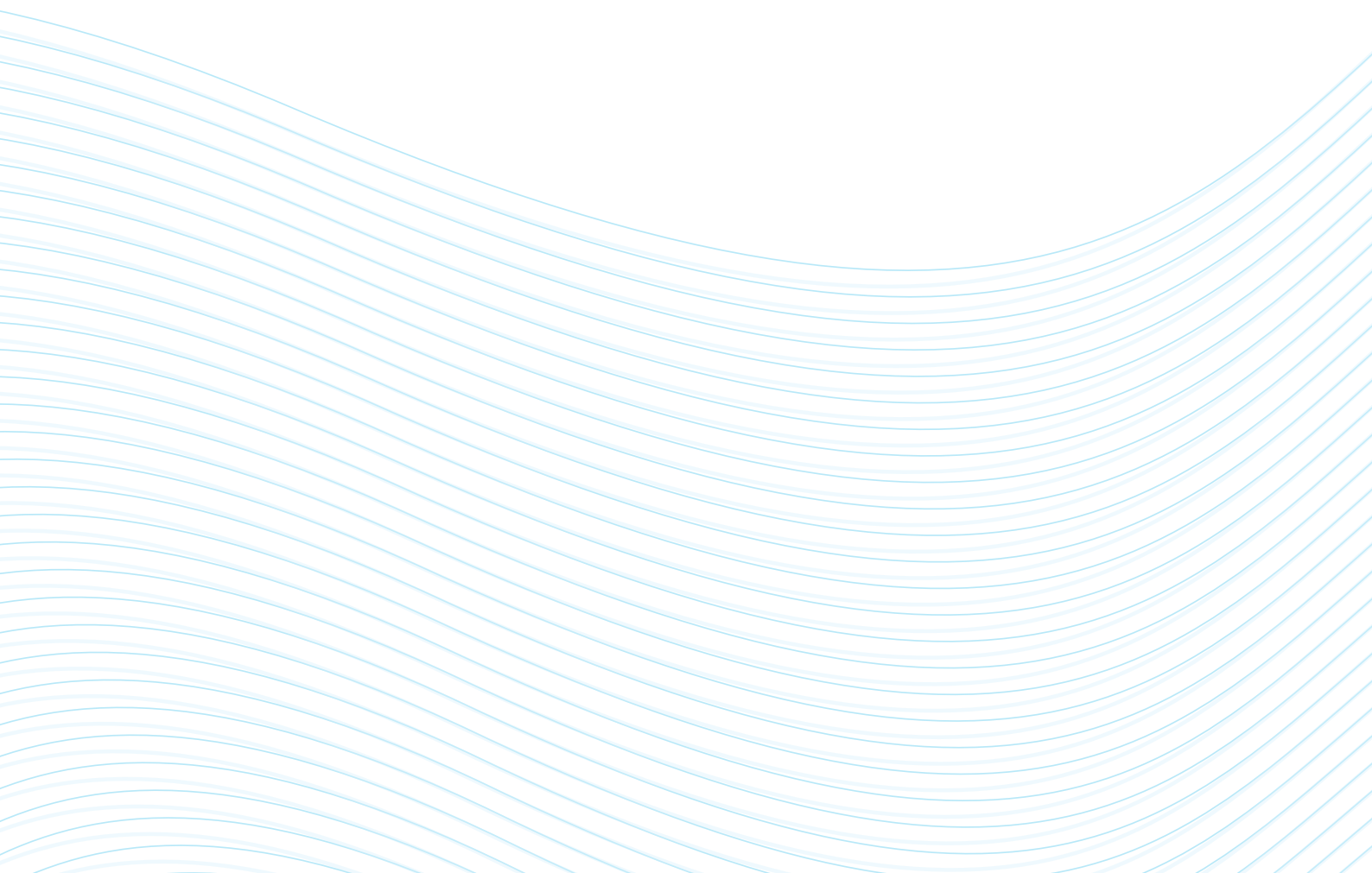


Annual Report 2006



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ACTEW AT A GLANCE

A decorative horizontal band featuring a series of light blue, wavy lines that create a sense of motion and depth. The lines are more densely packed on the left and gradually become more sparse towards the right.

1

ACTEW Corporation Limited (ACTEW) is a company wholly owned by the ACT Government and has assets and investments in water, wastewater, electricity, gas and telecommunications.

ACTEW was established on 1 July 1995 and has reporting and compliance obligations under the *Corporations Act 2001* and other legislation.

ACTEW owns the water and wastewater business and assets in the ACT and is a 50 per cent owner of ActewAGL, a multi-utility provider of electricity and gas services, and operator of the water and wastewater business. ActewAGL operates and maintains the water and wastewater networks under the Utilities Management Agreement with ACTEW.

The Corporation also holds a 24.9 per cent interest in TransACT Communications Pty Limited, a broadband and telecommunications company.

ACTEW has three wholly owned subsidiary companies: ACTEW Retail Limited and ACTEW Distribution Limited which are ACTEW's partnership companies in ActewAGL; and ACTEW China Pty Limited which holds business investments in the Peoples' Republic of China. ACTEW Distribution Limited is a joint owner of Ecowise Environmental Pty Limited.

DIRECTORS AT 30 JUNE 2006

Mr James G Service AO (Chairman)
Mr Michael B Easson AM (Deputy Chairman)
Mr Kevin L Neil
Mr Michael J Costello AO
Mr Edward W Mathews PSM
Mrs Elizabeth A Whitelaw
Ms Barbara M Byrne OAM

SECRETARY

Ms Michele Norris

PRINCIPAL REGISTERED OFFICE

Level 9 ActewAGL House, 221 London Circuit
CANBERRA ACT 2601
Postal address: GPO Box 366, Canberra ACT 2601
Telephone: (02) 6248 3111 | Facsimile: (02) 6248 3567
Website: www.actew.com.au

AUDITOR

Auditor-General of the Australian Capital Territory

SOLICITORS

Mallesons Stephen Jaques
Minter Ellison

BANKERS

Westpac Banking Corporation
Reserve Bank of Australia

ACN 069 381 960
ABN 86 069 381 960

**CHAIRMAN
AND MANAGING
DIRECTOR'S MESSAGE**

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2



WATER SUPPLY AND STRATEGY

The year has seen the results of major water supply planning processes and project delivery come to fruition for ACTEW.

ACTEW has continued to respond well to the recent ongoing climatic extremities. We adapted our water supply planning processes to take into account climate changes and variability and the impacts on water supply security to the ACT and region. We looked for innovative and efficient means to meet the challenges of a changed climate and continued to plan for the future. Canberra is at the forefront of water supply planning having made the step to account for climate change in its planning. This has proved to be a prudent step in the face of the continuing drought.

The Cotter reservoir has become an important part of our water supply. The new management plan that the ACT Government has released, highlights and supports the need to manage this catchment to protect water quality that will further guarantee the use of this valuable resource.

Some of the major achievements for ACTEW this year include:

- the first stage of the Cotter to Googong Bulk Transfer Scheme became operational in November 2005. The transfer scheme delivered more than 8 GL of water into Googong reservoir. It is expected to deliver about 12 GL per year when operational for a full year.
- further planning work undertaken on accessing water from the Murrumbidgee River by extending the transfer scheme and accessing about 12 GL per year of extra water and securing supply till 2023. ACTEW advised the ACT Government on the outcomes and is ready to implement this work.



- use of more than 2 GL of water from the Cotter reservoir for supply to the city and transfer to Googong Dam. Further work on the pump station at Cotter will increase the ability to use this resource in the future.
- introduction of Permanent Water Conservation Measures in March 2006. These measures are expected to deliver about 8 per cent reduction in per capita water use and will assist the ACT Government in achieving their targets in *Think water, act water*.

Combined storage levels of water at 30 June 2006 were 50.6 per cent (2005: 44.7 per cent).

ACTEW continues to work with the ACT Government to achieve a satisfactory ACT cap for the Murray-Darling Basin and an integrated regional approach to ACT/NSW cross border water supply.

We are confident that the strategies in place and projects carried out will provide the ACT with a secure supply of water into the future.

FINANCIAL PERFORMANCE, POSITION AND CASH FLOW

ACTEW recorded a strong profit after tax of \$60.5m in 2005–06. This was a decrease of \$11.7m compared to 2004–05 due to a prior year abnormal tax variance. Factors affecting the profit include:

- revenue was up \$15.4m mainly as a result of an increase in water consumption plus higher regulated prices of water and wastewater services;
- operational costs increased by \$10.7m mainly as a result of increased water costs (catchment remediation) and an increase in the water abstraction charge from higher consumption;
- borrowing costs increased by \$1.8m; and
- income tax expense increased by \$14.5m mainly as a result of prior year tax adjustments upon entering the tax consolidation regime.

Operational cash flows were \$13m up on last year resulting from increased receipts from higher water and wastewater revenue. ACTEW drew down \$25m in loan funds mainly to fund expenditure for the Cotter to Googong Bulk Transfer (CGBT) and catchment remediation projects. Liquids increased to \$28.8m at 30 June 2006 (2005: \$13.5m) mainly as a result of the new borrowing.

Dividends paid to the ACT Government during the year were \$68.3m (2005: \$71.5m) and income tax equivalent payments totalled \$11.6m (2005: \$14.1m).

ACTEW remains in a relatively strong financial position with a gearing level of 32 per cent. It is expected that this level of gearing will increase in future to finance capital expenditure to secure the water supply.

ActewAGL

The ActewAGL investment continues to be a very profitable investment for ACTEW with joint venture income of \$52.7m in line with prior year despite the increased levels of competition in the retail market.

Cash distributions from ACTEW's 50 per cent investment in the ActewAGL joint venture were \$45.0m during 2005–06 (2005: \$48.5m).

TransACT

ACTEW holds a 24.9 per cent interest in the broadband and telecommunications company TransACT Communications Pty Ltd (TransACT). TransACT entered into an outsourcing partnership with ActewAGL in February 2004 which has resulted in strong growth. ACTEW continues to have confidence in TransACT despite the highly competitive environment in which it operates.

AUDIT QUALIFICATION

The Auditor-General's qualification to the accounts is discussed in the Directors' Report on page 46.

BOARD AND STAFF OF ACTEW

During the year the ACTEW Board and staff continued to contribute magnificently to the challenges we continue to face. Their dedication and hard work is greatly appreciated.



Michael Easson AM
Deputy Chairman



Michael Costello AO
Managing Director

OUR BUSINESS

A decorative horizontal band featuring a pattern of light blue wavy lines on a darker blue background. A large white number '3' is positioned on the right side of this band.

3

Mission, stakeholders and values

OUR MISSION

- Manage our assets to maximise the efficiency, reliability and sustainability of water and wastewater services to the ACT and Region.
- Achieve a satisfactory return on our water, wastewater, energy and communication investments.
- Investigate opportunities for the expansion of our business into related and complementary businesses with acceptable risk and returns.

OUR STAKEHOLDERS

- Our owners are entitled to a satisfactory and sustainable commercial return on their investment.
- The ACT community will be supported through ACTEW's sponsorships, participation and involvement.
- Our customers are entitled to services that are reliable, efficient, cost effective and sustainable.
- Our professional staff to be provided a challenging, rewarding and safe workplace environment in achievement of our objectives.

OUR VALUES

- Maintain our high standards of probity and governance.
- Act fairly and professionally with our stakeholders and business partners.
- Operate in a commercial manner mindful of our public accountabilities.

BOARD OF DIRECTORS



James G Service AO, FCPA, FCIS – Chairman

Jim Service was appointed a Director and Chairman of ACTEW on 30 June 1995 and is Deputy Chairman of the ActewAGL Joint Venture Board. He is Chairman of Tower Software Engineering Pty Limited and TransACT Communications Pty Limited. Mr Service is Deputy Chairman of Australand Property Group and a Director of Challenger Financial Services Group, CapitaMall Trust Management Limited (Singapore) and Executive Chairman of the J G Service Pty Limited Group. His community involvements include Chairman of the ACT Salvation Army Advisory Board and a Trustee of the CFMEU Children's Healthcare Trust. He is an Adjunct Professor of the National Institute for Governance and was the 2001 Canberra Citizen of the Year.



Michael B Easson AM, BA (Hons), FAICD – Deputy Chairman

Michael Easson is Chairman of the EG Property Group and a business consultant to Allens Arthur Robinson. Mr Easson is a Director of the Macquarie Infrastructure Group, ING Real Estate Group, Stadium Australia Management Limited and a Member of the ActewAGL Joint Venture Board. He has been a Director of ACTEW since 11 July 1995 and Deputy Chairman since 29 May 1996. Mr Easson is Chair of the ACTEW Audit and Risk Management Committee.



Kevin L Neil MAICD – Director

Kevin Neil was appointed a Director of ACTEW on 6 December 2000. Mr Neil is a Member of the ACTEW Audit and Risk Management Committee. He is a Director of Rokbard Pty Limited and a Member of the Australian Institute of Company Directors.



Michael J Costello AO, BA, LLB – Managing Director

Michael Costello is the Managing Director of ACTEW. He is Chairman of Ecowise Environmental Pty Limited and a Member of the ActewAGL Joint Venture Board. Mr Costello was previously Deputy-Managing Director of the Australian Stock Exchange and a Director of Export Finance Insurance Corporation and the Australian Trade Commission. He was Chief of Staff to both the Opposition Leader, the Hon Kim Beazley MP and the former Minister for Foreign Affairs, the Hon Bill Hayden MP. Mr Costello was Secretary of the Department of Foreign Affairs and Trade and the Department of Industrial Relations. Mr Costello has held a number of diplomatic posts including Ambassador to the United Nations. He received an Order of Australia (AO) in 1996 for international relations. Mr Costello was appointed to the ACTEW Board on 14 August 2002.



Edward (Ted) W Mathews PSM, BA – Director

Ted Mathews had twenty years experience at senior executive level with the Commonwealth Public Service including as Manager of Department of Finance Government Business Enterprise Reform Program (1986–1990), Head of the Asset Sales Task Force (1992–1993) and Head of the Commonwealth Electricity and Gas Reform Task Force (1993–1997). From 1997 to 2001 Mr Mathews was engaged by PricewaterhouseCoopers as an adviser on energy market policy reforms, regulation and access arrangements. He was also a member of the team providing governance and probity advice. In 2002 Mr Mathews assisted the Chairman of the ACT Commission of Audit in reviewing ACT finances and a number of government business enterprises. He was appointed a Director of ACTEW on 14 August 2002. Mr Mathews is a Member of the ACTEW Audit and Risk Management Committee.



Elizabeth A Whitelaw BA, LLB – Director

Elizabeth Whitelaw is a senior partner at Minter Ellison Lawyers. She leads the firm's Canberra Infrastructure Team. Mrs Whitelaw has advised both government and private sector clients on acquisitions, sales, development and construction projects throughout Australia. She has held a number of positions including Chairperson of the Canberra Community and Expert Reference Group (Bush Fire Recovery Task Force), a Member of the ACT Business Canberra Advisory Board, Chairperson of the Canberra Business Council and an Honorary Ambassador for Canberra. In 1998 Mrs Whitelaw was the recipient of the Telstra ACT Business Woman of the Year Award for the private sector category for businesses with over 100 employees. She has also acted as Chairperson of the ACT Business Advisory and Regulatory Review Team, has been a member of the Salvation Army Advisory Board and the ACT Representative to the Constitutional Centenary Council. Mrs Whitelaw was appointed to the ACTEW Board on 10 December 2003.



Barbara M Byrne OAM, FAICD – Director

Barbara Byrne retired from the Commonwealth Public Service after thirty-eight years. For fifteen years she worked in a voluntary capacity on various boards of management in the club industry and with non government community organisations. She retired from the Board of the Canberra Labor Club Group after thirteen years, the last seven of which she was President. Ms Byrne is currently on the Regional Advisory Boards of ArtSound FM and Canberra AFL. She is Patron of Hockey ACT and Weston Creek Men's Bowling Club. She was Vice President for several years and is a Life Member of Volunteering ACT. In 2002 after serving with ClubsACT as a Director and Vice President, Ms Byrne was awarded the Outstanding Service to the Club Industry Award for Excellence. In 2003 she was a recipient of the Centenary Medal in recognition of her years of voluntary work in the community. Ms Byrne was appointed an Honorary Ambassador for Canberra in 2004 in recognition of her personal contribution in assisting Canberra develop a significant business base. In 2006 Ms Byrne received a Lifetime Achievement Award and in June 2006 was awarded an Order of Australia Medal in the Queen's Birthday Honours List for her work in the ACT in business, sporting and cultural areas. Ms Byrne was appointed a Director of ACTEW on 22 January 2004.



CORPORATE GOVERNANCE

The Board

A number of statutes and the Constitution of ACTEW govern the activities of the Company. ACTEW's Board comprises seven Directors: one Executive Director and six Non-Executive Directors who are appointed by the Voting Shareholders, the Chief Minister and Deputy Chief Minister of the ACT. Profiles of the Directors can be found on page 10.

Procedures for the appointment of Directors are outlined in the *Territory Owned Corporations Act 1990* and the Company's Constitution.

The Board met ten times during the year. Details of Directors' attendance at the Board meetings are set out on page 44.

