment
Infrastructure Assets, Freehold Land and Buildings are carried at fair value and Other Assets are carried at cost in accordance with AASB 116 *Property, Plant and Equipment*. Other Assets include motor vehicles, furniture, fittings, telemetry equipment and IT hardware.

Recoverable amount was lower than depreciated replacement cost and this amount was used for the initial recognition of the asset values. No impairment loss was recorded as this was the initial recognition of asset values. Impairment will be reassessed at future reporting dates.

Other Assets are recorded at acquisition cost. As this asset class has a relatively short asset life it was determined that the cost of revaluing this asset class was not justified and the practice of indexing the asset values did not necessarily provide relevant and reliable information.

(d) Depreciation
Depreciation of property, plant and equipment (other than land) is calculated on an individually assessed economic life using the straight-line method of depreciation, so as to write off the net cost (or previously revalued amounts) of each asset over its expected useful life. The economic lives of assets were reassessed at 1 July 2009 in conjunction with the revaluation of assets. The economic life of property, plant and equipment is summarised as follows:

Dams / Earthworks:	135 years
Pipelines:	30 – 140 years
Civil / Structural:	30 – 100 years
Other Infrastructure:	5 – 40 years
Buildings:	50 – 85 years
Other Assets:	2 – 25 years

(e) Subsequent Costs
The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(f) Non-current assets held for resale
Assets held for resale includes financial assets not included in the other categories and are reflected at fair value. Gains or losses arising from changes in fair value are taken directly to equity and recycled to the statement of comprehensive income upon disposal or the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the statement of comprehensive income.

1 Summary of Significant Accounting Policies (continued)

1.11 Leased Property, Plant and Equipment

Leases of property, plant and equipment are classified as operating leases where the lessors retain substantially all of the risks and benefits of ownership. Lease payments are charged against profits in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis would be more representative of the patterns of benefits to be derived from the leased property.

1.12 Intangible Assets

Intangible assets comprise costs associated with the purchase and development of computer software. Intangible assets are initially recorded at their cost of acquisition. Cost is determined as the purchase value of the asset at the date of acquisition plus costs incidental to the acquisition, including direct labour costs.

Amortisation of intangible assets is calculated on an individually assessed economic life using the straight-line method of amortisation, so as to write off the net cost (or previously revalued amounts) of each asset over its expected useful life. The estimated useful life of computer software is between 2 and 10 years. Computer software is stated at cost. This is in accordance with AASB 138 *Intangible Assets* which requires intangible assets to be recognised at cost in the absence of an active market to determine fair values.

1.13 Impairment

The Corporation's assets including its deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. There were no indicators of impairment at 30 June 2010.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(a) Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment based on objective evidence from historical experience adjusted for conditions existing at each balance sheet date.

In undertaking the impairment testing of its infrastructure assets it has been determined that the Corporation's assets operate as two cash-generating units; water and sewerage. The recoverable amount of these assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

(b) Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.14 Employee Entitlements

(a) Wages, Salaries, Annual Leave and Sick Leave

Liabilities for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date, are recognised and measured as the amount unpaid at balance date at remuneration rates expected to apply at the date of settlement, including superannuation. The sick leave provision represents the portion of the outstanding balance, which is payable upon termination.

(b) Long Service Leave

A liability for long service leave is recognised and is measured on the basis of the present value of the expected future cash outflows at balance date, including superannuation. The market yields on government bonds are used to determine the present value of the future cash flows. The classification of the liability for long service leave is on the basis that entitlements in respect of service greater than nine years are shown as a current liability.

1 Summary of Significant Accounting Policies (continued)

1.14 Employee Entitlements (continued)

(c) Superannuation

Provision is made for the Corporation's future liability for employees' superannuation entitlements under the Retirement Benefits Fund Scheme, the Public Servants Retiring and Death Allowances Scheme. The provision is fully provided for by the Corporation (refer Note 11).

The provision in relation to the Retirement Benefits Fund Scheme is based on an actuarial valuation conducted by Mercer (Australia) Pty Ltd

The Corporation, on an emerging cost basis, pays its portion of the future service component of death and disablement benefits under the Retirement Benefits Fund Scheme.

In accordance with accounting standard AASB 119 Employee Benefits, the Corporation has elected to recognise actuarial gains and losses on defined benefit plans directly through retained earnings.

The Corporation also makes superannuation contributions for a number of its employees to another Quadrant Defined Benefits Fund, which is a sub fund of the Quadrant Superannuation Scheme. This Fund is classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary, Bendzulla Actuarial Pty Ltd (Bendzulla), is unable to allocate benefit liabilities, assets and costs between employees. As provided under paragraph 32 (b) of AASB119, the Corporation does not use defined benefit accounting for these contributions.

The Corporation also contributes at least the minimum level of support required by the *Commonwealth Superannuation Guarantee (Administration) Act 1992*, to a number of complying accumulated benefits superannuation funds. Contributions are expensed as they are made.

1.15 Borrowings

All borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest method.

1.16 Payables

Trade payables are recognised at amortised cost when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are settled according to the creditor's terms.

1.17 Dividends Payable

Dividends payable are recognised when approved by the Board of the Corporation (refer Note 5).

1.18 Misappropriation of Funds

During the 2009-10 year a significant fraud was discovered in relation to the illegal transfer of funds by an employee of the Corporation. This fraud was committed over a number years with the total amount stolen being approximately $1.2 million. Approximately $127,000 was repaid upon discovery of the fraud. Further funds are expected to be paid to the Corporation upon settlement of property owned by the former employee and through insurance recoveries during 2010-11. The 2009-10 financial report does not include allowances for future recoveries as they are not virtually certain.

Notes to the Financial Statements

for the financial year ended 30 June 2010

2. Revenue

	1 Jul 09 to 30 Jun 10 $'000	13 Nov 08 to 30 Jun 09 $'000
Sales Revenue:		
Water - Service Charge	16,019	-
Sewerage - Service Charge	16,777	-
Water - Usage Charges	5,042	-
Sewerage - Usage Charge	3,735	-
Irrigation Income	265	-
Government Funded Price Cap Rebate	1,026	-
Government Funded Pensioner Concessions	1,383	-
Other Fees and Charges	605	-
Total Sales	44,852	-
Other Income:		
Customer and Developer Contributions	1,352	-
Government Grants	149	-
Other	1,550	-
Total Other Operating Income	3,051	-
Financial Income:		
Interest Received - Deposits & Investments	179	-
Total Financial Income	179	-
Total Sales, Financial and Other Income	48,082	-