ACTEW has agreed business goals with the Voting Shareholders. These goals are outlined in the Statement of Corporate Intent, which is provided annually to the Voting Shareholders and tabled in the ACT Legislative Assembly. The 2005–06 Statement of Corporate Intent was tabled in the Assembly on 25 August 2005. Quarterly reports on financial and operational matters were provided to the Voting Shareholders during the year.

Audit and Risk Management

The Audit and Risk Management Committee met three times during the year. Details of Directors' attendance at the meetings are set out on page 44.

The Committee assists the Board fulfil its legal responsibilities and strengthen the objectivity and credibility of financial reporting, the management of its business risks, the independence of the audit functions and the effectiveness of internal control systems.

ACTEW's internal audit activities are coordinated by ActewAGL's Audit Services. PricewaterhouseCoopers provides external audit services to the Corporation. Other independent auditors are engaged as appropriate. The Corporation's Auditor is the ACT Auditor-General.

The Committee is governed by the Audit and Risk Management Committee Charter. During the year the Committee and the ACTEW Board reviewed and re-endorsed the Committee's Charter.

Three internal audit reviews were undertaken during the year: Water Restrictions Management, Legal and Regulatory Compliance and Utilities Management Agreement. The Water Restrictions Management audit found no significant incidents of non compliance with the water restriction scheme regulations. There were six agreed actions and implementation is proceeding. The Legal and Regulatory Compliance audit found compliance requirements were met and assurances given to the ACTEW Board were complete and accurate. Implementation of the six agreed actions is progressing. The report of the Utilities Management Agreement audit was issued in June 2006 and is under consideration.

The ACTEW management team, assisted by an external consultant, carried out a complete review of the ACTEW risk register during the year. The review encompassed the impact of the Utilities Management Agreement and the water supply and strategy work undertaken to address ACTEW's risk exposures in a number of key areas. The revised risk register was submitted to the August 2005 meeting of the Audit and Risk Management Committee and the September 2005 meeting of the ACTEW Board.

In July 2005 the ACT Auditor-General presented an audit report titled "Ecologically Sustainable Development". The audit covered thirteen ACT Government agencies including ACTEW. The Report made seven recommendations and noted a number of best practices and processes within ACTEW. None of the recommendations related specifically to ACTEW.

Remuneration

The Voting Shareholders determine the terms of appointment and remuneration paid to Directors.

The entire ACTEW Board meets as the Remuneration Committee. The Committee's objective is to set the remuneration and terms and conditions for the Managing Director and to consult with the Managing Director on the annual review of performance appraisals and remuneration of Corporation staff. The Committee also liaises with the Voting Shareholders and ACT Remuneration Tribunal on matters relating to Directors' remuneration.

The Committee met on one occasion during the year. Details of Directors' attendance at the meeting are set out on page 44.

Code of Conduct

The ACTEW Code of Conduct aims to establish a culture which respects and values each individual's contribution, promotes and rewards creativity and initiative, eliminates discrimination, and encourages maximum productivity. In order to achieve these aims, employees are required to abide by the Code of Conduct.

The Code was reviewed and updated during the year. There were no breaches of the Code of Conduct by ACTEW staff during the year.

ORGANISATIONAL OVERVIEW

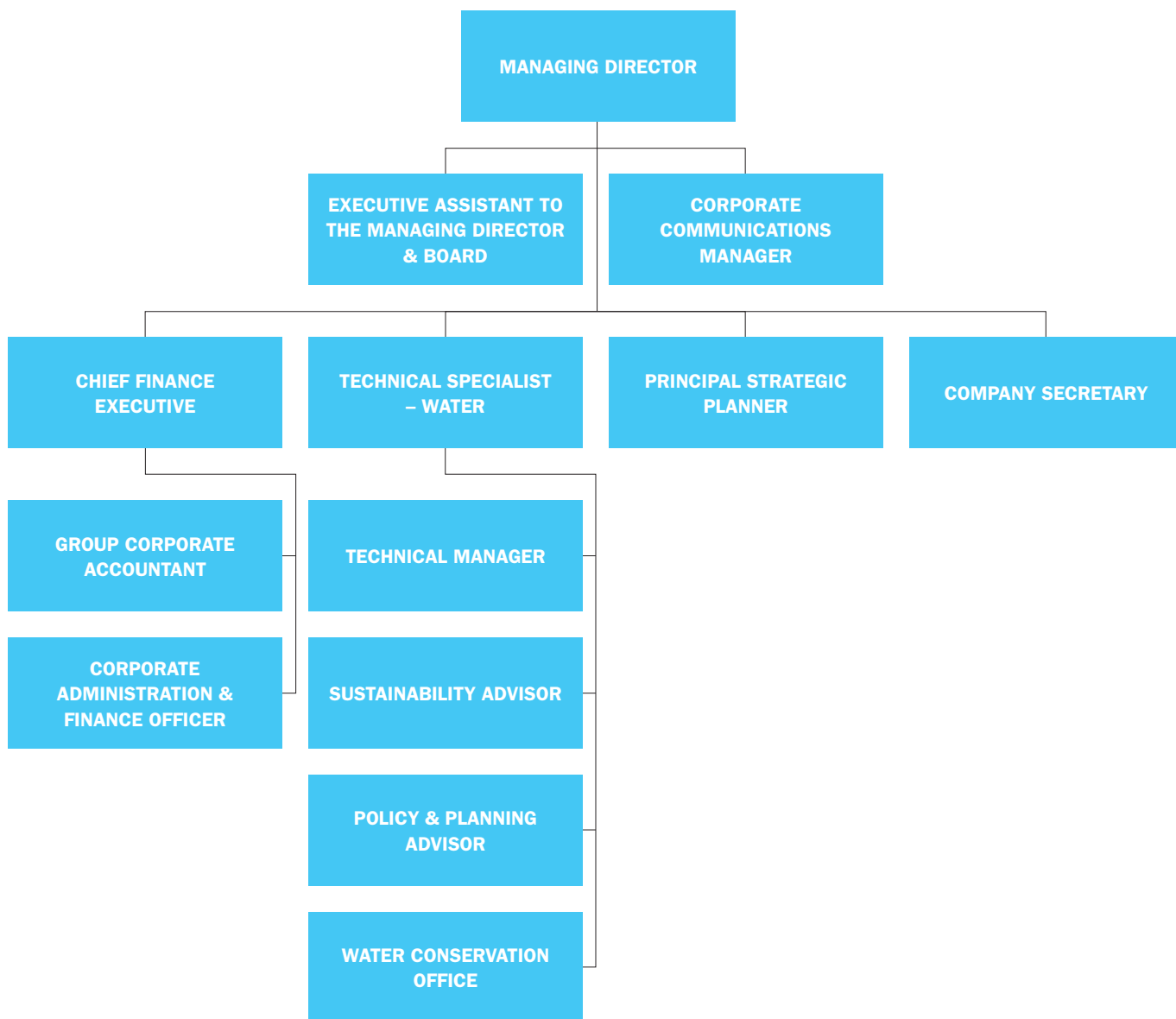
At the end of 2005-06 there were a total of 18 staff employed by ACTEW.

ACTEW is a small public company with very large responsibilities and assets. The combination of small size, large and diverse assets and high levels of responsibility and accountability for performance requires particular qualities in its personnel.



ACTEW STAFF HAVE THE TECHNICAL KNOWLEDGE, SPECIALIST SKILLS AND EXPERIENCE TO UNDERSTAND OUR CORE BUSINESS, TO MONITOR AND REPORT ACTIVITIES, TO ENSURE OPERATIONAL AND FINANCIAL PERFORMANCE, AND TO MEET OUR GOVERNANCE, LEGAL AND REGULATORY REQUIREMENTS.

ORGANISATION STRUCTURE



EXECUTIVE TEAM



Michael Costello AO, BA LLB
– **Managing Director**

Mr Costello was appointed Managing Director in May 2003 and is responsible for the corporate management of the company. He is a Member of the ActewAGL Joint Venture Board and Chairman of Ecowise Environmental Pty Ltd, ACTEW China Pty Limited, ACTEW Distribution Limited and ACTEW Retail Limited.



Aspi Baria C Chem
– **Technical Specialist Water**

Mr Baria commenced with ACTEW in 1989. He is responsible for management of the Utilities Management Agreement for the operation and maintenance of the water and wastewater business, water planning, regulatory matters, capital works expenditure program and licensing and compliance matters. He is a Director of ACTEW Distribution Limited and ACTEW Retail Limited.



Simon Wallace BComm, CPA
– **Acting Chief Finance Executive**

Mr Wallace was appointed Acting Chief Finance Executive in June 2006. He was previously Group Corporate Accountant for ACTEW. Mr Wallace is responsible for finances including planning, budgeting and reporting for the Corporation and subsidiary companies. He is a Director of ACTEW China Pty Limited, ACTEW Distribution Limited and ACTEW Retail Limited.



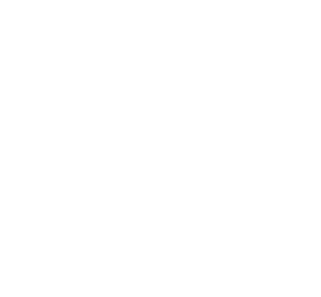
Michele Norris FAICD AFAIM
– **Company Secretary**

Ms Norris commenced with ACTEW in 1999 and was appointed Company Secretary in December 2003. She is responsible for the management and coordination of corporate governance, government liaison, statutory compliance and legal matters for the Corporation and subsidiary companies. Ms Norris is also Company Secretary of ACTEW China Pty Limited, ACTEW Distribution Limited and ACTEW Retail Limited.



Ross Knee MEng (Civil)
– **Principal Strategic Planner**

Mr Knee commenced with ACTEW in 2005. He is responsible for strategic planning and infrastructure development for the water business. This includes water resources, demand and catchment management, research and development, and liaison with relevant government and national organisations.



Mike Luddy BComm

Mr Luddy commenced with ACTEW in November 2000 and was Chief Finance Executive until his unexpected passing in June 2006.

OUR INVESTMENTS

ActewAGL Joint Venture

On 3 October 2000 a joint venture was formed between ACTEW Corporation Limited and The Australian Gas Light Company (AGL). The joint venture, known as ActewAGL, was the first multi-utility operating as a public-private partnership in Australia.

ActewAGL combined ACTEW's network and retail electricity business with AGL's ACT and Queanbeyan network and retail gas business. ACTEW and AGL each hold a 50 per cent interest in the joint venture via subsidiary companies. ACTEW Distribution Limited and ACTEW Retail Limited are the ACTEW subsidiaries involved in the joint venture.

ACTEW retains ownership of the water and wastewater business and assets in the ACT. ActewAGL operates and maintains the water and wastewater networks under a Utilities Management Agreement with ACTEW.

ActewAGL is structured as two partnerships: Distribution and Retail. ActewAGL Distribution is responsible for the network side of the energy business; operates and maintains the water and wastewater networks; operates an ACT based telecommunications network under contract to TransACT Capital Communications Pty Limited; and provides financial, human resource, information technology and legal services to ACTEW. ActewAGL Retail markets electricity and natural gas. It also markets telecommunications services on behalf of TransACT. The retail business is also responsible for customer relationships, contact centres, and billing. Bulk electricity and gas are purchased through AGL.

All ACTEW employees, with the exception of a small number of people who remained with the Corporation, were seconded to the Joint Venture.

The Partnerships Board comprises six members: three appointed by the ACTEW partners and three appointed by the AGL partners. The members of the Board at 30 June 2006 were:

Mr Michael Fraser – Chairman

Mr Jim Service AO – Deputy Chairman

Mr Ross Gersbach

Mr Michael Easson AM

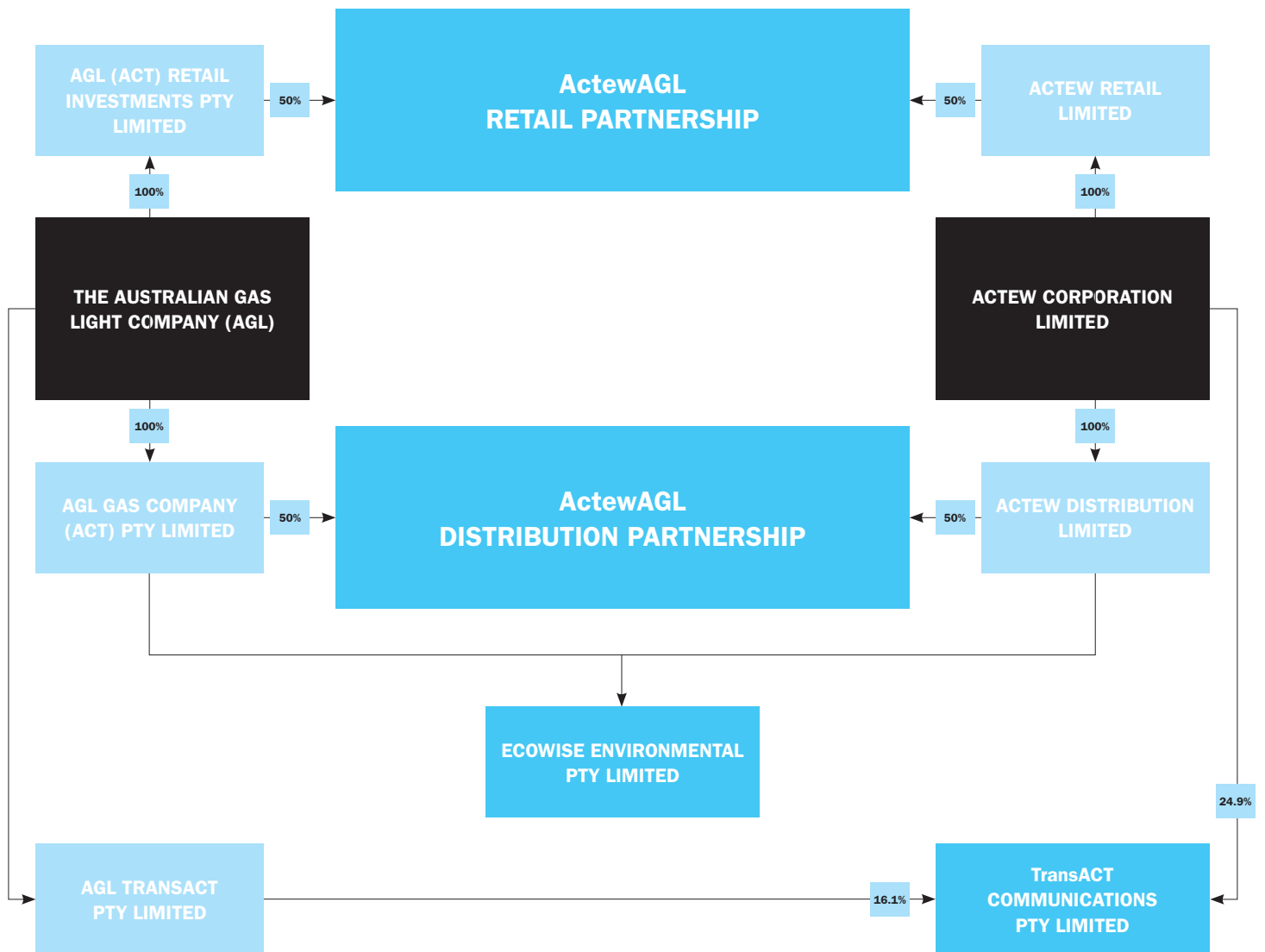
Mr Phil James

Mr Michael Costello AO



ActewAGL operates and maintains the water and wastewater networks on behalf of ACTEW.

JOINT VENTURE STRUCTURE



ActewAGL reported a very successful year with strong financial results. Details can be found in the ActewAGL Annual Report which is available at www.actewagl.com.au from November 2006.

TransACT COMMUNICATIONS PTY LIMITED

TransACT Communications Pty Limited (TransACT) operates a broadband communications network across Canberra. TransACT was officially launched in May 2000. TransACT is governed by an eight person board with directors appointed by the shareholders. ACTEW holds a 24.9 per cent shareholding in the company.

The range of communications services available includes video on demand, permanent high-speed connections to the Internet, free to air and pay television services and mobile and fixed line telephony services.

In February 2004 ActewAGL and TransACT entered into a Management Services Agreement under which ActewAGL operates the day-to-day business of TransACT including finance, administration, marketing, customer service, sales, billing networks and business systems. TransACT employees were seconded to ActewAGL. The objective of the agreement was to improve TransACT's overall performance, efficiency and financial results.

More information on TransACT can be found at www.transact.com.au.

ECOWISE ENVIRONMENTAL PTY LIMITED

Ecowise Environmental Pty Limited (Ecowise) is jointly owned by the ActewAGL Distribution partnership (ACTEW Distribution Limited and AGL Gas Company (ACT) Pty Limited).

Ecowise provides essential environmental monitoring and water resources assessment services including scientific laboratory analysis, environmental data collection and water studies, aquatic ecology, water treatment consulting and geographic information systems for utilities and catchment management. It is a leading and nationally prominent provider of integrated environmental analytical, monitoring and consulting services.

In the past few years Ecowise has expanded its business and operations through acquisitions and now has twenty offices across Australia employing more than 370 staff.

Ecowise operates under a board of six directors appointed by the joint owners.