3. Expenses

Raw Material and Consumables:		
Power Costs	2,718	-
Water Commission Rights	465	-
Chemicals	1,138	-
Total	4,321	-
Depreciation Expenses:		
Infrastructure Assets	11,406	-
Buildings	49	-
Other Assets	674	-
Total	12,129	-
Borrowing Cost Expenses:		
Interest Expense - Borrowings	4,085	-
Government Guarantee Fee Expense	633	-
Losses incurred on restructure of portfolio	3	-
Less Amount Capitalised(1)	(282)	-
Total	4,439	-

(1) Average capitalisation rate is 4.38% p.a. (2009: Nil)

3. Expenses (continued)

	1 Jul 09 to 30 Jun 10 $'000	13 Nov 08 to 30 Jun 09 $'000
Employee and Related Expenses:		
Salaries and On-Costs	10,309	272
Less Capitalised Salaries	(1,468)	-
Entitlement Provisions Movements	1,040	11
Training and Travel	312	28
Other	552	87
Total	10,745	398
Operations and Maintenance Expenses:		
Maintenance and Planning	5,393	4
Water Sampling	295	1
Property costs	218	-
Motor Vehicles	663	-
Supporting Operating Systems & Equipment	50	-
Total	6,619	5
Administration Expenses:		
Insurance	461	-
IT, Payroll, Accounts Payable and Revenue Services provided by Associate (Note 16.3)	3,258	295
Rates, Land Tax and Property Costs	395	-
Consultancies	2,157	198
Leases	385	-
Information Systems and Communications	575	4
Loss on Disposal of Property Plant and Equipment	32	-
Misappropriation of Funds (refer Note 1.18)	390	-
Allowance for impaired Trade Receivables	100	-
Corporate Governance	265	-
Other Administration	699	66
Total	8,717	563
Total Expenses	46,970	966

4. Income Tax Equivalents

4.1 Income tax equivalents recognised in statement of comprehensive income

Income tax expense (benefit) comprises

Current tax equivalents	1,501	(284)
Deferred tax equivalents relating to the origination and reversal of temporary differences	(1,295)	(6)
Total income tax equivalents	206	(290)
Attributable to continuing operations	206	(290)
	206	(290)

4. Income Tax Equivalents (continued)

4.1 Income tax equivalents recognised in statement of comprehensive income

The prima facie income tax equivalents on pre-tax accounting profit from operations reconciles to the income tax equivalents in the financial statements as follows:	1 Jul 09 to 30 Jun 10 $'000	13 Nov 08 to 30 Jun 09 $'000
Profit from continuing operations	1,128	(966)
Profit from operations	1,128	(966)
Income tax equivalents calculated at 30%	338	(290)
Non-deductible expenses	3	-
Other	(135)	-
Income tax equivalents expense (benefits)	206	(290)

The tax equivalent rate used in the above reconciliation is the national tax equivalent rate of 30% payable by Australian national tax equivalent entities on equivalent profits under Australian tax law. There has been no change in the national tax equivalent rate when compared with the previous reporting period.

4.2 Deferred tax equivalents recognised directly in equity

The following current and deferred tax equivalents were charged directly to equity during the period:		
Property revaluations	-	-
Actuarial gain (loss) on defined benefit plan	33	-
	33	-

4.3 Current tax equivalent assets and liabilities

Current tax equivalent assets (liabilities):		
Opening balance	-	-
National tax equivalent payable	(1,501)	-
Instalments paid	442	-
	(1,059)	-

4.4 Deferred tax equivalent assets and liabilities

Deferred tax equivalent assets comprise:		
Tax losses - revenue	3,073	6
Temporary differences	1,959	284
	5,032	290
Deferred tax equivalent liabilities comprise:		
Temporary differences	(7,157)	-
	(7,157)	-
Net deferred tax equivalent assets (liabilities):	(2,125)	290

4. Income Tax Equivalents (continued)

4.4 Deferred tax equivalent assets and liabilities (continued)

Taxable and deductible differences arise from the following:

30 June 2010	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / Disposals $'000	Closing balance $'000
Deferred tax equivalent assets:					
Property, plant & equipment	-	-	-	-	-
Provisions	3	122	33	1,095	1,253
Tax losses	284	-	-	2,789	3,073
Other	3	689	-	14	706
	290	811	33	3,898	5,032
Deferred tax equivalent liabilities:					
Property, plant & equipment	-	199	-	(7,351)	(7,152)
Other	-	(5)	-	-	(5)
	-	194	-	(7,351)	(7,157)
Net deferred tax equivalent liabilities:	290	1,005	33	(3,453)	(2,125)
Attributable to:					
Continuing operations	290				(2,125)

30 June 2009	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / Disposals $'000	Closing balance $'000
Deferred tax equivalent assets:					
Property, plant & equipment	-	-	-	-	-
Provisions	-	3	-	-	3
Tax losses	-	284	-	-	284
Other	-	3	-	-	3
	-	290	-	-	290
Deferred tax equivalent liabilities:					
Property, plant & equipment	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Net deferred tax equivalent liabilities:	-	290	-	-	290
Attributable to:					
Continuing operations	-				290

4. Income Tax Equivalents (continued)

4.4 Deferred tax equivalent assets and liabilities (continued)

Gross cumulative tax equivalent losses of $10,244,225 (Tax effect: $3,073,268) were brought to account as a deferred tax asset. The Corporation's carry forward losses are classified as an asset on the basis of certainty of recouping the loss at some time in the future. The deferred tax asset with respect to the cumulative loss was utilised to reduce the deferred income tax provision liability.

This benefit for tax equivalent losses will only be obtained if:

a) The Corporation derives future assessable tax equivalent income of a nature and amount sufficient to enable the benefit from the deduction for the tax equivalent losses to be realised;

b) The Corporation continues to comply with the conditions of deductibility imposed by legislation; and

c) No changes in legislation adversely affect the Corporation in realising the benefit from the deduction for the tax equivalent losses.

5. Dividends Provided For or Paid

On 8 April 2010 the Board of Cradle Mountain Water approved the payment of a $455,000 (2008-09: nil) interim dividend from 2009-10 estimated profits. This dividend was paid on 30 April 2010.

On 10 August 2010 the Board approved the payment of a final dividend of $467,000 (2008-09: nil), making a total dividend of $922,000 (2008-09: nil) for the 2009-10 financial year. In accordance with accounting standards the final dividend was not recognised in the financial statements at 30 June 2010.

Dividends were distributed to owners in accordance with the Treasurer's Allocation Order.

6. Current Assets

	30 Jun 10 $'000	30 Jun 09 $'000
6.1 Cash and Cash Equivalents		
Cash at Bank and on Hand	1,464	-
Cash Management Account with Tascorp	74	-
	1,538	-
6.2 Receivables		
Trade receivables	8,027	-
Less allowance for impaired trade receivables	(100)	-
Unbilled water and sewerage income	1,834	-
Net GST receivable	663	12
Other current receivables	1,148	-
	11,572	12

An ageing analysis of receivables is provided below in Note 18.3 (Credit risk management).

Movement in allowance for doubtful debts

Opening balance	-	-
(Increase) decrease in allowance	100	-
Amounts recovered during the year	-	-
Amounts written off during the year	-	-
Closing balance at 30 June.	100	-

6. Current Assets (continued)

6.3 Inventories (at cost)

	30 Jun 10 $'000	30 Jun 09 $'000
Stores and consumables at cost	604	-
Total	604	-

6.4 Assets Held for Resale

	30 Jun 10 $'000	30 Jun 09 $'000
Property Plant & Equipment	3,008	-
	3,008	-

Resulting from a discontinued operation various items of infrastructure assets are available for sale. The Corporation expects to conclude sale negotiations over the coming months.

7. Property, Plant & Equipment

Fair value of assets contributed by the nine owner councils and Cradle Coast Water was determined by an independent valuation based on depreciated replacement cost as at 1 July 2009. Recoverable amount was lower than depreciated replacement cost and this amount was used for the initial recognition of the asset values. No impairment loss was recorded as this was the initial recognition of asset values. Subsequent to determining their fair value, the assets were then tested for impairment by applying a cash-generating unit test to determine their recoverable amount, which represents their value in use. The cash-generating unit test calculates the discounted present value of the net cash inflows that the Corporation expects to be generated from its assets, operating together within separately identified cash-generating units, over their expected useful lives. Two cash generating units were identified for the Corporation, water and sewerage.

The cash-generating unit test is highly dependent on the assumptions used to estimate the future net cash flows that are derived from the relevant assets. Therefore this calculation contains an element of subjectivity and uncertainty in relation to these assumptions. The main assumptions were:

Item	Assumption
Discount rate	Real pre-tax weighted average cost of capital of 7.27% per annum based on independent review.
CPI Rate	2.5% per annum.
Period of discounting	7 years with a terminal value, based on a perpetuity factor of 14.53, applied for subsequent years.
Cash inflows	Based on most recent revenue forecast and Corporate Plan estimates, incorporating nominal average price increase of 8.0% per annum as per the Interim Price Order. After allowing for CPI the real price increase is 5.5% per annum.
Cash outflows	Based on most recent expenditure forecast and Corporate Plan, incorporating nominal average cost increase of 2.5% per annum and labour increase of 4.0%. After allowing for CPI the real cost increase is nil and real labour increase of 1.5% per annum assumed. Capital expenditure as per most recent forecast and Corporate Plan.

7. Property, Plant & Equipment (continued)

	30 Jun 10 $'000	30 Jun 09 $'000
Infrastructure Assets - Water		
At Fair Value	225,345	-
Accumulated Depreciation	(6,077)	-
	219,268	-
Infrastructure Assets - Sewerage		
At Fair Value	156,262	-
Accumulated Depreciation	(5,260)	-
	151,002	-
Freehold Land		
At Fair Value	12,015	-
Buildings		
At Fair Value	1,589	-
Accumulated Depreciation	(49)	-
	1,540	-
Other Assets		
At Cost	5,300	-
Accumulated Depreciation	(634)	-
	4,666	-
Work In Progress		
At Cost	12,169	332
Total	400,660	332

Property, Plant & Equipment - Reconciliation

Asset Group ($'000)	Infra-structure Assets Water at Fair Value	Infra-structure Assets Sewerage at Fair Value	Freehold Land at Fair Value	Buildings at Fair Value	Other Assets at Cost	Work In Progress at Cost	Total
Net Book Value as at 13 November 2008	-	-	-	-	-	-	-
Additions at cost	-	-	-	-	-	332	332
Transfers from Work In Progress	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Indexation	-	-	-	-	-	-	-
Depreciation Expenses	-	-	-	-	-	-	-
Net Book Value as at 30 June 2009	-	-	-	-	-	332	332
Net Book Value as at 1 July 2009	-	-	-	-	-	332	332
Transfers from Owners at Fair Value (Note 21)	223,380	147,981	12,015	1,558	2,153	9,977	397,064
Additions at cost	468	1,136	-	-	1,449	15,691	18,744
Transfers from Work In Progress	4,574	7,145	-	31	2,081	(13,831)	-
Disposals	-	-	-	-	(343)	-	(343)
Indexation	-	-	-	-	-	-	-
Assets Held for Resale	(3,008)	-	-	-	-	-	(3,008)
Depreciation Expenses	(6,146)	(5,260)	-	(49)	(674)	-	(12,129)
Net Book Value as at 30 June 2010	219,268	151,002	12,015	1,540	4,666	12,169	400,660

7. Property, Plant & Equipment (continued)

If property, plant and equipment were measured at depreciated replacement cost the carrying amounts at 30 June 2010 would be as follows. Depreciated replacement cost of Water and Sewerage Assets was determined at 1 July 2009 by an independent valuation undertaken by GHD and Serck. Other assets are valued at written down replacement cost as determined by owners.

Asset Group ($'000)	Infrastructure Assets Water	Infrastructure Assets Sewerage	Freehold Land	Buildings	Other Assets	Work In Progress	Total
Depreciated replacement cost	337,549	327,037	12,015	1,589	5,583	12,169	695,942
Accumulated depreciation	(8,613)	(11,731)	-	(49)	(637)	-	(21,030)
Net Carrying Amount	328,936	315,306	12,015	1,540	4,946	12,169	674,912

The Corporation deemed cost as at 1 July 2009 to be the depreciated replacement cost as noted above. If plant and equipment were measured using the cost model the carrying amounts at 30 June 2010 would be as follows:

Asset Group ($'000)	Infrastructure Assets Water	Infrastructure Assets Sewerage	Freehold Land	Buildings	Other Assets	Work in Progress	Total
Cost	630,578	597,843	12,015	1,589	5,583	12,169	1,259,777
Accumulated depreciation	(301,642)	(282,537)	-	(49)	(637)	-	(584,865)
Net Carrying Amount	328,936	315,306	12,015	1,540	4,946	12,169	674,912

8. Intangibles

	30 Jun 10 $'000	30 Jun 09 $'000
Computer software		
At Cost	-	-
Accumulated Amortisation	-	-
	-	-
Work In Progress - At Cost	930	-
Total	930	-

Intangibles	Software $'000	Work in Progress $'000	Total $'000
Net Book Value as at 13 November 2008	-	-	-
Additions at cost	-	-	-
Disposals	-	-	-
Amortisation Expenses	-	-	-
Net Book Value as at 30 June 2009	-	-	-
Net Book Value as at 1 July 2009	-	-	-
Additions at cost	-	930	930
Transfers from Work in Progress	-	-	-
Disposals	-	-	-
Amortisation Expenses	-	-	-
Net Book Value as at 30 June 2010	-	930	930

9. Current and Non-current Liabilities

9.1 Borrowings

All semi-government borrowings have been transacted through the Tasmanian Public Finance Corporation (Tascorp). All borrowings are secured by a charge over revenue.