More information on the operations and achievements of Ecowise during the year can be found in the ActewAGL Annual Report at www.actewagl.com.au or at www.ecowise.com.au from November 2006

LEGISLATIVE FRAMEWORK

Legislation governing the supply of water and wastewater services to the ACT region is outlined below.



YEAR IN REVIEW

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4

SECURING OUR SUPPLY

Cotter to Googong Bulk Transfer

During the year ACTEW implemented the Cotter to Googong Bulk Transfer (CGBT), an innovative way of utilising existing infrastructure to increase the ACT's water supply in the immediate future. The scheme, which stemmed from ACTEW's comprehensive Future Water Options study that was completed in early 2005, commenced operation in late 2005. The scheme increases the ACT's water supply at a much lower cost than a new dam.

More information on this project is available on page 24.

Accessing the Murrumbidgee

In order to secure water supply until at least 2023, the CGBT would need to be supplemented by another measure. ACTEW had previously recommended the transfer of water to the Googong Reservoir from the Murrumbidgee River, at a point near Angle Crossing.

During the development of the CGBT, ACTEW further developed its hydrological, water quality and economic analysis. It is considering the feasibility of a different point of abstraction, at a location near the Cotter pump station. This option would in effect work as an extension to the existing transfer scheme.

ACTEW will make a recommendation as to the best way forward during 2006. With the additional measure, ACTEW can continue to provide security of supply catering for a growing population to 2023 and deferring the need for a new dam.

Future Water Options Project – Annual Review of Assumptions

ACTEW undertook its first annual review of the assumptions used to determine future water supply needs in the Future Water Options project. This forms part of ACTEW's commitment to continue prudent long-term planning for a secure water supply. A report was provided to the ACT Government in July 2006.

As well as using future population growth scenarios, ACTEW's considerations in assessing future supply included projections on:

- climate change and variability;
- impact of bushfires on inflows to reservoirs;
- per person reductions in water use;
- growth in demand through cross border supply;
- environmental flow requirements; and
- acceptability of water restrictions during times of drought.

The report, *Annual Review of Planning Variables for Water Supply and Demand Assessment*, concluded that no significant changes had taken place to impact on ACTEW's recommendations on future water supply that it made in early 2005.

Future reviews will adjust the assumptions appropriately, for example as decisions are made for new developments and to supply regional towns with water.

DROUGHT CONDITIONS EASED IN SPRING 2005 FOLLOWING ABOVE AVERAGE RAINFALL DURING THE WINTER AND EARLY SPRING MONTHS.

WATER STORAGES RECOVERED FROM 45.6 PER CENT IN JULY AND PEAKED AT 67.8 PER CENT IN EARLY DECEMBER. COMBINED STORAGE WAS AT 50.5 PER CENT AT 30 JUNE 2006.

Future Water Options Project – readiness to implement other options

Further work continued on technical aspects of the retained options studied during the Future Water Options project. This will enable ACTEW to be ready to recommend and implement a new water source option should it be needed in the longer term, depending on how the projections underpinning its modelling turn out in reality.

Formulation of a detailed program of work on the retained options will be finalised shortly and work will continue for many years.

Use of the Cotter Reservoir

Water from the Cotter reservoir has provided additional security of supply for Canberra. The refurbishment of two pumps at the Cotter pump station has allowed up to 50ML per day from the reservoir to be supplied on a regular basis during the year.

The Cotter reservoir was re-introduced into Canberra's water supply system following the construction of the Mt Stromlo water treatment plant in late 2004.

Further rehabilitation of the sensitive Cotter pump station to bring its capacity to 100ML per day has been extensively investigated and in June 2006 the ACTEW Board approved the refurbishment.

Rehabilitation work at this site is extremely challenging due to the age of the existing infrastructure and the sensitive nature of the heritage listed pump station. This is expected to take more than a year to complete and will include integrated automation, electrical and controls systems to match current day standards.

Catchment Management

Catchment management is critical for the protection of water supply, water quality and water yield and a key consideration in achieving the goal of providing a long-term, reliable source of water for the ACT and region.

ACTEW representatives participated in catchment management organisations including the Lower Cotter Working Group, Googong Foreshore Committee, the Upper Murrumbidgee Catchment Coordinating Committee and the Water Supply Catchment Management Group.

During the year, regular testing of the quality of the water in all four reservoirs was carried out in accordance with the Australian Drinking Water Guidelines.

Lower Cotter Catchment

The Cotter reservoir is now a significant part of Canberra's water supply with the resumption of its use as part of the CGBT.

Essential to ensuring future security of supply is the accelerated remediation of the lower Cotter catchment to reduce turbidity levels in the reservoir. The original remediation program following the 2003 bushfires was expected to take up to nine years, but it became increasingly evident that the poor state of the catchment was having a significant detrimental impact on the quality of water entering the Cotter reservoir.

As a result, ACTEW was compelled to commence remediation work, such as road and drainage works, sediment basins, wetlands, vegetation planting, monitoring and scientific studies. Minimum expenditure of \$11 million is anticipated to achieve significant water quality improvements.

ACTEW also worked closely with Environment ACT in developing the ACT Government's *Lower Cotter Catchment draft Strategic Management Plan 'Clean Water, Healthy Landscapes'*.



The water catchment above Cotter reservoir has been used for recreation and forestry operations in the past. For these reasons the water quality in the reservoir is not as good as water from pristine catchments, such as Bendora and Corin. To manage this, ACTEW installed a de-stratification mixer in the Cotter reservoir to improve water quality, with excellent results. The mixer maintains the water quality in the reservoir at acceptable levels throughout the year.

Projects to assess the impact of the January 2003 bushfires on the Cotter catchment and monitor water quality were completed with a budget of \$1.2m. They involved online and event monitoring, hydrological and hydrodynamic modeling, vegetation recovery and research with the Australian National University to gauge the long-term effects on the catchment.

A new project commenced during the year with the Bushfire Cooperative Research Centre to measure fuel loads and moisture status to facilitate real-time modeling of fire risks.

Corin and Bendora Catchments

ACTEW provided input to the draft Namadgi Management Plan to help ensure activities within the Corin and Bendora catchments were compatible with its water catchment function. The plan is being considered by the ACT Government.

Googong Catchment

ACTEW worked with the ACT, NSW and Federal Governments to commence development of a catchment management plan for the Googong catchment.

Projects being undertaken by ACTEW in the catchment include a pathogen load model, hydrological modeling and bathymetric survey of the Googong reservoir.

DEMAND MANAGEMENT

ACTEW continued to work with the ACT Government to maintain and develop initiatives to reduce water demand. With improved security of supply, the year saw a shift in focus from short-term water restrictions to a continuation of the many sensible water use habits the community had practiced during the early stages of the drought.

On 1 November 2005, ACTEW lifted Stage 2 Water Restrictions and in their place launched a trial of water conservation measures.

On 31 March 2006 the final scheme of Permanent Water Conservation Measures was launched.

More information on the introduction of Permanent Water Conservation Measures is available on page 27.

WORK BEGAN IN 1912 ON CONSTRUCTING THE COTTER DAM, CANBERRA'S ORIGINAL WATER SOURCE. THE COTTER PUMP STATION WAS DESIGNED TO LIFT THE WATER APPROXIMATELY 200 METRES TO A RESERVOIR AT MT STROMLO.

IN 1918 THE KINGSTON POWER STATION SUPPLIED ELECTRICITY TO THE COTTER PUMP STATION FOR THE FIRST TIME AND BOTH ARE NOW HERITAGE LISTED ICONS OF CANBERRA'S ENGINEERING PAST.

THE COTTER RESERVOIR AND PUMP STATION WERE INTEGRAL PARTS OF CANBERRA'S WATER SUPPLY UNTIL THE BENDORA GRAVITY MAIN WAS COMMISSIONED IN 1968. NOW, THE RE-INTRODUCTION OF THE RESERVOIR AND PUMP STATION PROVIDES ADDITIONAL WATER TO HELP SECURE CANBERRA'S SUPPLY.

Feature

SECURING OUR SUPPLY

24

Cotter to Googong Bulk Transfer

"THE WATER TRANSFER PROJECT IS YET ANOTHER WAY TO MAKE BETTER USE OF OUR EXISTING INFRASTRUCTURE, AND IS THE RESULT OF SOME GREAT INNOVATIVE THINKING WITHIN OUR ORGANISATION." MANAGING DIRECTOR MICHAEL COSTELLO.

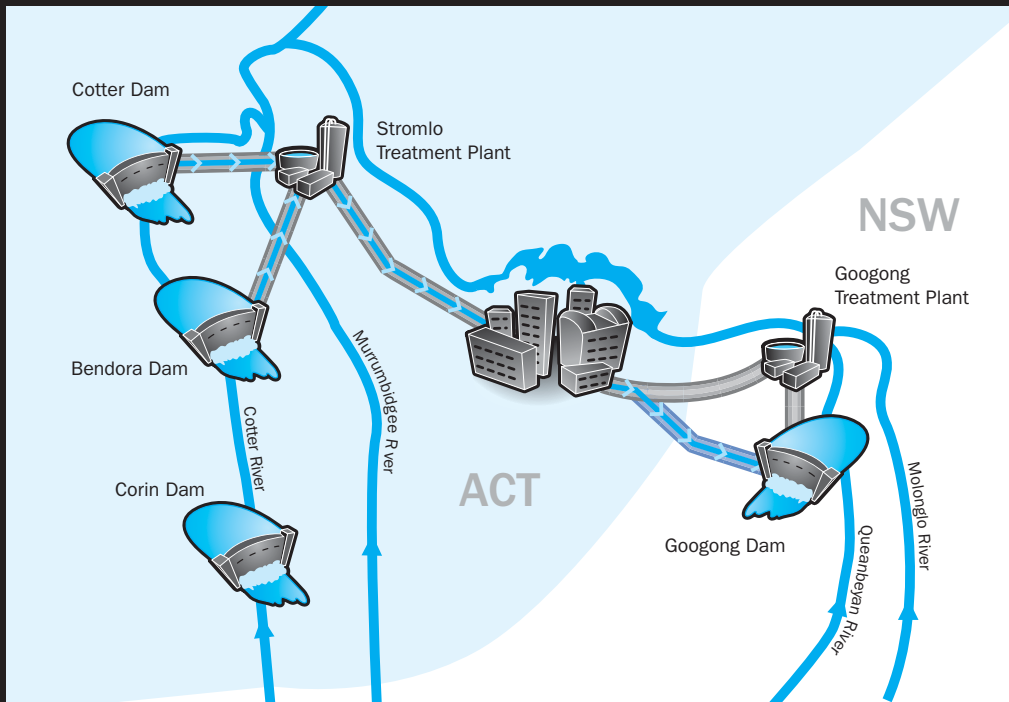


The idea was born during ACTEW's Future Water Options project in 2004–05. It was implemented quickly in 2005 by ActewAGL on behalf of ACTEW and immediately improved Canberra's security of supply. Combined with good winter and spring rains, the knowledge that the scheme would be operational towards the end of the year allowed ACTEW to lift water restrictions in November 2005

The transfer, which involved work at a cost of \$25m, works by drawing water from the reservoirs in the Cotter Catchment, treating it at the Mt Stromlo treatment plant and, after meeting town demand, using the existing water supply distribution network to transfer surplus water to the Googong reservoir, up to 150 megalitres per day.

At the commencement of the transfer in December 2005, the Googong reservoir was at 45.7 per cent capacity and during the year has increased by almost 5 per cent.





Making it work

Although the scheme mainly utilises Canberra’s existing reticulation network, work was required to:

- construct a bypass pipeline around the Googong water treatment plant;
- augment two pumping stations to allow water to be pumped to Googong;
- revise operational procedures to maximise the transfer;
- construct dechlorination facilities at Googong;
- automate the transfer control;
- develop refurbishment options for the Cotter pump station; and
- identify requirements at the Stromlo water treatment plant to allow increased use of water from the Cotter Reservoir.

WATER TRANSFERRED

MONTH	ML
November	11
December	95
January	0
February	15
March	671
April	1,736
May	2,805
June	2,524
TOTAL	7,857

The ability to transfer is maximised during the colder months due to Canberra’s low demand during this period. Traditionally this is also the time when the ACT receives the most rain, also adding to the transfer rate.



Pond built to reduce sediment into the Cotter reservoir

OVERALL DURING THE THREE YEARS IN RESTRICTIONS, THE ACT COMMUNITY SAVED 73 GL OF WATER, WELL OVER A YEAR'S WORTH OF THE CITY'S AVERAGE WATER USE.

Community

Support and Sponsorship

ACTEW provided financial support and in-kind donations to 32 programs, scholarships, events, organisations and charities that support and benefit the ACT community. Recipients included Barnardos, Australian Water Association, Koomarri, ArtSound FM, Australian Red Cross, ANU School of Music, The Smith Family, Cancer Council, St Vincent de Paul Society, Australian Science Festival, Make A Wish Foundation, Canberra Symphony Orchestra, Australian National Botanic Gardens, Salvation Army and Molonglo Catchment Group.

Water Conservation Office

ACTEW is a key participant in the implementation of the ACT Government's long-term water resource strategy *Think water, act water*. As such, it is working to help the community meet the per capita water reduction targets of 13 per cent by 2013 and 25 per cent by 2025.

During the year, ACTEW's Drought Advisory Office was restructured to suit management of Permanent Water Conservation Measures. The Water Conservation Office works to ensure widespread compliance with this mandatory scheme, and provides information and education to members of the community on matters related to saving water.

During the year, the Office received approximately 3,000 telephone calls, processed nearly 1,000 exemption requests and issued six infringement notices.

Feature

OUR NEW NORM

Permanent Water Conservation Measures

IN SUMMARY, THE SCHEME OF MEASURES LIMITS GARDEN WATERING TO THE COOLER PARTS OF THE DAY, BANS HOISING OF HARD SURFACES AND REQUIRES TRIGGER NOZZLES ON HOSES DURING CAR WASHING AND HAND WATERING.

Permanent
WATER CONSERVATION
MEASURES in the ACT



The introduction of Permanent Water Conservation Measures stemmed from the ACT Government's water resource strategy *Think water, act water*.

Following extensive community consultation over the summer months, the final Permanent Water Conservation Measures were introduced on 31 March and are expected to achieve an annual reduction of eight per cent



The Queanbeyan City Council introduced Permanent Water Conservation Measures identical to the Canberra initiative.

Achievements

The four-month trial gave savings well in excess of the targeted savings of 10 per cent expected over these months.

Extensive public consultation during this time, managed by ACTEW in close collaboration with the ACT Government, found that more than 90 per cent of Canberrans surveyed supported the introduction of Permanent Water Conservation Measures.

Water Conservation Officers were active at community events such as Floriade, the Autumn and Spring Home Shows, the Retirement and Lifestyle Expo, and the Royal Canberra Show. The Office continued to educate members of the public about water wise gardening through Irrigation Workshops, with attendance exceeding 450 during the year.

As part of a comprehensive public information campaign associated with Water Restrictions and Permanent Water Conservation Measures, the Office also:

- advertised widely in local media;
- managed a hotline telephone service;
- provided ongoing communication with large water users and relevant industry groups;
- promoted appliance rebates and water audit services available through the ACT Government's Water Efficiency Program; and
- highlighted ACTEW's initiatives at local events and national conferences.

Information on one of ACTEW's water conservation initiative – Grass Roots – which was launched during the year is available on page 34.

Water and Energy Efficiency on Display

In February, ACTEW, ActewAGL and Canberra Investment Corporation launched the Eco-living Exhibition, three state-of-the-art energy and water efficient display homes and gardens at Majura Rise Estate, North Watson.

The exhibition, which consists of three GreenSmart-certified homes each designed by a different local architect, showcases the latest innovations in energy and water conservation. Features include rainwater tanks, greywater treatment systems, photovoltaic electricity generation and thermal mass walls and floors.

The outdoor areas surrounding the homes were professionally landscaped by local garden designers and feature a variety of water-saving devices and techniques.

In July, the exhibition won the Green Living Award for environmental residential design at the 2006 Boral MBA Awards, and one of the three homes won the Innovation Award in the residential category. This home also achieved a nomination for the Master Builders Association House of the Year Award.



The Water Conservation Office helps
Canberrans follow Permanent Water
Conservation Measures



The exhibition had received over 13,000 visitors by mid July. Of the 410 completed questionnaires, over 92 per cent of respondents said they would consider implementing some of the environmental sustainable design features into their own homes and gardens.

Water Industry Roadmap

Throughout the year, the AusIndustry-funded Australian Water Industry Roadmap initiative was disseminated at a number of conferences around Australia.

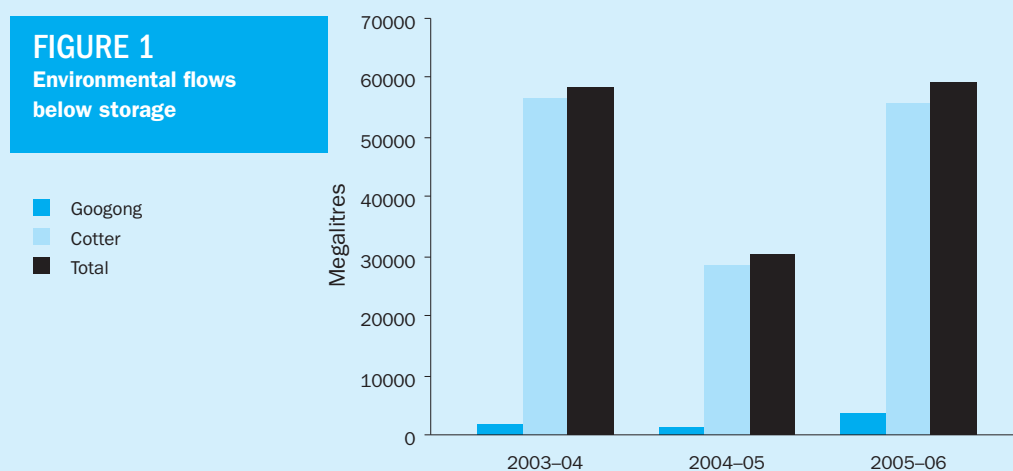
ACTEW had project managed the initiative, which was launched by the Hon. Greg Hunt MP, Federal Parliamentary Secretary to the Minister for Environment and Heritage, and Adjunct Professor Paul Perkins in mid 2005.

The Roadmap sets out a blueprint for action to address the major issues facing the Australian water industry, demonstrating strategic directions for both the rural and urban sectors through best practice case examples.

The project was carried out by Professor Perkins under direction from the Barton Group with assistance from Ecowise, technical support from Gutteridge, Haskins and Davies and the Phillips Group, as well as receiving significant input from a wide range of contributors across Australia.

ENVIRONMENTAL FLOWS

The *Water Resources Act 1999* requires environmental flows to be defined for all water bodies in the ACT. ACTEW releases environmental flows from its water reservoirs in compliance with the *Environmental Flow Guidelines 2006* to protect aquatic ecosystems downstream.



ACTEW commenced releasing flows in December 2005 in accordance with the ACT Government's new *Environmental Flow Guidelines*. This involved reverting back to normal release requirements, following three years of sustained dry weather that had led to an approved reduction in flows.

ACTEW continues to undertake significant monitoring and research to inform future reviews for the *Environmental Flow Guidelines*.

WATER IN URBAN PLANNING

The ACT Government's *Canberra Spatial Plan* proposes that the Molonglo Valley become the next major residential settlement area in the ACT. This area may provide for up to 44,000 people. Accordingly, the ACT Planning and Land Authority (ACTPLA) is carrying out extensive planning, engineering and environmental studies, with a view to development commencing within the next few years.

One such study is an Integrated Urban Water Management Strategy. It will address water supply and wastewater management issues, and will also investigate opportunities for the integration of alternative supply sources such as treated effluent, domestic greywater and harvested stormwater flows. The Strategy will also explore the integration of Water Sensitive Urban Design principles into the planning of the area.

In an effort to ensure the best possible outcome for the area in terms of water management, the study is being jointly funded and managed by ACTPLA and ACTEW. There are many benefits in this joint approach:

- the opportunity to progress innovative water management options at the planning stage of a new urban development front;
- the opportunity to address potential issues early in the planning cycle, thus avoiding possible issues at the development stage; and
- to assist with meeting the sustainability targets as outlined in the ACT Government's water strategy *Think water, act water*.

WATER RECYCLING

In late 2005, ACTEW commissioned a sustainability assessment of reclaimed water options for the ACT. This study looked at a variety of options that would deliver a range of reclaimed water uses and developed a framework for assessing their sustainability outcomes.

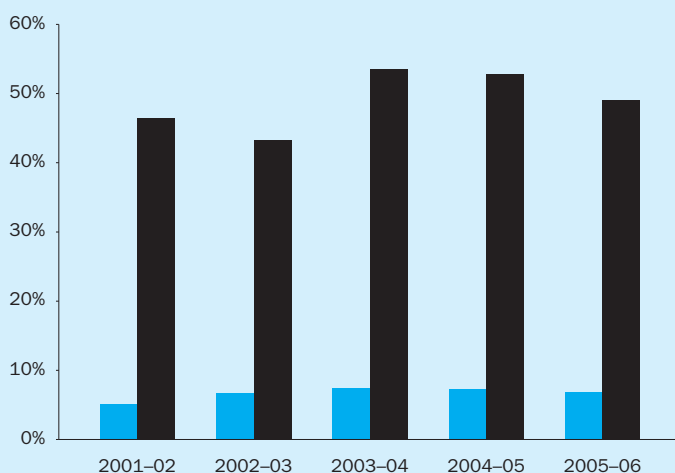
ACTEW assisted both the ACT Government and Commonwealth Parliamentary Services to develop options for reclaimed water use and look for opportunities to gain Commonwealth funding under the National Water Initiative.

ACTEW provided comments on the Draft National Guidelines for Water Recycling, which were released during the year.

ACTEW is building on the knowledge developed in these various studies to best advise the ACT Government on the challenges and opportunities for reclaimed water in the ACT.

FIGURE 2
Water recycled for reuse and release

■ % of wastewater recycled
■ % of water abstracted returned to the river



ASSETS AND INFRASTRUCTURE

ACTEW is committed to continual improvement and protection of its water and wastewater assets through investment in a capital works program. As the contractor to ACTEW, ActewAGL undertakes capital works associated with the water and wastewater assets and infrastructure. \$26.5M was invested in the projects that made up the program this year.

In addition, works to construct a water transfer system from the Cotter catchment to the Googong Reservoir (CGBT) were completed and operational in late 2005 at a cost of \$12.4m. More information on the CGBT project is available on page 24.



Planning work for a mini hydro-generator at the Lower Molonglo Water Quality Control Centre (LMWQCC) was undertaken, with detailed design to be undertaken in late 2006. The project seeks to capture energy from the effluent leaving the wastewater treatment plant and would be the third hydro-generator installed by ACTEW, at a cost of \$1.2m.

The Board approved the commencement of design work for a major augmentation of the secondary treatment facility at LMWQCC. The project, expected to cost approximately \$50m, is to ensure discharges from the wastewater treatment plant continue to recognise the sensitive Murrumbidgee River system, while catering for expected population growth.

Investment continued in the water and wastewater reticulation systems with over \$2m spent rehabilitating sewer mains throughout Canberra and similar expenditure in relation to improvements in the reticulated water system. Additional expenditure is envisaged in years to come as the infrastructure ages.

To cater for growth in Canberra, ACTEW investigated potential sites in Gungahlin for future reservoirs. Preliminary planning work also commenced for water and wastewater services in the Molonglo Valley in conjunction with the ACT Government.

Asset Protection

The Utilities Act 2000 sets out the requirements for the protection and maintenance of utility assets. It is a major role of ActewAGL, on behalf of ACTEW, to ensure the integrity of the network through the monitoring and approval of building activity near ACTEW assets.

To prevent the inadvertent building of structures over or close to these assets, ACTEW and ActewAGL have developed an information campaign. The campaign is targeted at property owners and the building and construction industry and will run at targeted intervals over a 12 month period commencing in September 2006.

STATISTICS

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
WATER											
Customers	116,008	117,343	118,856	120,349	122,760	124,570	126,750	129,114	131,893	134,020	135,804
No. of dams	4	4	4	4	4	4	4	4	4	4	4
Capacity of dams (GL)	215.4	215.4	215.4	215.4	215.4	215.4	215.4	215.4	215.4	215.4	211.6*
No. of reservoirs	43	44	44	44	42	44	45	45	45	45	45
Capacity of reservoirs (ML)	950	912	912	912	912	912	912	912	912	912	912
No. of pumping stations	18	17	17	17	17	21	21	21	21	23	23
Length of mains (km)	2,877	2,895	2,901	2,907	2,921	2,933	2,948	2,964	2,985	3,013	3,057
Max daily demand (ML)	296	349.5	406	371	331	392	415.7	366.7	323	267	309
Total consumption (ML)	53,254	61,810	73,009	60,361	57,929	62,834	65,904	65,567	52,262	51,719	54,340
Consumption/person p/a (kL) #	174	187	220	182	176	186	194	206	156	144	149
Rainfall (mm)	645	674.6	438.6	688.6	666	618.2	633.2	340.2	463	593.7	629.6
SEWERAGE											
No. of customers	116,008	115,083	116,268	117,648	119,846	121,618	123,641	125,784	128,446	130,355	135,561
No. of pumping stations	29	28	28	28	28	28	28	28	26	26	27
Quantity of sewage treated (ML)	32,200	33,704	31,524	32,718	32,585	30,277	30,645	28,313	27,959	27,293	29,019
Max daily load (ML)	182	152	138	235	137	151	191	116	111	113	153
Sewage treated/person p/a (kL)	105	109	101	106	105	97	97.6	89	87	84	88
Length of mains (km)	2,784	2,806	2,812	2,817	2,836	2,852	2,875	2,897	2,921	2,948	2,991

*bathymetry survey down-rated storage capacity

1996 to 2004 figures adjusted to account for combined ACT and Queanbeyan population

Feature

THE TURF AND IRRIGATION RESEARCH PROJECT

34

Grass Roots Initiative

PART OF ACTEW'S COMMITMENT TO CONTINUE EDUCATING THE COMMUNITY ABOUT WATER CONSERVATION



Grass Roots was launched in February 2006 after extensive project planning by ACTEW in partnership with Rosary Primary School.

The aim of the project is to develop best practice watering regimes for turf and in particular, large open spaces such as playing fields and other public areas.



The project incorporates a number of turf varieties combined with both sprinkler and sub-surface drip irrigation systems. Water consumption of over 20 combinations is then monitored with an aim to evaluate and help benchmark watering schedules for similar turf sites throughout the ACT region.

Following the launch, a stakeholder leadership team was established to ensure that the focus of the project remains firmly embedded within the community. The team consists of industry experts and representatives from ACTEW and Rosary Primary School.

During 2006, results will be made available to industry, government departments and the general community via the project website, on-site irrigation workshops, presentations and guided tours. The project is expected to span three years.

Top: Chief Minister Jon Stanhope launches Grass Roots on 17 February

Above: The School is committed to the success of the project, making the research an integral part of its curriculum.

RESEARCH AND DEVELOPMENT

The current Applied Research and Development (R&D) program is delivering both technical and commercial outcomes to ACTEW, ActewAGL and Ecowise and is expected to achieve improved operations and new commercial projects in the range of three to four times the investment value.

It is also a significant contributor to the successful attraction, motivation and retention of dynamic and talented staff to the group. Active participation in the water industry promotes the leadership role of ACTEW and positions Ecowise as a supplier of choice for delivery of cutting-edge technology and innovation in environmental analysis.

Examples of projects undertaken as part of the program are:

- the Stygofauna Project has attracted Australian Research Council linkage grant funds of \$350,000 over three years, and six industry clients have committed a total of \$100,000 in-kind support for case studies annually.
- Pathogen modelling in catchments links with the CRC for Water Quality and Treatment and American Water and Wastewater Association Research Foundation. The project has leveraged funding of over \$220,000. Benefits include data for provision of a sound evidence base for proactive catchment management activities and improving treatment controls.
- Onsite system assessment research has obtained direct industry support from five manufacturers, and has been targeted by CSIRO for data and technical input to their related greywater research programs. Ecowise made related sales of over \$300,000 in the onsite system market during 2005–06.

ENVIRONMENT

A decorative horizontal band featuring a series of light blue, wavy lines that create a sense of movement and depth. The lines are more densely packed on the left and gradually become more sparse towards the right.

5

Environmental management

Environmental management of ACTEW's water and wastewater business is undertaken by its joint venture ActewAGL and aims to achieve best environmental practice and compliance with all legislative requirements. ActewAGL is committed to ecologically and environmentally sustainable development and continues to seek initiatives that will help protect the environment.

To do this, ActewAGL's five-year Environment Management Plan (EMP) addresses the water, wastewater and electricity aspects of ActewAGL's operations and sets out environment policy directions and priorities.

In line with the directions set out in the EMP, ActewAGL's annual Environment Action Program (EAP) identifies the specific tasks and strategies to achieve them.

ActewAGL's organisational and operational environmental management systems (EMS) are modelled on the Australian/New Zealand Standard ISO 14001, ensuring there is a visible framework for constantly reviewing environmental performance and for continuous improvement.

ActewAGL's nine key priority areas in the 2005–06 EAP were:

1. regulatory compliance
2. environment management systems
3. suppliers and contractors
4. waste and hazardous chemicals
5. transport use
6. greenhouse gas emissions
7. products and services
8. energy
9. water conservation, treatment and catchment management

In 2005–06, a total of 33 specific tasks were identified. The primary targets of 25 tasks were completed and of the eight remaining tasks, one task is on hold while all others are currently in progress.

More detailed information and achievement against these key priorities is outlined in ActewAGL's 2005–06 Sustainability Report, available at www.actewagl.com.au from November 2006.

THE YEAR AHEAD

A decorative horizontal band featuring a series of light blue, wavy, parallel lines that create a sense of motion and depth.

6

Our priorities for 2006–07

WATER SUPPLY

- As part of its continuing work on Future Water Options, ACTEW will:
 - Develop supply concepts with sufficient detail to assess the risks and merits of the Extended Cotter Googong Bulk Transfer scheme and the Angle Crossing scheme as mechanisms to access the Murrumbidgee River as an additional water source.
 - Review, monitor and report on the six key water supply planning assumptions
 - Population growth and cross border water supply
 - Climate change
 - Environmental flows
 - Recovery of water supply catchments after 2003 bushfires
 - Water efficiency targets in *Think water act water*
 - System performance criteria – duration, frequency and severity of water restrictions
 - Continue additional work including technical analysis and planning new water sources.
 - Optimise the Cotter to Googong Bulk Transfer of water from the Cotter catchment to the Googong Dam.
 - Provide the ACT Government with a report on the success of the Cotter Googong Bulk Transfer Scheme, including analysis of the security of the ACT's water supply as a result of the scheme.
 - Investigate opportunities to further maximise the efficiency of the existing water supply system with any necessary investment in capital expenditure and new technology.
- Liaise with the Environmental Protection Authority regarding the monitoring of the newly introduced environmental flow levels.
- Work with the ACT Government to achieve:
 - A satisfactory ACT Cap for the Murray – Darling Basin.
 - The promotion of an integrated regional approach to ACT/NSW cross-border water supply and management.

WATER DEMAND

- Administer and report on the introduction and management of Permanent Water Conservation Measures to achieve an ongoing reduction in water consumption; and prepare to manage the revised water restrictions regime if necessary.
- Work with the ACT Government to achieve:
 - a reduction in per capita consumption of mains water by 12 per cent by 2013 and 25 per cent by 2023 and an increase in the efficiency of water usage.
 - Sustainable total water cycle management.

WASTEWATER

- Investigate opportunities to further maximise the efficiency of the existing wastewater system with any necessary investment in capital expenditure and new technology.
- Develop a strategic plan for the development of Fyshwick Sewerage Treatment Plant and the North Canberra Water Reuse Scheme.
- Investigate and monitor new industry standards in relation to modelling of wastewater network performance.
- Complete preliminary design work and commence detailed design for the expansion of the secondary treatment facilities at Lower Molonglo Water Quality Control Centre.

WATER CATCHMENTS

- Work with the ACT Government to achieve appropriate catchment management governance and management arrangements in Cotter, Googong and Murrumbidgee Rivers catchments.
- Continue the urgent rehabilitation of the lower Cotter catchment to improve water quality in the reservoir.

TransACT

- Continue to support and monitor the roll out and delivery of TransACT's services to the community.
- Monitor its performance and have shareholder input to decision making.

ActewAGL

- Manage the Utilities Management Agreement (UMA), which provides for the operational management of ACTEW's water and wastewater assets by ActewAGL.
- Improve the process whereby ActewAGL delivers capital expenditure for ACTEW to ensure timely delivery of work at appropriate standards to justify the investment approved by the Independent Competition and Regulatory Commission (ICRC).
- Monitor and manage implications of the AGL/Alinta demerger to ensure a satisfactory outcome for our shareholders and customers.

CUSTOMERS

- Consult and educate our customers about water quality, water use and efficient water irrigation.
- Deliver products and services to our customers at a sustainable level.

NEW BUSINESS

- Consult with the ACT Government on potential new growth areas.
- Identify and explore new business opportunities.

FINANCIAL

- Resolve with ACT Treasury and the Land Development Agency the process of delivery of gifted assets from new developments to ACTEW.
- Continue to develop, refine and monitor the risk management strategies of ACTEW in the context of the UMA.
- Work closely with ActewAGL on the ICRC regulatory submission to ensure an appropriate outcome.
- Examine the valuation of ACTEW's Assets.
- Achieve earnings before interest and tax (EBIT) of approximately \$105m.
- Declare shareholders a dividend out of 2006/07 profits of approximately \$63.3m.

FINANCIAL STATEMENTS

A decorative horizontal band featuring a pattern of light blue, wavy lines that create a sense of movement and depth. The lines are more densely packed on the left and become more sparse towards the right.

7

General purpose financial report

FOR THE YEAR ENDED 30 JUNE 2006

The Financial Report covers both ACTEW Corporation Limited as an individual entity and the consolidated entity consisting of ACTEW Corporation Limited and its controlled entities.