	30 Jun 10 $'000	30 Jun 09 $'000
Borrowings:		
Current Liabilities	9,249	-
Non-current Liabilities	69,306	-
Total Borrowings	78,555	-

9.2 Provisions

	30 Jun 10 $'000	30 Jun 09 $'000
Current:		
Employee Benefits (refer Note 9.3)	2,668	10
	2,668	10
Non-current:		
Employee Benefits (refer Note 9.3)	1,408	-
	1,408	-

Employee Benefits - Movement in Provision	Employee Benefits
Opening balance as at 13 November 2008	-
Additional provisions	10
Amounts used	-
Balance at 30 June 2009	10
Opening balance at 1 July 2009	10
Transfer of employee entitlements from owners (Refer note 21)	3,734
Additional provisions	1,153
Amounts used	(821)
Balance at 30 June 2010	4,076

9.3 Employee Benefits

	30 Jun 10 $'000	30 Jun 09 $'000
Current:		
Annual Leave	1,189	10
Long Service Leave	1,344	-
Sick Leave	58	-
Defined Benefit Superannuation - RBF (refer Note 11.1)	77	-
	2,668	10

9. Current and Non-current Liabilities (continued)

9.3 Employee Benefits

	30 Jun 10 $'000	30 Jun 09 $'000
Non-current:		
Long Service Leave	279	-
Defined Benefit Superannuation - RBF (refer Note 11.1)	1,129	-
	1,408	-
Total [1]	4,076	10

[1] The employee benefits provision at 30 June 2010 included attributable on-costs of $610,000 (2009: $2,000).

	30 Jun 10 Employees	30 Jun 09 Employees
Number of Employees at year end	146	5

9.4 Payables

	30 Jun 10 $'000	30 Jun 09 $'000
Trade Creditors	2,693	8
Accrued Expenses	1,913	1,295
Accrued Interest Expense	959	-
Total	5,565	1,303

9.5 Unearned Income

Current:		
Government grants (refer Note 1.4)	123	-
Non Current:		
Government grants (refer Note 1.4)	2,041	-
Total	2,164	-

10. Members' Equity

The Corporation is owned by nine councils in north-western Tasmania as detailed in Note 19. Each owner's share of equity was determined effective 1 July 2009 by its proportionate share of total net assets contributed to the Corporation. Each of the nine owners hold one share in the Corporation, with each share having equal voting rights. Each share has an issue price of $1.

10. Members' Equity (continued)

10.1 Retained Profits (Accumulated Losses)

	30 Jun 10 $'000	30 Jun 09 $'000
Balance at the Beginning of Period	(676)	-
Actuarial Gain (loss) on defined benefit plan	(112)	-
Tax effect of Actuarial Gain (loss) on defined benefit plan	33	-
Share of other comprehensive income of associates	(2)	-
Dividends paid	(455)	-
Revaluation increments (decrements) attributable to assets disposed of during the Period	-	-
Profit (Loss) after Income Tax Expense	922	(676)
Balance at the End of Period	(290)	(676)

10.2 Contributed Equity

	30 Jun 10 $'000	30 Jun 09 $'000
Balance at the Beginning of Period	-	-
Equity Contribution on Formation (refer Note 21)	325,108	-
Capital Issued during the Period (1)	-	-
Balance at the End of Period	325,108	-

(1) Each of the nine owners hold one share with each share having equal voting rights and an issue price of $1.

11. Superannuation and Defined Benefit Plans

As part of the water and sewerage reform discussed in Notes 1, 19 and 21, one defined benefit superannuation liability, for RBF was transferred to the Corporation from Cradle Coast Water on 1 July 2009. Disclosures regarding this fund are provided in Note 11.1. Comparatives for 2009 are not provided as the Corporation had no defined benefit superannuation liability at 30 June 2009.

The Corporation also makes superannuation contributions for a number of its employees to another Quadrant Defined Benefits Fund, which is a sub fund of the Quadrant Superannuation Scheme. The Quadrant Defined Benefits Fund has been classified as a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by employer, the Actuary (Bendzulla) is unable to allocate benefit liabilities, assets and costs between employers. As provided under paragraph 32(b) of AASB 119, the Corporation does not use defined benefit accounting for these contributions.

At the present time the Corporation contributes 9.5% of employees' gross income to the Fund. Assets accumulate in the scheme to meet member benefits as they accrue, and if assets within the scheme are insufficient to satisfy benefits payable, the Corporation is required to meet its share of the deficiency.

The Actuary (Bendzulla) undertook the last actuarial review of the Scheme at 30 June 2008. The review disclosed that at that time the net market value of assets available for funding member benefits was $84,786,241, the value of vested benefits was $77,045,401, the surplus was $7,707,840, and the value of total accrued benefits was $81,398,000. These amounts relate to all members of the scheme at the date of valuation and no asset or liability is recorded in Quadrant Superannuation Scheme's financial statements for the Corporation's employees.

The financial assumptions used to calculate the Accrued Benefits for the Fund were:
Net Investment Return 17.0% p.a. for 2008-09 and 7% p.a. thereafter
Salary Inflation 4.0% pa
Price Inflation n/a

In the opinion of the Actuary, the Quadrant Defined Benefits Fund (the Fund) was adequately funded in that assets were sufficient to cover the vested benefits of all members at the review date and the actuarial value of accrued past service benefits.

11. Superannuation and Defined Benefit Plans (continued)

At 30 June 2009, the net market value of assets available for funding member benefits had fallen to $58,450,000 largely due to the poor investment returns that were experienced during the 2009 financial year. The value of vested benefits at that date was $64,350,000 resulting in a shortfall of $5,900,000. When the Fund's assets are below the vested benefits, superannuation law defines this as an "unsatisfactory financial position". As a result of the Fund moving into an unsatisfactory financial position, the Quadrant Trustee prepared a plan to restore the financial position within a reasonable timeframe. This plan noted the improved investment returns since 30 June 2009 and confirmed that the 9.5% contribution rate remained appropriate.

The next full triennial review will be undertaken after 31 October 2011 for 30 June 2011.

During the year the Corporation made the required superannuation contributions for all eligible employees to an appropriate complying superannuation fund as required by the Superannuation Guarantee (Administration) Act 1992.

11.1 RBF Defined Benefit Superannuation Liability

The RBF is a defined benefit fund where members receive lump sum benefits on resignation, and lump sum or pension benefits on retirement (most of which is calculated as a multiple of the member's final average salary), death or invalidity. The RBF has contributory members, compulsory preserved members and pensioners and the defined benefits section of RBF is closed to new members. All new members receive accumulation only benefits.