ACTEW Corporation Limited is a Company limited by shares. Incorporated and domiciled in Australia. Its registered office and principal place of business is:

ACTEW Corporation Limited
Level 9
ActewAGL House
221 London Circuit
CANBERRA City ACT 2601

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Directors' Report

For the year ended 30 June 2006

The directors present their report on the financial report of ACTEW Corporation Limited (ACTEW) and the entities it controlled at the end of, or during, the year ended 30 June 2006.

DIRECTORS

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The following persons were directors of ACTEW during the whole of the financial year and up to the date of this report unless otherwise indicated:

- James Glen Service AO, Chairman
- Michael Bernard Easson AM, Deputy Chairman
- Kevin Leslie Neil
- Michael John Costello AO
- Edward William Mathews PSM
- Elizabeth Anne Whitelaw
- Barbara Mary Byrne OAM

Refer to page 10 for information on directors' experience and qualifications.

COMPANY SECRETARY

Michele Norris joined ACTEW in August 1999 as Legal Compliance Education Manager. In October 2000 she was appointed Assistant Company Secretary and Company Secretary in December 2003. Ms Norris held a number of senior management positions in public sector policy, management and executive administration with the ACT Government prior to joining ACTEW. She is responsible for the management and coordination of corporate governance, government liaison, statutory compliance and legal matters for the Corporation and subsidiary companies. Ms Norris is a Fellow of the Australian Institute of Company Directors, an Affiliate of Chartered Secretaries Australia, an Associate Fellow of the Australian Institute of Management and a Justice of the Peace.

DIRECTORS' MEETINGS

Ten directors' meetings were held during the financial year. The Audit and Risk Management Committee met three times during the year. The entire ACTEW Board met as the Remuneration Committee. The Remuneration Committee met once during the year.

DIRECTOR	ACTEW BOARD MEETINGS	AUDIT & RISK MANAGEMENT COMMITTEE MEETINGS	REMUNERATION COMMITTEE MEETINGS
J G Service	10 (10)	–	1 (1)
M B Easson	9 (10)	3 (3)	1 (1)
K L Neil	9 (10)	0 (3)	1 (1)
M J Costello	10 (10)	–	1 (1)
E W Mathews	9 (10)	3 (3)	0 (1)
E A Whitelaw	9 (10)	–	1 (1)
B M Byrne	8 (10)	–	1 (1)

Figures in bold brackets indicate total number of meetings directors were eligible to attend. Actual number of meetings attended is not bracketed.

PRINCIPAL ACTIVITIES

The principal activities of ACTEW during the year were to:

- Supply water
- Promote and manage the sustainable use of energy and water
- Provide sewerage services
- Undertake other related business or activity

The principal activities of the subsidiary companies were as follows:

- ACTEW Retail Limited – a holding company for ACTEW's interest in the Retail Partnership of the ActewAGL Joint Venture
- ACTEW Distribution Limited – a holding company for ACTEW's interest in the Distribution Partnership of the ActewAGL Joint Venture
- ACTEW China Pty Limited – a holding company for ACTEW's interest in China

Review and results of operations

A summary of the revenues and results is set out below:

	2006 \$ MILLION	2005 \$ MILLION
Revenue (excludes ActewAGL joint venture profits)	168.3	149.5
Profit before income tax expense and contributed assets	86.5	80.3
Contributed Assets	6.6	10.0
Profit before income tax expense	93.1	90.3
Income tax	32.6	18.1
Profit for the year	60.5	72.2
Payments to ACT Government		
Interim dividend for current years profit	45.8	71.5
Final dividend for previous years profit	22.5	0
	68.3	71.5
Tax equivalent payments	11.6	14.1
Total payments to the ACT Government	79.9	85.6

Revenue is up mainly due to increased water consumption and regulated price increases for water and sewerage.

Profit for the year decreased compared to prior year mainly due to higher income tax expense than prior year.

CONTRIBUTED ASSETS

ACTEW receives non-cash contributions of non-current water and wastewater assets resulting from new land developments. In accordance with UIG 1.1 and Australian Equivalents to International Accounting Standards (AIFRS) these are recorded in the Financial Statements as revenue.

The directors are required under section 297 of the Corporations Act to ensure that the financial statements and notes present a true and fair view. It is the directors' opinion that ACTEW profit excluding contributed assets reflects a better view of net profit.

ACTEW has therefore applied AASB 101 Presentation of Financial Statements Aus 83.1 and adopted an alternative income statement which displays profit before and after contributed assets.

DIVIDENDS

An interim dividend of \$45.8m (2005 interim: \$71.5m) was paid in June 2006. The directors have recommended the payment of a 2005–06 final dividend of \$14.73m (2005 final: \$22.5m).

AUDIT QUALIFICATION

ACTEW has been qualified regarding the Investment in Associates note where ACTEW used TransACT's unaudited management financial report. This is due to timing of the TransACT audit being after the ACTEW audit has been completed.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

ACTEW borrowed \$25m in June 2006 to assist in part the financing of Cotter to Googong Bulk Transfer Project (CGBT).

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There have been no matters to report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Relevant issues are treated elsewhere in this report.

REGULATION AND LICENCE COMPLIANCE

Utility Services Licence

ACTEW must comply with the obligations set out in the Utility Services Licence which was issued by the Independent Competition and Regulatory Commission (ICRC) under the *Utilities Act 2000* on 29 June 2001. In September 2005 ACTEW provided its annual report to the ICRC on its obligations under the Licence and other reporting requirements of the Act.

Environmental Regulations

In accordance with the ACT *Environment Protection Act 1997*, ACTEW is subject to environmental regulation in respect of its operations of the Lower Molonglo Water Quality Control Centre. ACTEW is also subject to New South Wales Environment Protection Authority (EPA) regulations for the discharge from Googong Water Treatment Plant. ACTEW complied with all reporting requirements during 2005–06. ACTEW's compliance details were:

Directors' Report

For the year ended 30 June 2006

	COMPLIANCE 2006	COMPLIANCE 2005	TARGET
Googong pollution control licence compliance *	100%	100%	100%
Sewage treatment discharge compliance	100%	100%	100%
Sewage treatment incinerator air emission compliance **	98.7%	99.2%	100%

* Googong pollution control licence period runs from 15 August 2005 to 14 August 2006.

** Lower Molonglo Water Quality Control Centre's non compliance was typically due to changes in process operation conditions, equipment malfunctions, and commissioning new projects. Emission excesses were of short duration, generally less than one hour.

ACTEW has assessed that there are no other particular or significant environmental regulations that apply.

Licence to Take Water

Issued by the ACT Environment Protection Authority (EPA) under the *Water Resources Act 1998*, the Licence provides for taking of water covered by water allocation and the release of environmental flows. ACTEW complied with the requirements and provided monthly reports and an annual report to the EPA detailing the environmental flows as required in the Licence.

Drinking Water Utility Licence

ACTEW's licence, issued by ACT Health, authorises ACTEW to carry on the Operation of Drinking Water Utility under the *Public Health Act 1997*. ACTEW provided water in accordance with the Drinking Water Quality Code of Practice issued under this Licence. ACTEW complied with all reporting requirements.

INSURANCE OF OFFICERS

ACTEW had in place during the financial year a package of insurance that included insurance for directors and officers of ACTEW, its controlled entities and the ActewAGL joint venture. The premium is included within costs of a combined liability policy and is not separately accounted for.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company, other than where such liabilities arise out of conduct involving wilful breach of duty by the officers or the improper use by the officers of their position. The policy also applies if a claim is made against directors or officers after they have left the service of ACTEW, where the claim was over events during the ACTEW service.

INDEMNITY OF OFFICERS

ACTEW has indemnified:

- the directors and officers of ACTEW and wholly owned subsidiaries against liabilities and legal costs arising in the course of their duties, to the extent permitted by Corporations Act 2001; and
- an indemnity was granted to an executive of the ActewAGL joint venture for work on behalf of ACTEW with the TransACT group, as a director.

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required by the Corporations Act 2001 is set out on page 50.

ROUNDING OF AMOUNTS

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In accordance with Class Order 98/0100 issued by the Australian Securities and Investments Commission, all amounts in this report and the financial statements have been rounded to the nearest thousand dollars unless otherwise specifically stated.

Signed for and on behalf of, and in accordance with a resolution of, the board of directors.



Michael Easson AM
Deputy Chairman

30 August 2006
Canberra



Michael Costello AO
Managing Director

30 August 2006
Canberra

Directors' Declaration

For the year ended 30 June 2006

The directors declare that the financial report and notes set on pages 53 to 87:

- a) comply with Australian Equivalents to International Accounting Standards, the Corporations Act 2001 and other professional reporting requirements; and
- b) give a true and fair view of the corporation and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations and cash flows, for the financial year ended on that date.

In the directors' opinion:

- a) the financial report and notes are in accordance with the Corporations Act 2001.
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Michael Easson AM
Deputy Chairman

30 August 2006
Canberra



Michael Costello AO
Managing Director

30 August 2006
Canberra



ACT AUDITOR-GENERAL'S OFFICE



INDEPENDENT AUDIT REPORT ACTEW CORPORATION LTD

To the Members of the ACT Legislative Assembly and ACTEW Corporation Ltd

Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matter referred to in the following qualification paragraph, the financial report of ACTEW Corporation Ltd (the Company) for the year ended 30 June 2006 is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*.
- (b) other mandatory professional reporting requirements in Australia.

This audit opinion should be read in conjunction with the following information.

Qualification

Unaudited information was used to equity account the investment in TransACT for the years ended 30 June 2005 and 30 June 2006.

ACTEW used TransACT's unaudited management financial reports for the years ended 30 June 2005 and 30 June 2006 to equity account the consolidated entity's share of TransACT's losses and to disclose the financial information on TransACT in Note 37: 'Investment in Associates' to the financial report. The audited information for TransACT was not available when ACTEW prepared the financial report for the consolidated entity.

Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and estimates used in the preparation of the financial report.

Contents of the Financial Report

The financial report is comprised of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, accompanying notes and the Directors' Declaration for the Company and the consolidated entity. The consolidated entity is comprised of ACTEW Corporation Ltd and the entities it controlled at the end of, or during the financial years ended 30 June 2005 and 30 June 2006.

The Auditor's Responsibility

My responsibility is to express an opinion on the financial report as required by the *Corporations Act 2001*.

The Audit Scope

My audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

I formed the audit opinion by performing procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view that is consistent with my understanding of the financial position and performance of the Company and the consolidated entity.

The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and in many cases, the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

My procedures included:

- (i) examining, on a test basis, evidence supporting the amounts and other disclosures in the financial report; and
- (ii) evaluating accounting policies and significant accounting estimates used in the preparation of the financial report.

I considered the effectiveness of internal controls when determining the nature and extent of my procedures, however the audit was not designed to provide assurance on internal controls.

My audit also did not include an evaluation of the prudence of decisions made by the Company and the consolidated entity.

Independence

In conducting my audit, I followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



Tu Pham
Auditor-General
11 September 2006

Auditor's Independence Declaration

For the year ended 30 June 2006



ACT AUDITOR-GENERAL'S OFFICE



Auditor's Independence Declaration

To the Directors of ACTEW Corporation Ltd

In relation to the audit of the financial report of ACTEW Corporation Ltd for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been no contraventions of auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Tu Pham
Auditor-General
30 August 2006

Income Statement

For the year ended 30 June 2006

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue from continuing operations	6	156,364	137,510	190,706	189,785
Other income	7	11,979	12,030	11,979	12,030
		168,343	149,540	202,685	201,815
Cost of sales		13,095	9,572	13,095	9,572
Administration and other costs		4,202	4,355	4,202	4,355
Depreciation & amortisation expense		21,850	20,900	21,850	20,900
Borrowing cost expense		24,385	22,560	24,385	22,560
Project related expenses		67,946	62,070	67,946	62,070
Provision for diminution of investments		(2,756)	(18,689)	-	-
Investments in associates equity accounted losses		2,756	18,689	-	-
Other expenses arising from ordinary activities		3,033	2,562	3,005	2,545
Share of net (profit) of joint ventures partnership accounted for using the equity method	38	(52,698)	(52,771)	-	-
Profit before income tax expense and contributed assets		86,530	80,292	68,202	79,813
Contributed assets		6,566	9,980	6,566	9,980
Profit before income tax		93,096	90,272	74,768	89,793
Income tax expense	9	32,566	18,055	14,858	10,560
Profit for the year		60,530	72,217	59,910	79,233

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

Adjustments to 2005 numbers resulting from changes to AIFRS are displayed in Note 4.

Balance Sheet

For the year ended 30 June 2006

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Current Assets					
Cash and cash equivalents	11	28,759	13,481	28,759	13,481
Receivables	12	26,728	22,826	91,694	79,043
Other	13	16,746	6,256	16,746	6,256
Total Current Assets		72,233	42,563	137,199	98,780
Non Current Assets					
Receivables	14	-	-	286,551	333,897
Available-for-sale financial assets	15	10,789	-	10,789	-
Investments accounted for using the equity method	16	360,704	353,006	-	-
Other financial assets	17	-	20,674	1,400	22,074
Property, plant and equipment	18	935,302	923,190	935,302	923,190
Other	19	1,258	12,521	1,258	12,521
Deferred tax assets	20	31,662	28,690	24,103	24,531
Total Non Current Assets		1,339,715	1,338,081	1,259,403	1,316,213
TOTAL ASSETS		1,411,948	1,380,644	1,396,602	1,414,993
Current Liabilities					
Payables	21	18,319	15,872	18,294	15,708
Borrowings	22	11,424	10,087	11,424	10,087
Provisions	23	31,939	29,050	31,939	29,050
Other	24	1,120	1,102	1,120	1,102
Total Current Liabilities		62,802	56,111	62,777	55,947
Non Current Liabilities					
Borrowings	25	361,730	347,840	361,730	347,840
Provisions	26	3,418	15,184	3,418	15,184
Deferred tax liability	27	189,551	167,062	152,109	137,770
Total Non Current Liabilities		554,699	530,086	517,257	500,794
TOTAL LIABILITIES		617,501	586,197	580,034	556,741
NET ASSETS		794,447	794,447	816,568	858,252
Equity					
Contributed equity	28	758,871	758,871	758,871	758,871
Reserves	29	9,820	9,820	9,820	9,820
Retained profits	30	25,756	25,756	47,877	89,561
TOTAL EQUITY		794,447	794,447	816,568	858,252

The above balance sheet should be read in conjunction with the accompanying notes.

Adjustments to 2005 numbers resulting from changes to AIFRS are displayed in Note 4.

Cash Flow Statement

For the year ended 30 June 2006

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
		Inflows / (Outflows)		Inflows / (Outflows)	
Cash Flows From Operating Activities					
Receipts from customers					
(inclusive of goods & services tax)		162,695	143,549	162,695	143,549
Payments to suppliers and employees					
(inclusive of goods & services tax)		(87,274)	(80,921)	(87,274)	(80,921)
Sub-Total		75,421	62,628	75,421	62,628
Interest received		2,231	3,601	2,231	3,601
Income tax equivalents paid		(11,593)	(14,062)	(11,593)	(14,062)
Dividends received		-	-	51,494	46,492
Interest paid		(23,835)	(22,992)	(23,835)	(22,992)
Net Cash Inflow from Operating Activities	39 (a)	42,224	29,175	93,718	75,667
Cash Flows from Investing Activities					
Payments for property, plant & equipment		(28,742)	(53,754)	(28,742)	(53,754)
Loans to related parties		-	-	(51,494)	(46,492)
Distribution received from joint venture partnerships		45,000	48,500	45,000	48,500
Proceeds from sale of property, plant & equipment		6	7	6	7
Net proceeds/(payments) for investments		9,885	(3,239)	9,885	(3,239)
Net Cash Inflow/(Outflow) from Investing Activities		26,149	(8,486)	(25,345)	(54,978)
Cash Flows from Financing Activities					
Repayment of borrowings		(9,774)	(9,341)	(9,774)	(9,341)
Proceeds from borrowings		25,000	25,000	25,000	25,000
Dividend paid		(68,321)	(71,500)	(68,321)	(71,500)
Net Cash (Outflow) from Financing Activities		(53,095)	(55,841)	(53,095)	(55,841)
Net Increase (Decrease) in Cash and Cash					
Equivalents		15,278	(35,152)	15,278	(35,152)
Cash and Cash Equivalents at the Beginning of the					
Financial Year		13,481	48,633	13,481	48,633
Cash and cash equivalents at end of year					
		28,759	13,481	28,759	13,481

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2006

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	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at the beginning of the financial year	794,447	816,251	858,252	873,040
Adjustments to prior year subsidiary dividend	-	-	(41,064)	-
Restated total equity at the beginning of the financial year	794,447	816,251	817,188	873,040
Profit for the year	60,530	72,217	59,910	79,233
Total recognised income and expense for the year	60,530	72,217	59,910	79,233
Transactions with equity holders in their capacity as equity holders:				
Dividends provided for or paid	(60,530)	(94,021)	(60,530)	(94,021)
	(60,530)	(94,021)	(60,530)	(94,021)
Total equity at the end of the financial year	794,447	794,447	816,568	858,252

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for ACTEW Corporation Ltd as an individual entity and the consolidated entity consisting of ACTEW Corporation Ltd and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRS ensures that the consolidated financial statements and notes of ACTEW Corporation Ltd comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in *AASB 132 Financial Instruments: Presentation and Disclosure*.

These financial statements are the first ACTEW Corporation Ltd financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing this financial report.

The financial statements of ACTEW Corporation Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain aspects from AIFRS. When preparing ACTEW Corporation Limited 2006 financial statements, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Historical Cost Convention

This financial report has been prepared on a historical cost basis, except for investment properties and land and buildings that have been measured at fair value.

ACTEW Corporation receives non-cash contributions of non-current water and wastewater assets resulting from new land developments, these are recorded in the Financial Statements as revenue.

The contributed assets revenue has been shown as a separate line item to allow users to see profit before and after contributed assets. ACTEW has therefore adopted an alternative income statement which displays profit before and after contributed assets.

(b) Principles of consolidation

(i) Associates

Associates are all entities over which ACTEW Corporation has a significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. ACTEW Corporation holds a 24.9% interest in TransACT Communications. Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of investment.

(ii) Joint ventures

Joint venture partnership

The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profit and losses of the partnership in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the consolidated entity's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they related to an unrealised loss that provides evidence of the impairment of an asset transferred. Detail relating to the partnership are set out in note 38.

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements. Details of the joint venture are set out in note 38.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ACTEW Corporation Limited as at 30 June 2006 and the results of all subsidiaries for the year end. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. The subsidiaries are 100% owned by ACTEW Corporation Ltd.

(c) Business activity

On 3 October 2000, wholly owned subsidiaries of ACTEW Corporation formed a partnership with Australian Gas Light Company Ltd to take over the operations of ACTEW's electricity network and related retail operations and AGL's ACT and Queanbeyan gas network and related retail operations. This partnership also manages the water and sewerage business of ACTEW Corporation. The majority of employees of ACTEW Corporation have been seconded to the partnership. The partnership reimburses ACTEW Corporation for all costs related to these seconded employees. This has significantly changed the business of ACTEW Corporation, which now effectively operates as a holding company. ACTEW Corporation legally employs seconded employees however, as they are seen to be employees of the partnerships from an accounting viewpoint, only the employee entitlement liabilities are disclosed in the financial report.

(d) Income tax equivalents

The company is exempt from Federal income tax. The company is required to make an equivalent payment to the ACT Government as required by the *Territory Owned Corporations Act 1990*.

Tax effect accounting procedures are followed whereby the income tax equivalent expense or revenue for the period is the tax payable on the current period's taxable income based on the National Tax Equivalents Regime adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Tax consolidation legislation

ACTEW Corporation implemented tax consolidation legislation as of 1 July 2003. The Australian Taxation Office was notified on lodgement of the tax return. ACTEW Corporation, as the head entity in the tax consolidated group, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

(e) Revenue recognition

Revenue is measured at fair value and recognised to the extent that it is probable that the economic benefits will flow to the group. The specific recognition criteria must also be met before revenue is recognised.

Services provided

Revenue is recognised on services provided when usage of the service occurs and is measured at fair value.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Contributed Assets

Revenue is recognised when the entity gains control of the asset and the amount of the contribution can be measured reliably. **(f)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Acquisitions of assets

The cost method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the equity instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity. Contributed assets provided free of charge are valued at the fair value of those assets.

(g) Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when evidence suggests that collection of the full amount is no longer probable. Bad debts are written off when identified.

(h) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are shown at cost, less subsequent depreciation for buildings. Directors undertook an expert independent valuation on June 2003 which showed no impairment. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Under AIFRS, AASB 116 requires all revaluation increments and decrements to be accounted for on an asset specific basis. As a result, decrements would be charged as an expense unless there is a credit balance in the Asset Revaluation Reserve that specifically relates to that asset. ACTEW Corporation cannot specifically identify the assets to which the existing Asset Revaluation Reserve relates to. As a result, ACTEW Corporation has adopted the exemption available within AASB 1 and transferred the balance of the Asset Revaluation Reserve to retained profits.

Land is not depreciated. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values over their estimated useful lives as follows:

Buildings	10–60 years
Plant and equipment	5–80 years
System Assets	50–80 years

An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount (note 1(i)).

(i) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If such an indication of impairment exists, the entity shall estimate the recoverable amount of the asset. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using a market-determined, pre-tax rate of 9.3% (2005 – 7.7%).

At 30 June 2006, ACTEW had invested \$59.5 million in TransACT Communications Pty Ltd. The provision for diminution accounted losses of the TransACT investment is \$59.5 million (30 June 2005: \$59.5million). This provision is reviewed annually. (Refer note 16)

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to cash and bank overdrafts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Available-for-sale financial assets

The group has taken exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

(l) Leases

Operating lease payments are charged to the income statement on a straight line basis over the lease term.

(m) Intangible assets and expenditure carried forward

(i) Research and development

Research and development expenditure is recognised as an expense when incurred. Research and development costs are incurred on capital projects when it is probable that the project will be a success and costs can be measured reliably. The expenditure includes all attributable costs including materials, services, labour and an appropriate proportion of overheads. Expenditure that is capitalised comprises all directly attributable costs.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Interest bearing loans and borrowings

All borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Indexed Annuity Loans are adjusted quarterly and based to the CPI. The adjustment increases the principal of the loan and an expense is recognised in the period of the adjustment depending on the terms of the loan. Refer to notes 22 and 25.

(p) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. ACTEW only incurs borrowing costs on short and long term borrowings.

(q) Employee benefits

ACTEW Corporation staff are seconded to the ActewAGL Joint Venture Partnership and all employee related expenses are billed to the partnership. No employee related revenues or expenses are recognised in the income statement in respect of these employees. However the total employee entitlement liability, calculated, as set out below, is shown as a liability of the Group, with a corresponding receivable owed by the ActewAGL Partnership.

(i) Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service and sick leave

A liability for long service and sick leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and for long service leave experience of employee departures and periods of service.

Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Dividends

ACTEW Corporation's 2005/06 dividend policy is an 80% interim and 20% final dividend payment of profit from ordinary activities after income tax expense. The 80% interim dividend payment is based on estimated profit since this is not confirmed until after 30 June 2006. This payment is made to ACT Treasury at the end of June of the current financial year and the interim payment in October of the following financial year. This policy is reviewed each financial year with ACT Treasury.

(s) Government grants

ACTEW receives a Commonwealth subvention payment for disabilities associated with providing water supply and sewerage services in the ACT as they relate to an inland location and national capital influences. This is recognised as revenue in the income statement at fair value where there is reasonable assurance that the grant will be received.

(t) Derivatives

From 1 July 2004 to 30 June 2005

The group has taken exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives were accounted for under previous AGAAP

Interest rate swaps

The net amount receivable or payable under the interest rate swap agreements was progressively brought to account over the period to settlement. The amount recognised was accounted for as an adjustment to interest and finance charges during the period and included in other debtors and creditors at each reporting date.

From 1 July 2005

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of the interest rate swap hedging fixed rate borrowings is recognised in income statement within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

(u) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised exclusive of GST. Receivables and payables are stated inclusive of the amount of GST receivable or payable.

(w) Financial instrument transaction costs

The group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts, except for financial assets or liabilities that are measured at fair value through the income statement. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

(x) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(y) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of interest-rate swaps is calculated as the present value of the estimate future cash flows.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) New accounting standards and UIG interpretations

Certain accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations are set out below.

(i) UIG 4 Determining whether an Asset contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have interest in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

(iii) AASB 2005–9 Amendments to Australian Accounting Standards (AASB 1023, AASB 139 & AASB 132)

AASB 2005–9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity, ACTEW Corporation Ltd, under guarantees given pursuant to the deed of cross guarantee in respect of amounts payable by wholly-owned subsidiaries, and a guarantee given to debenture holders for amounts assumed by a third party as the result of a debt defeasance. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(iv) AASB7 Financial Instruments: Disclosures and AASB 2005–10 Amendments to Australian Accounting

Standards (AASB 132, AASB 101, AASB 114, AASB117, AASB 133, AASB 139, AASB1, AASB 4, AASB 1023 & AASB 1038) AASB 7 and AASB 2005–10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2006. The Group has not sold any electronic or electrical equipment. This interpretation will not affect the Group's financial statements.

(vi) AASB 2005–6 Amendments to Australian Accounting Standards (AASB 121)

AASB 2005–6 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. ACTEW Corporation Ltd does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the Group's financial statements.

NOTE 2: FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank loans, interest rate swaps, long and short term cash investments.

The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

(a) Cash flow and interest rate risk

Liability interest rate swap contract

ACTEW's loan from the ACT Government bears a variable interest rate based upon the 90-day bank bill swap reference rate (BBSW). Due to exposure to fluctuating interest rates ACTEW entered into an interest rate swap contract under which it is obliged to receive interest at variable rates each 90 days and to pay interest at a fixed rate of 6.15% on a notional face value equivalent to the loan principal outstanding. The contract is settled on a net basis and the net amount payable at the reporting date is included in Trade payables. At 30 June 2006 the notional principal amount is \$70 million (2005 – \$70 million) and the interest rate swap contract will expire within 6 years (2005 – 7 years). ACTEW views this hedge as effective as it has achieved an acceptable fixed interest rate during times of uncertainty.

Indexed annuity bond

The main portion of total borrowings is for a CPI linked indexed annuity bond which has a total outstanding of \$235,525,000 at 30 June 2006.

(b) Market risk

ACTEW's water and sewerage price's are determined by the ICRC so there is no concern of price risk.

(c) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables due to water and sewerage receivables being a secured asset.

(d) Liquidity risk

ACTEW has a low gearing rate of 31% which results in low liquidity risk.

NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Revenue Recognition

ACTEW water revenue includes an estimated accrual for water consumed but not yet billed. This is a regular occurrence at the end of each reporting period. The estimate is calculated on outstanding water consumed (net of estimated losses) for the period less actual billing. This is multiplied by the average price of water consumption. The June 2006 amount totalled \$8.7m which included water consumption and revenue from the Water Abstraction Charge.

Impairment test

ACTEW performed an impairment test on the water and sewerage assets to ensure that no impairment exists. The impairment test was determined over a five year period with a terminal value discounted using pre-tax nominal cash flow of 9.31% and the result exceeded the current value of the assets.

NOTE 4: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

(1) RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AUSTRALIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (AGAAP) TO EQUITY UNDER AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS)

(a) At the date of transition of AIFRS: 1 July 2004

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	NOTES	CONSOLIDATED	ACTEW CORPORATION LTD
		\$'000	\$'000
Total equity under AGAAP		804,041	853,235
Adjustments to retained earnings (net of tax)			
Reserves	a	(3,552)	(3,552)
Adjustments to retained earnings	a,f	15,762	2 3,357
Total equity under AIFRS		816,251	873,040

(b) At the last reporting period under previous AGAAP: 30 June 2005

	NOTES	CONSOLIDATED			ACTEW CORPORATION LTD		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Current Assets							
Cash and cash equivalents		13,481	0	13,481	13,481	0	13,481
Receivables	b	22,826	0	22,826	78,258	785	79,043
Other		6,256	0	6,256	6,256	0	6,256
Total Current Assets		42,563	0	42,563	97,995	785	98,780
Non Current Assets							
Receivables	d	0	0	0	317,184	16,713	333,897
Investments accounted for using the equity method	b	352,221	785	353,006	0	0	0
Available-for-sale financial assets		0	0	0	0	0	0
Other financial assets		20,674	0	20,674	22,074	0	22,074
Property, plant and equipment		923,190	0	923,190	923,190	0	923,190
Other		12,521	0	12,521	12,521	0	12,521
Deferred tax assets	c	12,157	16,533	28,690	12,157	12,374	24,531
Total Non Current Assets		1,320,763	17,318	1,338,081	1,287,126	29,087	1,316,213
TOTAL ASSETS		1,363,326	17,318	1,380,644	1,385,121	29,872	1,414,993
Current Liabilities							
Payables		15,872	0	15,872	15,708	0	15,708
Interest bearing liabilities		10,087	0	10,087	10,087	0	10,087
Provisions		29,050	0	29,050	29,050	0	29,050
Other		1,102	0	1,102	1,102	0	1,102
Total Current Liabilities		56,111	0	56,111	55,947	0	55,947

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 4: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (continued)

	NOTES	CONSOLIDATED			ACTEW CORPORATION LTD		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non Current Liabilities							
Interest bearing liabilities		347,840	0	347,840	347,840	0	347,840
Provisions		15,184	0	15,184	15,184	0	15,184
Deferred tax liabilities	c	162,975	4,087	167,062	145,523	(7,753)	137,770
Total Non Current Liabilities		525,999	4,087	530,086	508,547	(7,753)	500,794
TOTAL LIABILITIES		582,110	4,087	586,197	564,494	(7,753)	556,741
NET ASSETS		781,216	13,231	794,447	820,627	37,625	858,252
Equity							
Contributed equity		758,871	0	758,871	758,871	0	758,871
Reserves	a	9,820	3,552	13,372	13,372	0	9,820
Retained Profits	a,b,c,d	8,973	16,783	25,756	48,384	37,625	86,009
TOTAL EQUITY		781,216	13,231	794,447	820,627	37,625	858,252

(2) RECONCILIATION OF PROFIT FOR THE YEAR ENDED 30 JUNE 2005

	NOTES	CONSOLIDATED			ACTEW CORPORATION LTD		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	b	137,510	0	137,510	189,000	785	189,785
Other income		12,030	0	12,030	12,030	0	12,030
		149,540	0	149,540	201,030	785	201,815
Cost of sales		9,572	0	9,572	9,572	0	9,572
Administration and other costs		4,355	0	4,355	4,355	0	4,355
Depreciation & amortisation expense		20,900	0	20,900	20,900	0	20,900
Borrowing cost expense		22,560	0	22,560	22,560	0	22,560
Project related expenses		62,070	0	62,070	62,070	0	62,070
Provision for diminution of investments		(18,689)	0	(18,689)	0	0	0
Investments in associates equity accounted losses		18,689	0	18,689	0	0	0
Other expenses arising from ordinary activities		2,562	0	2,562	2,545	0	2,545
Share of net (profit) of joint ventures partnership accounted for using the equity method	b	(51,986)	(785)	(52,771)	0	0	0
Profit before income tax expense and contributed assets		79,507	785	80,292	79,028	785	79,813
Contributed assets		9,980	0	9,980	9,980	0	9,980
Profit before income tax		89,487	785	90,272	89,008	785	89,793
Income tax	c,d	18,291	(236)	18,055	27,596	(17,036)	10,560
Profit for the year		71,196	1,021	72,217	61,412	17,821	79,233

NOTE 4: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (continued)

Notes to the reconciliations

(a) Asset revaluation reserve

Under AIFRS, AASB 116 requires all revaluation increments and decrements to be accounted for on an asset specific basis. ACTEW Corporation cannot specifically identify the assets to which the existing Asset Revaluation Reserve relates to. As a result, ACTEW Corporation will be adopting the exemption available within AASB 1 and transferring the balance of the Asset Revaluation Reserve to retained profits.

(b) Business combinations

Under AASB 3 Business Combinations goodwill is no longer permitted to be amortised. Previously ActewAGL amortised goodwill over its useful life not exceeding 20 years, therefore 2005 amortisation has been written back to net profit, with the corresponding decrease to the asset category accumulated amortisation – goodwill. ActewAGL has not applied AASB3 Business Combinations retrospectively and hence, prior year amortisation would not be written back pursuant to the exemption available in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Under AIFRS goodwill is subject to impairment testing on an annual basis or upon the occurrence of impairment indicators that may include a potential impairment. No impairment resulted at 30 June 2005.

(c) Income Tax Equivalents

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 Income Taxes has resulted in the recognition of deferred tax liabilities on revaluations of non-current assets.

(d) Tax consolidation

ACTEW Corporation Limited implemented the tax consolidation legislation as of 1 July 2003. Under previous AGAAP, ACTEW Corporation, as the head entity in the tax consolidated group, recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entities in the tax consolidated group.

(e) Financial instruments

The group will be taking advantage of the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the group to apply previous AGAAP to the comparative information of the financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

(f) Adjustments to retained earnings

This relates to notes a,b,c,d, and was adjusted on 1 July 2004.

NOTE 4: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (continued)

(3) ADJUSTMENTS ON TRANSITION TO AASB 132 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND AASB 139

Financial Instruments: Recognition and Measurement: 1 July 2005

	CONSOLIDATED	ACTEW CORPORATION LTD
	\$'000	\$'000
Total assets 30 June 2005	1,380,644	1,414,993
Adjustments to non current assets		
Other financial assets	(20,674)	(20,674)
Available-for-sale financial assets	20,674	20,674
Total assets 1 July 2005	1,380,644	1,414,993

NOTE 5: SEGMENT INFORMATION

Business segments

The consolidated entity is organised into the following divisions by product and service type:

Water and wastewater

The supply of water and the provision of sewerage services.

Investments

This segments includes activities of the wholly owned subsidiaries, and investing activities of the parent company.

Unallocated

This segment includes corporate activities, activities of the wholly owned subsidiaries. None of these activities constitutes a separately reportable segment.

Geographical segments

The Australian Capital Territory and the surrounding area is the predominant geographic segment.