As at 30 June 2010, Mercer (Australia) Pty Ltd conducted a valuation of the past service and accrued liabilities for the Corporation, within the Retirements Benefits Fund (RBF) superannuation fund. Any shortfall between the values of these benefits and the market value of the RBF assets relevant for those members determines the value of any unfunded superannuation and is shown as a liability in the statement of financial position. These amounts are included in the superannuation liability reported in Note 9.3 above. The funding status of the Corporation's share of this scheme as at 30 June 2010, based on the actuarial valuation, is summarised as follows:

Principal Actuarial Assumptions as at Balance Date	30 Jun 10
Discount rate	5.35%
Expected salary increase rate	4.50%
Expected return on plan assets [1]	7.00%
Expected pension increase rate	2.50%
Expected rate of increase compulsory preserved amounts	4.50%

[1]: The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class and allowing for correlations of the investment returns between asset classes. The returns used for each asset class are net of estimated investment tax and investment fees.

The discount rate is based on the market yields on the longest dated Government Bonds as at 30 June 2010 extrapolated to allow for the fact that the term of the liabilities exceeds the term of the longest Government Bond and adjusted to allow for investment tax, based on the expected rate of tax payable by the Fund. The decrement rates used (eg: mortality and retirement rates) are based on those used at the last actuarial valuation of the Fund.

Operating Costs

Operating costs for the Fund as a whole were assumed to be incurred at the rate of 1.5% of salaries. This cost is allocated to each entity in proportion to assets.

Temporary Invalidity Expense

The cost of temporary invalidity benefits was assumed to be 0.38% of salaries of current contributory members.

11. Superannuation and Defined Benefit Plans (continued)

11.1 RBF Defined Benefit Superannuation Liability (continued)

Fund Assets disclosure

Australian equities	26%
Overseas equities	22%
Fixed interest securities	12%
Property, infrastructure and related assets	20%
Other	20%

Assets are not held separately for each entity but are held for the Fund as a whole. The fair value of Fund assets was established by allocating the total Fund assets to each entity in proportion to the value of each entity's funded liabilities, calculated using the assumptions outlined in this report.
The fair value of Fund assets includes no amounts relating to any of the entity's own financial instruments or any property occupied by, or other assets used by, the entity.

Statement of financial position results as at 30 June - Net liability	30 Jun 10 $'000
Defined benefit obligation	1,491
RBF Contributory scheme assets	(285)
Deficit (surplus)	1,206
Unrecognised past service cost	-
Unrecognised net (gain) loss	-
Adjustment for Limitation on net assets	-
Net liability (asset)	1,206
Current net liability	77
Non-current net liability	1,129
	1,206

Expense Recognised in the Income Statement

Employer service cost	49
Interest cost	74
Expected return on plan assets	(18)
Expense recognised in employee related expenses	105

Amounts Recognised in Other Comprehensive Income

Recognised actuarial (gains) / losses (1)	112

Note 1: As noted above, actuarial gains and losses are recognised in Other Comprehensive Income

11. Superannuation and Defined Benefit Plans (continued)

11.1 RBF Defined Benefit Superannuation Liability (continued)

Reconciliation of Fair Value of Scheme Assets

	30 Jun 10 $'000
Fair value of plan assets at end of prior year	268
Estimated employer contributions	93
Estimated participant contributions	23
Estimated operating costs	(3)
Estimated benefit payments	(132)
Expected return on assets	18
Expected assets at year end	267
Actuarial gain (loss) on assets	18
Individual plan assets at year end	285
Actual return on plan assets[1]	36

[1]: As separate assets are not held for each entity, the actual return includes any difference in the allocation to each entity.

Present Value of the Defined Benefit Obligations

	30 Jun 10 $'000
Total defined benefit obligations at end of prior year	1,350
Employer service cost plus operating costs	50
Interest cost	74
Actual participant contributions	23
Actual operating costs (administration, insurance)	(3)
Actual benefit payment plus contributions tax	(132)
Expected defined benefit obligations at year end	1,362
Actuarial (gain) loss on liabilities	129
Actual total defined benefit obligations at year end	1,491

The defined benefit obligation consists entirely of amounts from plans that are wholly or partly funded.

Historical information

	30 Jun 10 $'000
Total defined benefit obligation	1,491
Actual assets at year end	285
Deficit (surplus)	1,776
Experience adjustment on liabilities	82
Experience adjustment on assets	(18)

The experience adjustment for Fund liabilities represents the actuarial loss (gain) due to a change in the liabilities arising from the Fund's experience (e.g. membership movements, salary increases and indexation rates) and excludes the effect of the changes in assumptions (e.g. movements in the bond rate).

11. Superannuation and Defined Benefit Plans (continued)

11.1 RBF Defined Benefit Superannuation Liability (continued)

Expected Contributions - Financial Year Ending 30 June 2011

The estimated employer contributions for the following financial year are $77,000.

12. Commitments For Expenditure

	30 Jun 10 $'000	30 Jun 09 $'000

12.1 Capital Commitments

Capital commitments totalling $4,917,040 under contracts as at 30 June 2010 are not provided for in the financial statements.

	30 Jun 10 $'000	30 Jun 09 $'000
Payments within 1 year	4,917	88
Payments 1 – 5 years	-	-
Payments longer than 5 years	-	-
Total	4,917	88

12.2 Lease Commitments

	30 Jun 10 $'000	30 Jun 09 $'000
Lease payments expensed during the period	473	-

Operating Lease Liability

	30 Jun 10 $'000	30 Jun 09 $'000
Payments within 1 year	397	167
Payments 1 – 5 years	482	434
Payments longer than 5 years	-	-
Total	879	601

These lease commitments represent payments due on current operating leases for the Corporation's office accommodation, information technology and office equipment. The leases are cancellable but incur a penalty of the present value of future lease payments. There is no documented option to purchase the leased assets on expiry of the leases.

12.3 Other Commitments

Forward start loans

	30 Jun 10 $'000	30 Jun 09 $'000
Loan commencement date within 1 year	20,000	-
Loan commencement date 1 – 5 years	-	-
Loan commencement date longer than 5 years	-	-
Total	20,000	-

The Corporation has forward start loans with Tascorp which are non-cancellable.

13. Contingent Liabilities

The Corporation was not aware of any contingent liabilities at the time of finalising the financial report.