Notes to and forming part of the segment information

a) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity and consolidated entity as disclosed in note 1 and the accounting standard AASB 114 Segment Reporting. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to a segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment, and other assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by segments are allocated based on a reasonable estimate of usage. Segment liabilities consist primarily of trade and other payables and employee benefits. Segment assets and liabilities do not include income taxes.

b) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's length" basis and are eliminated on consolidation.

c) Equity accounted investments

The consolidated entity owns 100% of ACTEW Retail Ltd and ACTEW Distribution Ltd. These entities have entered into joint venture partnerships with AGL Ltd to manage and market the network and retail operations of the ACT electricity network and the ACT and Queanbeyan gas networks. These investments are accounted for using the equity method. These investments are included in other segments because their activities are dissimilar to the other reportable business segments.

NOTE 5: SEGMENT INFORMATION (continued)

Primary reporting – business segments

YEAR ENDED 30 JUNE 2006

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	WATER & WASTE WATER	INVESTMENTS	CONSOLIDATED
	\$'000	\$'000	\$'000
Sales to external customers	164,118	–	164,118
Total sales revenue	164,118	–	164,118
Share of net profits of associates and joint venture partnership	–	52,698	52,698
Other revenue	1,158	3,067	4,225
Total segment revenue	165,276	55,765	221,041
Segment result	33,927	52,603	86,530
Profit before income tax expense and contributed assets			86,530
Contributed assets			6,566
Net profit before income tax			93,096
Income tax			(32,566)
Net profit for the year			60,530
Segment assets	991,675	388,611	1,380,286
Unallocated assets			31,662
Total assets			1,411,948
Segment liabilities	555,750	61,750	617,501
Unallocated liabilities			–
Total liabilities			617,501
Investments in associates and joint venture partnership	–	360,704	360,704
Acquisition of property, plant and equipment	28,605	390	28,995
Depreciation and amortisation expense	21,265	585	21,850
Other non-cash expenses	(696)	–	(696)

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 5: SEGMENT INFORMATION (continued)

YEAR ENDED 30 JUNE 2005	WATER & WASTE	INVESTMENTS	CONSOLIDATED
	WATER		
	\$'000	\$'000	\$'000
Sales to external customers	143,845	–	143,845
Intersegment sales	–	–	–
Total sales revenue	143,845	–	143,845
Share of net profits of associates and joint venture partnership	–	52,771	52,771
Other revenue	1,702	3,993	5,695
Total segment revenue	145,547	56,764	202,311
Segment result	26,476	53,816	80,292
Profit before income tax expense and contributed assets			80,292
Contributed assets			9,980
Net profit before income tax			90,272
Income tax			(18,055)
Net profit for the year			72,217
Segment assets	961,004	369,609	1,330,613
Unallocated assets			28,690
Total assets			1,359,303
Segment liabilities	523,899	58,211	582,110
Unallocated liabilities			–
Total liabilities			582,110
Investments in associates and joint venture partnership	–	353,006	353,006
Acquisition of property, plant and equipment	46,883	608	47,491
Depreciation and amortisation	20,485	415	20,900
Other non-cash expenses	(1,271)	–	(1,271)

NOTE 6: REVENUE FROM CONTINUING OPERATIONS

NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Sales revenue				
Water revenue				
Sewerage revenue	80,978	65,459	80,978	65,459
	73,067	68,676	73,067	68,676
	154,045	134,135	154,045	134,135
Other revenue				
Interest	2,319	3,375	2,319	3,375
Dividend revenue	–	–	34,342	52,275
a	156,364	137,510	190,706	189,785

a. Excludes share of equity in net profits of joint venture partnerships accounted for using the equity method.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 7: OTHER INCOME

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	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Commonwealth subvention	a	9,250	9,050	9,250	9,050
Net gain from disposal of property, plant and equipment		6	7	6	7
Regulated income		1,124	1,094	1,124	1,094
Contestable income		52	96	52	96
Other income		1,547	1,783	1,547	1,783
		11,979	12,030	11,979	12,030

a. The Commonwealth provides financial assistance to ACTEW for disabilities associated with providing water supply and sewerage services in the ACT as they relate to an inland location and national capital influences. The assistance extends to contributions towards the operating cost of the Lower Molonglo Water Quality Control Centre, and to maintenance costs on the above standard length of water and sewer mains.

NOTE 8: EXPENSES

Operating profit from ordinary activities includes the revenues disclosed in Note 6 above and the following specific net expenses

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit before income tax includes the following specific expenses:				
Finance costs	24,385	22,560	24,385	22,560
Depreciation:				
Water system assets	11,432	10,892	11,432	10,892
Sewerage system assets	10,004	9,593	10,004	9,593
Infrastructure land and buildings	23	23	23	23
Non-infrastructure land and buildings	362	362	362	362
Plant and equipment	29	30	29	30
Total Depreciation	21,850	20,900	21,850	20,900
Rental expenses relating to operating leases	83	88	83	88

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 9: INCOME TAX EQUIVALENTS

The income tax equivalents, calculated at 30% on operating profit differs from the amount calculated on the profit. The differences are reconciled as follows

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Income tax expense					
Current tax		13,057	10,880	(1,211)	(5,002)
Decrease/(Increase) in deferred tax asset	20	(2,559)	1,608	(6)	1,188
(Decrease)/Increase in deferred tax liabilities	27	21,138	14,177	13,259	14,985
Adjustment to prior year		930	(8,610)	2,816	(611)
		32,566	18,055	14,858	10,560
Income tax expense is attributable to:					
Profit from continuing operations		32,566	18,055	14,858	10,560
Aggregate income tax expense		32,566	18,055	14,858	10,560
(b) Numerical reconciliation of income tax equivalents to prima facie tax payable					
Profit from continuing operations before income tax equivalents		93,096	90,272	74,768	89,793
Income tax calculated at 30%		27,929	27,082	22,430	26,938
Tax effect of permanent differences:					
Over provision prior years					
Adjustment to prior year tax effect balances					
Intercompany dividends		-	-	(10,303)	(15,683)
Non-assessable income		(144)	(144)	-	-
Non-deductible expenses		71	105	31	47
Share of joint venture profits and partner share profits		189	(247)	-	-
Difference in tax and accounting asset cost bases		3,707	-	-	-
Research and development		(116)	(131)	(116)	(131)
Adjustment to prior year income tax expense		930	(8,610)	2,816	(611)
Income tax expense		32,566	18,055	14,858	10,560

1. ACTEW is exempt from federal income tax. However, ACTEW is required to pay income tax equivalents to the ACT Government.

Tax consolidation legislation

ACTEW Corporation and its wholly-owned subsidiaries have implemented tax consolidation legislation as of 1 July 2003. The accounting policy note to this legislation is set out in note 1(d).

The entities have entered into a tax funding agreement under which the wholly-owned entities fully compensate ACTEW Corporation Limited for any current tax payable assumed and are compensated by ACTEW Corporation Limited for any current tax receivable and deferred tax assets relating to unused tax credits that are transferred to ACTEW Corporation Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable at the end of the financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivable or payable.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 10: DIVIDENDS

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NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Opening balance	22,521	-	22,521	-
Adjustments on adoption of AASB112	-	(1,021)	-	(17,821)
Amount appropriated from operating profit	60,530	72,217	59,910	79,233
	83,051	71,196	82,431	61,412
Amount transferred from retained profits	-	22,825	620	32,609
Amount paid during the year	(68,321)	(71,500)	(68,321)	(71,500)
Closing balance	14,730	22,521	14,730	22,521

NOTE 11: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and on hand	586	539	586	539
Short-term deposits	28,173	12,942	28,173	12,942
a	28,759	13,481	28,759	13,481

a) the cash flow statement includes cash on hand and in banks and short-term money market investments and interest rates for cash at bank and deposits.

NOTE 12: CURRENT ASSETS – TRADE RECEIVABLES

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Water revenue	17,424	14,006	17,424	14,006
Sewerage revenue	5,914	4,968	5,914	4,968
Other trade receivables	1,756	2,740	1,756	2,740
Provision for doubtful receivables	(87)	(29)	(87)	(29)
Sub total trade receivables	25,007	21,685	25,007	21,685
Sundry receivables and accrued revenue	1,572	1,126	1,572	1,126
Sundry receivables and accrued revenue – related parties	-	-	64,966	56,217
Prepayments	149	15	149	15
Sub total sundry debtors	1,721	1,141	66,687	57,358
Total trade receivables	26,728	22,826	91,694	79,043

(a) Bad and doubtful trade receivables

The group has recognised a loss of \$14,000 (2005: \$29,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in 'other expenses' in the income statement.

(b) Other trade receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

(c) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables due to water and sewerage receivables being a secured asset.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 13: CURRENT ASSETS – OTHER

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee entitlement receivable – related parties	16,746	6,256	16,746	6,256
Total other assets	16,746	6,256	16,746	6,256

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NOTE 14: NON-CURRENT ASSETS – RECEIVABLES

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Non-interest bearing loans to subsidiaries	-	-	286,551	333,897
Total receivables	-	-	286,551	333,897

(a) Credit risk

The loans are held with the subsidiaries which the consolidated group has 100% control over. Therefore there is no credit risk.

NOTE 15: NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Long-term securities	10,789	-	10,789	-
Total available for sale financial assets	10,789	-	10,789	-

Interest rates are between 6.12% and 10.25% while maturity dates are from February 2009 to August 2035.

NOTE 16: NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Investments in joint venture partnerships	38	360,704	353,006	-	-
Investment in TransACT at cost	37	59,549	59,549	59,549	59,549
Investment provision for diminution	37	(12,071)	(14,827)	(59,549)	(59,549)
Investments in associates – equity accounted losses	37	(47,478)	(44,722)	-	-
Total investments using equity method		360,704	353,006	-	-

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 17: NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Investments in controlled entities	36	-	-	1,700	1,700
Investment in other entities		440	440	-	-
Investment provision for diminution	36	(440)	(440)	(300)	(300)
Long term securities		-	20,674	-	20,674
Total other financial assets		-	20,674	1,400	22,074

NOTE 18: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	CONSTRUCTION IN PROGRESS	WATER	SEWERAGE	INFRA- STRUCTURE LAND & BUILDINGS	NON-INFRA- STRUCTURE LAND & BUILDINGS	PLANT & EQUIPMENT	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2004							
Cost	48,125	518,191	482,223	2,856	16,889	359	1,068,643
Accumulated depreciation	-	(87,936)	(91,455)	(191)	(2,621)	(350)	(182,553)
Net book amount	48,125	430,255	390,768	2,665	14,268	9	886,090
Year ended 30 June 2005							
Opening net book amount	48,125	430,255	390,768	2,665	14,268	9	886,090
Additions	47,491	-	-	-	-	-	47,491
Construction capitalised	(59,274)	54,244	5,030	-	-	-	-
Gifted assets	-	4,621	5,359	-	-	-	9,980
Transfer/adjustments	455	(15)	13	-	-	76	529
Depreciation charge	-	(10,892)	(9,593)	(23)	(362)	(30)	(20,900)
Closing net book amount	36,797	478,213	391,577	2,642	13,906	55	923,190
At 30 June 2005							
Cost	36,797	577,041	492,625	2,856	16,889	435	1,126,643
Accumulated depreciation	-	(98,828)	(101,048)	(214)	(2,983)	(380)	(203,453)
Net book amount	36,797	478,213	391,577	2,642	13,906	55	923,190
Year ended 30 June 2006							
Opening net book amount	36,797	478,213	391,577	2,642	13,906	55	923,190
Additions	28,995	-	-	-	-	-	28,995
Construction capitalised	(27,293)	11,187	15,783	-	323	-	-
Gifted assets	-	2,902	3,665	-	-	-	6,567
Transfer/adjustments	(1,155)	(2,801)	2,334	-	-	22	(1,600)
Depreciation charge	-	(11,432)	(10,004)	(23)	(362)	(29)	(21,850)
Closing net book amount	37,344	478,069	403,355	2,619	13,867	48	935,302
At 30 June 2006							
Cost	37,344	588,329	514,407	2,856	17,212	457	1,160,605
Accumulated depreciation	-	(110,260)	(111,052)	(237)	(3,345)	(409)	(225,303)
Net book amount	37,344	478,069	403,355	2,619	13,867	48	935,302

NOTE 18: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

a) All fixed assets are held by the parent entity.

b) The directors have reviewed the carrying amount of these assets to ensure there is no material difference between their fair value and carrying amount at balance date.

c) ACTEW does not hold title to all the assets it controls. Specifically Googong Dam, situated in NSW (book value \$26.2m), and various other ACT sites under reservoirs. Steps are being taken to obtain most of the outstanding leases.

d) An independent valuation of non-infrastructure land and buildings was undertaken by McCann and Associates as at 30 June 2003 based on fair market value of existing use. The directors have reviewed the carrying amount of these assets to ensure there is no material difference between their fair value and carrying amount at balance date.

NOTE 19: NON-CURRENT ASSETS – OTHER

NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee entitlement receivable-related parties	1,258	12,521	1,258	12,521
Total other	1,258	12,521	1,258	12,521

NOTE 20: NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit and loss				
Audit fees	43	42	36	36
Distributions from joint venture partnerships	7,551	4,153	-	-
Employee entitlements	5,686	6,070	5,490	6,070
Capital in progress provision	150	150	150	150
Investment provision	17,955	17,955	17,955	17,955
Insurance losses	250	250	250	250
Other	27	70	222	70
Total Deferred Tax Assets	31,662	28,690	24,103	24,531
Movements				
Opening balance as at 1 July	28,690	14,308	24,531	9,729
Movements in the income statement	2,559	(1,608)	6	(1,188)
Movements to deferred tax liability	-	(749)	-	(749)
Adjustments to prior year tax effect balances	413	16,739	(434)	16,739
Closing balance at 30 June	31,662	28,690	24,103	24,531

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 21: CURRENT LIABILITIES – PAYABLES

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	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade payables	169	84	169	84
Other payables and accruals	15,227	14,319	15,202	14,299
Income tax payable	2,923	1,469	2,923	1,325
Total payables	18,319	15,872	18,294	15,708

NOTE 22: CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Unsecured				
Loans	11,424	10,087	11,424	10,087
Total borrowings	11,424	10,087	11,424	10,087

Financing arrangements

Unrestricted access to lines of credit as approved by the ACT government were available as follows:

Total standby facility	8,000	8,000	8,000	8,000
Used standby facility	-	-	-	-
Unused standby facility	8,000	8,000	8,000	8,000

(a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on borrowings are set out in note 25.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 23: CURRENT LIABILITIES – PROVISIONS

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Employee entitlements		262	18	262	18
Employee entitlements seconded employees		16,746	6,257	16,746	6,257
Dividend	10	14,730	22,521	14,730	22,521
Workers' compensation (Pre 1989)		201	254	201	254
Total provisions		31,939	29,050	31,939	29,050

Movements in consolidated current provisions

Movements in each class of provisions during the financial year are set out below.

	DIVIDEND	WORKER'S COMPENSATION	TOTAL
	\$'000	\$'000	\$'000
Carrying amount at start of year	22,521	254	22,775
Provisions accrued	60,530	180	60,710
Provisions paid	(68,321)	(233)	(68,554)
Carrying amount at the end of year	14,730	201	14,931

NOTE 24: CURRENT LIABILITIES – OTHER

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Unearned revenue	1,115	1,097	1,115	1,097
Security deposits received	5	5	5	5
Total other	1,120	1,102	1,120	1,102

NOTE 25: NON-CURRENT LIABILITIES – BORROWINGS

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	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Unsecured					
Loans		361,730	347,840	361,730	347,840
Total non-current borrowings	a,b	361,730	347,840	361,730	347,840

a. The main portion of total borrowings is for a CPI linked indexed annuity bond which ACTEW borrowed \$250 million on 17 April 2000 and maturing on 17 April 2020. The bonds are issued paying a base coupon amount, added to which is a CPI component. Principal and interest payments are made quarterly with the interest component directly reflecting the movements in the CPI.

As at 30 June 2006 the total principal outstanding was \$235,525,048 (2005 – \$241,206,547).

b. Interest rate swap

Due to exposure to fluctuating interest rates ACTEW entered into an interest rate swap contract under which it is obliged to receive interest at variable rates each 90 days and to pay interest at a fixed rate of 6.15% on a notional face value equivalent to the loan principal outstanding. The contract is settled on a net basis and the net amount payable at the reporting date is included in trade payables. At 30 June 2006 the notional principal amount is \$70 million and the interest rate swap contract will expire on 19 October 2011.

Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk.

2006 (CONSOLIDATED)	FLOATING INTEREST RATE \$'000	FIXED INTEREST MATURING IN:						TOTAL \$'000
		1 YEAR OR LESS \$'000	OVER 1 TO 2 YEARS \$'000	OVER 2 TO 3 YEARS \$'000	OVER 3 TO 4 YEARS \$'000	OVER 4 TO 5 YEARS \$'000	OVER 5 YEARS \$'000	
Borrowings	(285,525)	–	–	–	–	–	–	(285,525)
Commonwealth Loan	–	(4,092)	(4,092)	(4,092)	(4,092)	(1,261)	–	(17,629)
Interest rate swap	(70,000)	–	–	–	–	–	–	(70,000)
	(355,525)	(4,092)	(4,092)	(4,092)	(4,092)	(1,261)	–	(373,154)
Weighted average interest rate	6.37%	11.36%	11.36%	11.36%	11.36%	11.36%		

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 25: NON-CURRENT LIABILITIES – BORROWINGS (continued)

2005 (CONSOLIDATED)	FLOATING INTEREST RATE	FIXED INTEREST MATURING IN:						TOTAL
		1 YEAR OR LESS	OVER 1 TO 2 YEARS	OVER 2 TO 3 YEARS	OVER 3 TO 4 YEARS	OVER 4 TO 5 YEARS	OVER 5 YEARS	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Borrowings	(266,208)	–	–	–	–	–	–	(266,208)
Commonwealth loan	–	(4,092)	(4,092)	(4,092)	(4,092)	(4,092)	(1,259)	(21,719)
Interest rate swap	(70,000)	–	–	–	–	–	–	(70,000)
	(336,208)	(4,092)	(4,092)	(4,092)	(4,092)	(4,092)	(1,259)	(357,927)
Weighted average interest rate	6.13%	11.36%	11.36%	11.36%	11.36%	11.36%	11.36%	

Fair value

The carrying amounts and fair values of the Group's financial instruments at balance date are:

	2006		2005	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	\$'000	\$'000	\$'000	\$'000
On-balance sheet				
Fixed rate borrowings	(17,629)	(17,629)	(21,719)	(21,719)
Floating rate borrowings	(285,525)	(285,525)	(266,208)	(266,208)
Interest rate swap	(70,000)	(70,000)	(70,000)	(70,000)
	(373,154)	(373,154)	(357,927)	(357,927)

NOTE 26: NON-CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Employee entitlements	35	202	35	202
Employee entitlements – seconded employees	1,258	12,521	1,258	12,521
Insurance losses	835	835	835	835
Workers' compensation (Pre 1989)	1,290	1,626	1,290	1,626
Total provisions	3,418	15,184	3,418	15,184

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 26: NON-CURRENT LIABILITIES – PROVISIONS (continued)

Movements in consolidated non-current provisions

Movements in each class of provisions during the financial year are set out below.

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	INSURANCE LOSSES	WORKER'S COMPENSATION (PRE 1989)	TOTAL
	\$'000	\$'000	\$'000
Carrying amount at start of year	835	1,626	2,461
Provisions accrued	–	–	–
Provisions paid	–	(337)	(337)
Carrying amount at end of year	835	1,289	2,124

NOTE 27: NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit and loss				
Distributions from ActewAGL Retail Partnership	37,442	29,292	–	–
Interest receivable	86	59	86	59
Unread consumption	2,598	2,276	2,598	2,276
Depreciation	144,024	130,155	144,024	130,155
Internal charges	–	–	–	–
Joint venture receivable	5,401	5,280	5,401	5,280
Total Deferred Tax Liabilities	189,551	167,062	152,109	137,770
Movements				
Opening balance 1 July	167,062	149,105	137,770	124,730
Adjustments to prior year tax effect balances	1,351	4,529	1,080	(1,196)
Movement from deferred tax asset	–	(749)	–	(749)
Movement to the income statement	21,138	14,177	13,259	14,985
Closing balance at 30 June	189,551	167,062	152,109	137,770

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 28: CONTRIBUTED EQUITY

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 Shares	2005 Shares	2006	2005
a) Paid up capital:				
Ordinary shares fully paid	2	5	\$0.60 only	\$1.50 only
Total share capital	2	5	\$0.60 only	\$1.50 only
b) Total capital				
Paid Up Capital	758,871	758,871	758,871	758,871
Total capital	758,871	758,871	758,871	758,871
c) movement in ordinary share capital		Number of Shares	Issue price	
1 July 2004 Opening balance		5	0.30	1.50
18 August 2005 Capital reduction		(3)	0.30	(0.90)
30 June 2006 Balance		2	0.30	0.60

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NOTE 29: RESERVE

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
General insurance reserve	a	9,820	9,820	9,820	9,820
Total reserve		9,820	9,820	9,820	9,820

(a) General insurance reserve

Due to the difficulty in attaining certain categories of insurance, the restrictions on cover, and of the increases in excesses that are applicable even when cover can be obtained, it is considered prudent to maintain a reasonable financial capacity to manage risks that may arise, and accordingly during 2001/02 previous reserves made for the environment and bushfires were amalgamated into a general insurance reserve.

NOTE 30: RETAINED PROFITS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Retained profits at the beginning of the financial year	25,756	31,798	89,561	80,992
Net profits available for reserves and dividends	60,530	72,217	59,911	79,233
Total available for appropriation	86,286	104,015	149,472	160,225
Aggregate amounts transferred from reserves	-	-	-	-
Dividends provided for or paid	(60,530)	(94,021)	(60,530)	(94,021)
Adjustments on adoption of AASB 112	-	15,762	-	23,357
Adjustments to prior year subsidiary dividend	-	-	(41,065)	-
Retained profits at the end of the financial year	25,756	25,756	47,877	89,561

NOTE 31: KEY MANAGEMENT PERSONNEL

(a) Directors

The following persons were directors of ACTEW Corporation Ltd during the financial year.

(i) Chairman – non-executive	J G Service
(ii) Executive director	M J Costello – Managing Director
(iii) Non-executive directors	M B Easson K L Neil E W Mathews E A Whitelaw B M Byrne

Any transactions with directors or in which directors are interested are conducted on an arms-length basis in the normal course of business and on commercial terms and conditions.

(b) Key management personnel remuneration

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short-term benefits	1,594	1,485	1,594	1,485
Post-employment benefits	176	–	176	–
	1,770	1,485	1,770	1,485

Remuneration amounts include payments to ACTEW directors and executives responsible for the strategic direction of the company.

Loans to board members

There were no loans to any directors as at 30 June 2006.

Shares, units, options and other equity instruments of directors

There have been no directors who have owned shares, units, options and other equity instruments during the financial year with related parties.

NOTE 32: REMUNERATION OF AUDITORS

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:

(a) Assurance services

Auditors of ACTEW Corporation Ltd (ACT Auditor General)

Audit or review of financial reports of the parent entity	121,000	111,300	121,000	111,300
Audit or review of financial reports of controlled entities	24,500	20,550	24,500	20,550
Total remuneration of auditor	145,500	131,850	145,500	131,850

(b) Taxation services

PricewaterhouseCoopers (Contract Auditor for the ACT Auditor

General, acting in its own capacity in providing these services)	17,255	14,300	17,255	14,300
Total remuneration of taxation services	17,255	14,300	17,255	14,300

NOTE 33: COMMITMENTS FOR EXPENDITURE

	NOTES	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
a) Capital and other expenditure commitments:					
Total capital and other expenditure contracted for at balance date but not provided for in accounts payable:					
Within 1 year	a	64,518	61,793	64,518	61,793
Later than 1 year but not later than 5 years	a	67,200	130,718	67,200	130,718
Later than 5 years		-	-	-	-
		131,718	192,511	131,718	192,511
b) Lease commitments:					
Commitments in relation to leases contracted for at balance date, but not provided for in accounts payable:					
Within 1 year	b	30	64	30	64
Later than 1 year but not later than 5 years	b	16	70	16	70
Later than 5 years		-	-	-	-
		46	134	46	134
c) Remuneration commitments:					
Commitments for the payment of salaries and other remuneration under long-term employment contracts, in existence at reporting date, but not recognised as liabilities payable:					
Within 1 year		352	642	352	642
Later than 1 year but not later than 5 years		5,302	6,073	5,302	6,073
Later than 5 years		-	-	-	-
		5,654	6,715	5,654	6,715
d) Remuneration commitment receivable:					
Commitments receivable for salaries and other remuneration under long-term employment contracts of employees seconded to the joint venture partnerships:					
Within 1 year		246	312	246	312
Later than 1 year but not later than 5 years		-	319	-	319
Later than 5 years		-	-	-	-
		246	631	246	631

a. ACTEW has a contract with ActewAGL to operate the water and sewerage infrastructure owned by ACTEW. The majority of these expenditure commitments relate to this contract.

b. Lease commitments are for computer equipment and motor vehicles. ACTEW's PC and other IT equipment are leased through ActewAGL's agreement with Computer Fleet and the Commonwealth Bank. ACTEW's motor vehicle fleet is leased through Rhodium Asset Solutions, an ACT Government owned business. The lease expires 29 April 2007.

NOTE 34: CONTINGENT LIABILITIES

There is one public liability claim pending which cannot be measured reliably. Should this claims be successful the Corporation estimates the liability will not be significant.

There are also a couple of pending actions against the Corporation. Should these actions be successful, the Corporation estimates the liability will not be significant.

ACTEW Corporation Ltd has underwritten a \$25 million (2005 – \$25 million) standby debt facility for TransACT Communications. At 30 June 2006 \$1.25m was undrawn.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 35: RELATED PARTIES

Parent entities

The wholly owned group consists of ACTEW Corporation Ltd and its wholly owned controlled entities. These entities are, ACTEW Retail Ltd, ACTEW Distribution Ltd and ACTEW China Pty Ltd. The results of the ActewAGL joint venture which is 50% owned by ACTEW Corporation through its subsidiaries, ACTEW Retail Ltd and ACTEW Distribution Ltd is accounted for using the equity method. ACTEW Corporation has several operational arrangements with its controlled entities. These arrangements are as follows:

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ACTEW CORPORATION LTD

	2006	2005
	\$'000	\$'000

The following transactions occurred with related parties

Dividend revenue	34,342	52,275
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Aggregate amounts receivable from and payable to entities in the wholly-owned group at balance date were as follows:

Current receivables (tax funding agreement)	13,101	16,714
Current receivables (other)	51,865	39,503
Current payables and other	14,730	22,521
Non interest bearing loans	286,551	333,897

Parent entity

The parent entity in the wholly owned group is ACTEW Corporation Ltd.

The ultimate parent entity is the ACT Government, which owns 100% (2005 – 100%) of the issued ordinary shares of ACTEW Corporation Ltd.

Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

Controlled Entities – Note 36.

Other related parties

ACTEW CORPORATION LTD

	2006	2005
	\$'000	\$'000

Aggregate amounts included in the determination of operating profit before income tax equivalents that resulted from transactions with other related parties:

Joint Venture Partnership		
Operating expenses	67,883	62,007
Capital expenses	18,294	28,890

Aggregate amounts receivable from and payable to joint venture partnerships at balance date:

Current receivables	16,746	6,257
Current accounts payables and other	16,746	6,257
Non-current receivables	1,258	12,521
Non-current accounts payables and other	1,258	12,521

NOTE 36: INVESTMENT IN CONTROLLED ENTITIES

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING		COST OF INVESTMENT	
			2006 %	2005 %	2006 \$'000	2005 \$'000
ACTEW Distribution Ltd	Australia	Ordinary	100%	100%	400	400
ACTEW Retail Ltd	Australia	Ordinary	100%	100%	1,000	1,000
ACTEW China Pty Ltd	Australia	Ordinary	100%	100%	300	300
Provision for diminution of investment in ACTEW China Pty Ltd					(300)	(300)
					1,400	1,400

NOTE 37: INVESTMENTS IN ASSOCIATES

NAME OF COMPANY	OWNERSHIP INTEREST	CONSOLIDATED		ACTEW CORPORATION LTD	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
TransACT Communications Pty Limited	24.9%				
Movement in carrying amount of investments in associates					
Carrying amount at the beginning of financial year		59,549	59,549	-	-
Prior year equity accounted losses		(44,722)	(26,033)	-	-
Current year equity accounted losses and prior year adjustments		(2,756)	(18,689)	-	-
Provision for diminution		(12,071)	(14,827)	-	-
Carrying amount at end of financial year		-	-	-	-
Share of associates expenditure commitments					
Lease commitments		1,768	984	-	-
Remuneration commitments		680	381	-	-
Total expenditure commitments		2,448	1,365	-	-
Capital and other commitments		7,582	14,311	-	-
		10,030	15,676	-	-
Share of associates revenues, expenses and results					
Revenues		12,873	10,290	-	-
Expenses		15,629	28,941	-	-
Operating profit before tax		(2,756)	(18,651)	-	-

1. Following the outsourcing of the majority of the TransACT services to ActewAGL during 2003/04 ACTEW equity accounted TransACT for the first time from 1 July 2003.

2. TransACT Communications Pty Limited financial data is based on TransACT management accounts as at 30 June 2006.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 38: INTERESTS IN JOINT VENTURES
(a) Joint Venture Partnership

ACTEW Retail Ltd and ACTEW Distribution Ltd have entered into joint venture partnerships with AGL Ltd to manage and market the network and retail operations of the ACT electricity network and the ACT and Queanbeyan gas networks. Both entities have a 50% participating interest in the respective joint ventures. Information relating to the joint venture partnership, presented in accordance with the accounting policy described in note 1(b) (ii) is set out below:

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	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Carrying amount of investment in partnership	266,617	213,919	-	-
Share of partnerships assets and liabilities				
Current assets	65,889	62,320	-	-
Non-current assets	387,077	382,497	-	-
Total assets	452,966	444,817	-	-
Current liabilities	65,331	57,622	-	-
Non-current liabilities	2,189	9,447	-	-
Total liabilities	67,520	67,069	-	-
Net assets	385,446	377,748	-	-
Share of partnership's revenues, expenses and results				
Revenues	288,465	284,294	-	-
Expenses	235,767	231,523	-	-
Profit before income tax	52,698	52,771	-	-
Share of partnership's commitments				
Lease commitments	7,425	10,434	-	-
Remuneration commitments	28,485	24,684	-	-
Total expenditure commitments	35,910	35,118	-	-
Capital and other commitments	16,237	17,055	-	-
	52,147	52,173	-	-

(b) Joint venture operation

ACTEW Corporation and ActewAGL entered into a joint venture operation called Majura Rise where the parties acquired two blocks of land for the purpose of constructing on each block a dwelling that demonstrates energy efficiency and water minimisation methods. Both entities have a 50% participating interest in the respective joint venture which has a total budget of two million dollars. The consolidated entity's interests in the assets employed in the joint venture are included in the consolidated balance sheet and expenses incurred in the income statement in accordance with the accounting policy described in note 1(b) (ii).

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets	149	52	149	52
Non-current assets	754	398	754	398
Share of assets employed in joint venture	903	450	903	450
Other Expenses	97	-	97	-
Net Loss	97	-	97	-

Contingent liabilities relating to joint ventures

Each of the partners in the ActewAGL partnership are jointly and severally liable for the debts of the partnership. The assets of the partnership exceed its debts. At year end the partnership had no outstanding contingent liabilities. Should there be successful claims the joint venture must pay the first \$25,000 of each claim.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 39: RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		ACTEW CORPORATION LTD	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Reconciliation of operating profit after income tax expense to net cash flows from operations:				
Profit for the year	60,530	72,217	59,910	79,233
Depreciation and amortisation	21,850	20,900	21,850	20,900
Loss/(gain) on disposal of property, plant and equipment	(6)	(7)	(6)	(7)
Contributed assets received free of charge	(6,566)	(9,980)	(6,566)	(9,980)
Profit from Joint Venture Partnership	(52,698)	(52,771)	-	-
Asset writedown	(62)	(13)	(62)	(13)
Capitalisation of Labour	(55)	(224)	(55)	(224)
Provision for doubtful debts	58	15	58	15
Capital contributions	(14)	(19)	(14)	(19)
Changes in operating assets and liabilities:				
(Increase)/decrease in receivables	(3,934)	(3,046)	240	(8,861)
(Increase)/decrease in deferred tax assets	(2,972)	(15,132)	428	(10,973)
(Increase)/decrease in other financial assets	(10,490)	1,036	(10,490)	(15,677)
(Increase)/decrease in other assets	11,263	313	11,263	313
Increase/(decrease) in payables	3,898	(13,460)	3,892	(4,615)
Increase/(decrease) in provisions	(1,086)	(1,297)	(1,086)	(1,297)
Increase/(decrease) in provision for deferred income tax equivalents	22,489	18,706	14,339	7,340
Increase/(decrease) in other liabilities	18	(273)	18	(273)
Increase/(decrease) in retained profits resulting from AASB 112	-	12,210	-	19,805
Net cash inflow from operating activities	42,223	29,175	93,718	75,667

NOTE 40: EVENTS SUBSEQUENT TO BALANCE DATE

There have been no material events subsequent to balance date.

**TERMS, ACRONYMS
AND INDEX**



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TERMS

kL	kilolitre = one thousand litres
ML	megalitre = one million litres
GL	gigalitre = one thousand million litres
km	kilometre
p/a	per annum
mm	millimetre
m	million
b	billion

ACRONYMS

ACTPLA	ACT Planning and Land Authority
AGL	The Australian Gas Light Company
CGBT	Cotter to Googong Bulk Transfer
EAP	Environment Action Plan
EBIT	Earnings before interest and tax
Ecowise	Ecowise Environmental Pty Limited
EMP	Environment Management Plan
EPA	Environment Protection Authority
HSE	Health, safety and environment
ICRC	Independent Competition and Regulatory Commission
LMWQCC	Lower Molonglo Water Quality Control Centre
R&D	Research and development
TransACT	TransACT Communications Pty Limited
UMA	Utilities Management Agreement

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