14. Remuneration of Auditors

	1 Jul 09 to 30 Jun 10 $'000	13 Nov 08 to 30 Jun 09 $'000
Audit Services - Tasmanian Audit Office		
Annual external audit fee	40	5
Total fees, exclusive of GST	40	5

15. Compensation of Key Management Personnel

	$	$
Directors		
Short-Term	174,298	114,037
Post Employment (superannuation)	16,406	10,265
Other Long-Term	-	-
Termination Benefits	-	-
Other Key Management Personnel		
Short-Term	888,688	87,696
Post Employment (superannuation)	70,410	8,615
Other Long-Term	-	-
Termination Benefits	-	-
	1,149,802	220,613

The number of directors and key management personnel included within the compensation total noted above are shown below in their respective income bands:

Directors' Remuneration	Total 1 Jul 09 to 30 Jun 10 Number	Base 1 Jul 09 to 30 Jun 10 Number	Total 13 Nov 08 to 30 Jun 09 Number	Base 13 Nov 08 to 30 Jun 09 Number
$10,000 - $19,999	-	-	5	5
$20,000 - $29,999	3	5	-	-
$30,000 - $39,999	2	-	-	-
$40,000 - $49,999	-	-	1	1
$50,000 - $59,999	1	1	-	-
	6	6	6	6

Other Key Management Personnel Remuneration	Total 1 Jul 09 to 30 Jun 10 Number	Base 1 Jul 09 to 30 Jun 10 Number	Total 13 Nov 08 to 30 Jun 09 Number	Base 13 Nov 08 to 30 Jun 09 Number
$20,000 - $29,999	-	-	1	1
$70,000 - $79,999	-	1	-	-
$80,000 - $89,999	1	-	-	-
$120,000 - $129,999	-	4	1	1
$130,000 - $139,999	4	-	-	-
$140,000 - $149,999	-	1	-	-
$160,000 - $169,999	1	1	-	-
$170,000 - $179,999	1	-	-	-
	7	7	2	2

Base remuneration represents gross salary. Total remuneration includes superannuation. There were no amounts paid by the Corporation in connection with the retirement of responsible persons of the Corporation during the financial year.

16. Related Party Disclosures

16.1 Board Directors

The Board Directors during the financial year ended 30 June 2010 were:

- Geoff Willis (Chairman)
- Grant Atkins
- Brian Bayley
- Miles Hampton
- Tony MacCormick
- Dan Norton

The remuneration of the Board of Directors is detailed in Note 15. Other expenses associated with the Board are as follows:

	30 Jun 10 $
Accommodation and meals	21,374
Director professional development	929
	22,303

16.2 Transactions with Director Related Parties

There were no loans in existence by the Corporation to responsible persons or related parties during the financial year.

Water and wastewater services were provided to Directors who reside within the region of the Corporation under normal terms and conditions, no more favourable than to other parties.

Energy services were provided to the Corporation by Aurora Energy Pty Ltd, of which Geoff Willis and Dan Norton are directors.

All director related transactions were conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. Where matters for resolution were discussed in respect to the above transactions, directors were not present in meetings.

16.3 Transactions with Other Related Parties

The Corporation owns a one third share in Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd, trading as Onstream. Onstream provides various services to the Corporation including information technology, payroll, accounts payable, billing and revenue collection. Refer to Note 20 for financial information of the investment in this associate. Transactions were not conducted on an "arm's length" basis as the owner corporations were involved in the setting of prices and prices were only charged on a cost recovery basis. All services are charged monthly with settlement within 31 days. Total purchases (exclusive of GST) and amounts payable were:

	30 Jun 10 $'000	30 Jun 09 $'000
Service Fees	3,258	295
Reimbursement of other costs	626	-
Accounts Payable	509	676

16. Related Party Disclosures (continued)

16.3 Transactions with Other Related Parties (continued)

The Corporation is owned by nine Councils in north-western Tasmania as detailed in Note 19. The Councils make payments to the Corporation for water and sewerage services and other miscellaneous services. Transactions are on an arm's length basis in the normal course of business and on commercial terms and conditions.

Sales for the year ended 30 June 2010	Water & Sewerage Sales $'000	Other Services $'000	Amount Receivable as at 30 Jun 10 $'000
Burnie City Council	192	126	56
Central Coast Council	60	90	8
Circular Head Council	7	-	-
Devonport City Council	66	41	44
Kentish Council	-	-	-
King Island Council	19	-	-
Latrobe Council	60	28	3
Waratah-Wynyard Council	101	-	-
West Coast Council	73	6	-

Sales for the period ended 30 June 2009	Water & Sewerage Sales $'000	Other Services $'000	Amount Receivable as at 30 Jun 09 $'000
Burnie City Council	-	-	-
Central Coast Council	-	-	-
Circular Head Council	-	-	-
Devonport City Council	-	-	-
Kentish Council	-	-	-
King Island Council	-	-	-
Latrobe Council	-	-	-
Waratah-Wynyard Council	-	-	-
West Coast Council	-	-	-

The Corporation makes payments to the Councils for rates, community service obligation contributions and other miscellaneous services. Transactions are on an arm's length basis in the normal course of business and on commercial terms and conditions.

Purchases for the year ended 30 June 2010	Council Rates $'000	Other Council Services $'000	Amount Payable as at 30 Jun 10 $'000
Burnie City Council	-	106	-
Central Coast Council	24	291	1
Circular Head Council	14	12	-
Devonport City Council	76	211	1
Kentish Council	5	1	-
King Island Council	2	182	-
Latrobe Council	7	11	-
Waratah-Wynyard Council	12	57	17
West Coast Council	7	49	15

16. Related Party Disclosures (continued)

16.3 Transactions with Other Related Parties (continued)

Purchases for the period ended 30 June 2009	Council Rates $'000	Other Council Services $'000	Amount Payable as at 30 Jun 09 $'000
Burnie City Council	-	-	-
Central Coast Council	-	-	-
Circular Head Council	-	-	-
Devonport City Council	-	-	-
Kentish Council	-	-	-
King Island Council	-	-	-
Latrobe Council	-	-	-
Waratah-Wynyard Council	-	-	-
West Coast Council	-	-	-

17. Notes to the Statement of Cash Flows

The Corporation did not have any cash transactions prior to 1 July 2009 with all expenditure incurred by the Corporation funded by an associate company, Onstream. Accordingly the Corporation reported no cash flows in the Statement of Cash Flows for the period ended 30 June 2009.

17.1 Reconciliation of Net Cash Flow From Operating Activities to Operating Result

	30 Jun 10 $'000	30 Jun 09 $'000
Net Profit (Loss) before Income Tax Equivalents	1,128	(966)
Add (Less) Non-Cash Items:		
Depreciation and Amortisation Expense	12,129	-
Provision for Doubtful Debts	100	-
Loss (Profit) on Sale of Non-current Assets	32	-
Gifted Assets and Contributions	(1,425)	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(11,660)	(13)
(Increase) Decrease in Stores	(604)	-
(Increase) Decrease in Prepayments	(32)	(3)
Increase (Decrease) in Payables	2,972	971
Increase (Decrease) in Employee Benefits	3,974	11
Operating Assets and Liabilities Contributed by Owners	(2,077)	-
Income Tax Paid	(442)	-
Cash Flows from Operating Activities	4,095	-

17. Notes to the Statement of Cash Flows (continued)

17.2 Reconciliation of Cash and Cash Equivalents

	30 Jun 10 $'000	30 Jun 09 $'000
Cash Management Account with Tascorp	74	-
Cash at Bank and on Hand	1,464	-
Cash as per statement of cash flows	1,538	-

17.3 Credit Facilities

At 30 June the Corporation had access to the following finance facilities.

	30 Jun 10 $'000	30 Jun 09 $'000
Master Loan Borrowing Limit - Tascorp		
Facility	100,000	-
Less used / committed	78,555	-
Balance	21,445	-
Corporate MasterCard		
Facility	150	-
Less used / committed	21	-
Balance	129	-

18. Financial Instruments

18.1 Significant Accounting Policies

The Corporation's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. This note presents information about the Corporations exposure to each of these risks, and the objectives policies and processes for measuring and managing risk.

Details of significant accounting policies and methods adopted in the recognition and measurement with respect to each class of financial assets and liabilities are included under Notes 1.7, 1.9, 1.15 and 1.16.

Categories of financial assets and financial liabilities at balance date were:

	30 Jun 10 $'000	30 Jun 09 $'000
Financial Assets		
Cash and cash equivalents	1,538	-
Loans and Receivables	11,572	12
Financial Liabilities		
Amortised Cost	84,120	1,303

18. Financial Instruments (continued)

18.2 Interest Rate Risk

The objectives of the Corporation's interest rate risk management policy are to contain the potential adverse financial impact from unfavourable movements in interest rates, predominantly associated with interest bearing liabilities, and to capture the potential for reducing costs by management of the Corporation's debt. The Corporation's interest rate risk is managed by setting borrowings with terms and maturity structures which reflect the medium and longer term capital requirements and tariff structures of the Corporation. The aim of interest rate risk management is to minimise the longer term cost of borrowings by limiting the exposure of the Corporation to interest repricing in any one period by adopting debt portfolio maturities and to spread debt between fixed and floating instruments.

The following table details the Corporation's exposure to interest rates risk as at 30 June 2010.

As at 30 June 2010	Variable interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount	Weighted average interest rate
		< 1 year	1 - 5 years	> 5 years			
	$'000	$'000	$'000	$'000	$'000	$'000	
Financial Assets							
Cash at Bank	1,464	-	-	-	-	1,464	4.40%
Cash Management Account	74	-	-	-	-	74	4.50%
Receivables	-	-	-	-	11,572	11,572	-
Total	1,538	-	-	-	11,572	13,110	
Financial Liabilities							
Borrowings - Tascorp	9,249	15,712	29,102	24,492	-	78,555	6.05%
Payables	-	-	-	-	5,565	5,565	-
Total	9,249	15,712	29,102	24,492	5,565	84,120	
Net Financial (Liabilities) Assets	(7,711)	(15,712)	(29,102)	(24,492)	6,007	(71,010)	

As at 30 June 2009	Variable interest rate	Fixed interest rate maturing in:			Non-interest bearing	Total carrying amount	Weighted average interest rate
		< 1 year	1 - 5 years	> 5 years			
	$'000	$'000	$'000	$'000	$'000	$'000	
Financial Assets							
Cash at Bank	-	-	-	-	-	-	0.00%
Cash Management Account	-	-	-	-	-	-	0.00%
Receivables	-	-	-	-	12	12	-
Total	-	-	-	-	12	12	
Financial Liabilities							
Borrowings - Tascorp	-	-	-	-	-	-	0.00%
Payables	-	-	-	-	1,303	1,303	-
Total	-	-	-	-	1,303	1,303	
Net Financial (Liabilities) Assets	-	-	-	-	(1,291)	(1,291)	

18. Financial Instruments (continued)

18.2 Interest Rate Risk

As highlighted above the Corporation's total exposure to variable interest rates at 30 June 2010 was a net liability of $7,711,000 (2009: nil). A change of 1% in interest rates at 30 June would have the following impact on profit after tax and equity.

	Profit after 1% increase 30 Jun 10 $'000	Profit after tax 1% decrease 30 Jun 10 $'000	Profit after tax 1% increase 30 Jun 09 $'000	Profit after tax 1% decrease 30 Jun 09 $'000
Variable Interest Rate Instruments	(54)	54	-	-
Total	(54)	54	-	-

18.3 Credit Risk

Exposure to credit risk arises from the potential default of a counter party, with respect to the Corporation's financial assets. Financial assets include cash and cash equivalents, trade and other receivables. As identified in Note 18.2, the Corporation's maximum exposure to credit risk at reporting date was $13,110,000.

The Corporation's credit risk management policy minimises credit risk through limiting exposure to individual creditworthy counterparties, identifying credit exposure from financial instrument transactions and maintaining capital usage limits. For cash at bank it's the Corporations policy to only deal with Australian banks with high credit ratings.

All receivable balances are monitored on an ongoing basis with the result that the Corporation's exposure to bad debts is not significant. The ageing of the Corporation's receivables, excluding unbilled water and sewerage income, at the reporting date was:

	Gross 30 Jun 10 $'000	Impaired 30 Jun 10 $'000	Gross 30 Jun 09 $'000	Impaired 30 Jun 09 $'000
Not past due	9,229	-	12	-
Past due 0-30 days	414	-	-	-
Past due 31-90 days	168	-	-	-
More than 90 days	27	100	-	-
Total	9,838	100	12	-

18.4 Liquidity Risk

Liquidity Risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecasts and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

18. Financial Instruments (continued)

18.4 Liquidity Risk (continued)

The following table identifies the contractual maturities on rollover of financial liabilities at reporting date:

As at 30 June 2010	3 months or less $'000	3 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000	> 5 years $'000
Borrowings - Tascorp	22,961	2,000	11,602	17,500	24,492
Payables	5,565	-	-	-	-
Total	28,526	2,000	11,602	17,500	24,492

As at 30 June 2009	3 months or less $'000	3 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000	> 5 years $'000
Borrowings - Tascorp	-	-	-	-	-
Payables	1,303	-	-	-	-
Total	1,303	-	-	-	-

18.5 Foreign Exchange Risk

The Corporation is exposed to an insignificant foreign currency risk relating to purchases of supplies and consumables from overseas. While there is a limited amount of purchases denominated in foreign currencies the risk is further reduced by a short term time frame between commitment and settlement. Should a significant foreign currency exposure arise the Corporation is authorised to enter into a derivative instrument to limit the effect of foreign currency movements. The Corporation did not enter into any derivative instruments during the year.

18.6 Net Fair Value

At balance date the Corporation did not hold any financial instruments which have been measured at fair value and recognised on the statement of financial position. There are no financial instruments to report in the fair value hierarchy for 30 June 2010 (2009: Nil). The Corporation has not disclosed a movement schedule for level three items in the hierarchy as there have been no transactions for the year ended 30 June 2010 (2009: Nil). The fair value of financial assets and financial liabilities at year end were:

Category	Total carrying amount per the statement of financial position		Aggregate net fair value	
	30 Jun 10 $'000	30 Jun 09 $'000	30 Jun 10 $'000	30 Jun 09 $'000
Financial Assets				
Cash at Bank	1,464	-	1,464	-
Cash Management Account	74	-	74	-
Receivables	11,572	12	11,572	12
Total	13,110	12	13,110	12
Financial Liabilities				
Borrowings	78,555	-	81,272	-
Payables	5,565	1,303	5,565	1,303
Total	84,120	1,303	86,837	1,303

The methods and assumptions used to determine these net fair values of the financial assets and liabilities are as follows:

Cash, cash management and term deposits – the carrying amount due to the short-term nature of the instrument;

Receivables, trade creditors and accruals – the carrying amount approximates fair value;

Borrowings – are carried at amortised cost which is different to net fair value due to market rate sensitivity of the debt portfolio as at 30 June 2010. Borrowings held until maturity are paid at the carrying amount.

18. Financial Instruments (continued)

18.7 Capital Management Policy

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern, so that it can continue to provide appropriate returns for its voting shareholders and benefits for the community within its area of operations. This is achieved by maintaining an optimal capital structure that aims to minimise or reduce the cost of capital, whilst at the same time ensuring the Corporation's operations and capital works objectives are achieved.

This is achieved through the monitoring of key financial ratios, in particular ensuring the Corporation's debt levels enable the continuation of a target gearing ratio of less than 40 per cent borrowings. The borrowings to total capital ratios were as follows:

	30 Jun 10 $'000	30 Jun 09 $'000
Borrowings	78,555	-
Equity	324,818	-
Total debt to total equity ratio	24%	0%

19. Controlling Entities

The Corporation operates as an entity under the *Corporations Act 2001 (Cth)* and in accordance with the *Water and Sewerage Corporations Act 2008 (WSCA)* and the *Water and Sewerage Industry Act 2008 (WSIA)*. Cradle Mountain Water is owned by the following nine councils in North-Western Tasmania: Burnie City Council, Central Coast Council, Circular Head Council, Devonport City Council, Kentish Council, King Island Council, Latrobe Council, Waratah-Wynyard Council and West Coast Council.

20. Investment in Associate

Investments in Associates are accounted for using the equity method, in accordance with AASB 128 and are initially recognised at cost.

The Corporation's share of profits or losses of the Associate is recognised in its income statement, with an equivalent adjustment to the carrying value of the investment. The Corporation's share of movements in the Associate's equity that has not been recognised in the Associate's profit or loss is recognised directly in equity.

On 9 December 2008 the Corporation was issued one of three shares in Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd, trading as Onstream. The other two shares are owned by Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd, trading as Southern Water and Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd, trading as Ben Lomond Water. All ordinary shares shall rank pari passu in all respects, except for the dividend rights attaching to the shares, which are determined by the proportion of sales by Onstream to each owner. The Corporation's share of Onstream's profit for the year is also determined on this basis

Onstream provides various services to all three owners including information technology, payroll, accounts payable, billing and revenue collection. For details on the costs of these services, refer Note 16.3.

The following table shows summarised financial information for Onstream, together with a reconciliation of movements in the carrying amount of the Corporation's investment. Onstream's figures are for the same year end date as the Corporation's accounts.

20. Investment in Associate (continued)

Summarised financial information of Onstream	30 Jun 10 $'000	30 Jun 09 $'000
Revenue	15,120	1,678
Profit (loss) before income tax	31	-
Income tax equivalents (expense) benefit	36	-
Profit (loss) after income tax	67	-
Corporation's share of profit (loss) before tax	8	-
Corporation's share of income tax equivalents expense	8	-
Corporation's share of profit (loss) after tax	16	-
Corporation's share of other comprehensive income (loss) after tax	(2)	-
Corporation's share of total comprehensive income (loss) after tax	14	-
Assets	10,604	4,702
Liabilities	(10,546)	(4,702)
Net Assets	58	-
Reconciliation of carrying amount of investment		
Carrying amount at beginning of the year	-	-
Share of surplus (deficit) for the year	14	-
Carrying amount at end of the year	14	-

21. Transfer of assets and liabilities from owners

On 1 July 2009 most water and sewerage related assets, rights, borrowings and employee entitlements of Cradle Coast Water and the nine owner Councils listed in Note 19 were transferred to the Corporation. The valuation basis for the transfers were, assets initially at book value and subsequently amended to fair value based on future income streams, borrowings and short term employee entitlements were at cost and long term employee entitlements at present value. The amount of net assets transferred to the Corporation is $325 million, as detailed below. This amount was recognised as contributed equity (refer Note 10.2).

	$'000
Cash	12,542
Property, Plant & Equipment	397,064
Inventories	663
Net Other Assets	231
Borrowings	(75,121)
Employee Provisions	(3,734)
Net Deferred Tax Liability	(3,714)
Payables	(2,823)
	325,108

22. Subsequent Events

There were no subsequent events at the time of finalising the financial report.

Ben Lomond Water

ABN 13 133 655 062

36–42 Charles Street, Launceston

PO Box 745, Launceston TAS 7250

Phone: (03) 6336 2511

Fax: (03) 6336 2567

Email: enquiries@blwater.com.au

Cradle Mountain Water

ABN 90 133 655 008

162 Pumping Station Road, Forth

PO Box 3147DC, Ulverstone TAS 7315

Phone: (03) 6498 7900

Fax: (03) 6498 7935

Email: enquiries@cmwater.com.au

Southern Water

ABN 65 133 654 976

Level 3, 17 Morrison Street, Hobart

PO Box 1060, Glenorchy TAS 7010

Phone: (03) 6233 8733

Fax: (03) 6273 9205

Email: info@southernwatertas.com.au

Onstream

ABN 65 133 654 912

Level 13, 110 Collins Street, Hobart

PO Box 188, Launceston TAS 7250

Phone: 1300 808 366

Fax: (03) 6236 5699

Email: onstream@onstream.com.au

Registered Office for all Corporations

Level 13, 110 Collins Street, Hobart TAS 7250

PO Box 188, Launceston TAS 7250

Phone: 1300 808 366

Fax: (03) 6236 5699

Email: onstream@onstream.com.au

Cover photo Peter Whyte