ACTEW
CORPORATION


# Annual Report

# 2012–13

ABN 86 069 381 960

Information about ACTEW and an electronic version of this annual report can be found on the ACTEW website; http://www.actew.com.au

100% ISO 14001 PCF process chlorine free PCW post consumer waste pH neutral paper made carbon neutral FSC MIX Paper from responsible sources FSC™ C011273

# Section 1

# Contents

# Company Profile

ACTEW Corporation Limited (ACTEW) is an unlisted public company with assets and investments in water, sewerage, and energy services and operations. The company is owned by the ACT Government and has two voting shareholders: the Chief Minister and Deputy Chief Minister of the ACT.

ACTEW has two subsidiary companies: ACTEW Retail Limited and ACTEW Distribution Limited.

ACTEW owns the water and sewerage business and assets in the ACT and is a 50% owner of ActewAGL.

Our corporate commitments to our customers and shareholders are:

- Our Services

  To be an industry leader in consistently providing safe, efficient and reliable water and sewerage services.

- Our Community

  To achieve community awareness of the value of our services, and to support our community's wellbeing through the provision of educational services, sponsorships and community support programs.

- Our Environment

  To undertake our activities in a sustainable manner, reducing and offsetting our impact on the environment in accordance with the ACT Government's stated greenhouse gas and renewable energy targets.

- Our Shareholders

  To maximise sustainable financial returns to our shareholders.

- Our Water Future

  To provide a secure water future for the ACT.

- Our Workplace

  To continue to provide a workplace which is safe, challenging and rewarding.

- Our Investments

  To maintain our investment in ActewAGL in a manner which best serves the needs of ACTEW and our shareholders.

**Principal Registered Office:**
Level 5 ActewAGL House
40 Bunda Street
Canberra ACT 2600

**Mitchell Operations Office:**
12 Hoskins Street
Mitchell ACT 2911

**ACN:** 069 381 960

**ABN:** 86 069 381 960

**Postal address:** GPO Box 366
Canberra ACT 2601

**Website:** www.actew.com.au
**Email:** talktous@actew.com.au
**Twitter:** @ACTEWWater

**Telephone:** (02) 6248 3111
**Facsimile:** (02) 6248 3567
**TTY:** (02) 6248 3179
**Language Assistance:** 13 14 50

**Auditor:**
Auditor-General of the ACT

**Solicitors:**
King & Wood Mallesons
Minter Ellison

**Bankers:**
Commonwealth Bank of Australia
Reserve Bank of Australia
Westpac Banking Corporation

# Chairman and Managing Director Reports

## Message from the Chairman

ACTEW achieved strong financial results for the year ended 30 June 2013 with an after-tax profit of $80.3m.

Our assets are valued at $2.8b, which includes water and sewerage infrastructure assets valued at $2.0b. The Board is maintaining close scrutiny on the gearing levels which are currently 58%, having increased over the past couple of years as a result of increased borrowings for the water security projects and dividend payments.

We continued to work with our joint venture partners AGL and Singapore Power ensuring the continuing strong financial performance of ActewAGL. ACTEW received $48.9m in dividend payments from ActewAGL during the year. In May 2013 Singapore Power International (SPI) and State Grid International Development (SGID) entered into an agreement for SGID to purchase a 50% shareholding in SPI Assets (Australia) which is the owner of Jemena Limited, one of ACTEW's joint venture partners. The transaction is yet to be finalised.

Dividends paid to our shareholders totalled $18.4m and income tax equivalent payments totalled $57.1m. The final dividend payment for 2012–13 has been delayed due to the release by the Independent Competition and Regulatory Commission of the new pricing determination to enable ACTEW and its shareholders to consider the impact of the decision.

The Board was pleased to see construction of the enlarged Cotter Dam completed in December 2012 and the reservoir's subsequent connection to Canberra's water supply in February 2013. This is a significant milestone for ACTEW and the community, and is a realisation of many years of planning and hard work.

The Board initiated a review of the Corporation's governance framework in early 2013. The review assessed ACTEW against corporate governance themes consistent with principles and requirements published by ASIC, the ASX and the ACT's Auditor-General's Office. The report will be made publically available when finalised and considered by the Board in early 2013-14. Our shareholders also initiated a review of the institutional arrangements for ACTEW in June 2013. The review is examining current arrangements for the delivery of water and sewerage services to the ACT and region, and the structural arrangements for the investment in the ActewAGL joint venture. A report is expected to be presented to the shareholders in late 2013.

Carol Lilley was appointed to the Board in April 2013 bringing the number of directors to eight. Ms Lilley, a former partner at PricewaterhouseCoopers, brings a wealth of knowledge, experience and gender equity to the Board, complementing the skills and expertise of existing Directors.

On behalf of the Board I acknowledge the leadership and contribution of John Mackay AM to ACTEW, ActewAGL and the Canberra community through his roles in business, government, education, sport, and not for profit community organisations. John's tenure as Chairman of ACTEW concluded on 30 June 2013. His energetic drive and passion for Canberra has seen many achievements and benefits flowing to the community. It has been an honour and a privilege to work closely with him since 1998 and his dedication and hard work will be sorely missed. As a result of John's departure, I was appointed Acting Chairman and Wendy Caird Acting Deputy Chair on an interim basis from 1 July 2013.

Finally I thank my fellow directors, executives, the management team and all staff for their contributions during the year and for their ongoing commitment to ACTEW.

**Michael Easson AM**
Acting Chairman

# Message from the Managing Director

2012-13 was a year of transition for ACTEW as we completed our business transformation journey, a significant organisational redesign, and appointed a new and revitalised management team. This journey began in late 2011 following the Board's approval of the return of the water and sewerage business to ACTEW. We took a long and hard look at our culture, benchmarked our business and developed new mission and vision statements, as well as strategic imperatives emphasising our commitment to customers, safety, efficiency and commerciality in our operations. Importantly, during this period we remained focussed on one of our key objectives of delivering safe and secure water to the ACT.

The transfer of more than 340 staff from ActewAGL occurred seamlessly. This has been the most significant level of organisational change since the establishment of the ActewAGL joint venture in 2000. The new business name for our water and sewerage operations and business, ACTEW Water, was launched on the 1st of July 2012. This was an important step to achieving our new vision and strategies, and to transforming the business in a way that is closely aligned with our corporate objectives.

Delivery of the suite of water security projects has been achieved with the completion of the new Cotter Dam wall and the official opening of the Murrumbidgee to Googong Water Transfer Pipeline. The enlarged Cotter Reservoir was connected to Canberra's water supply in February 2013, signalling a significant milestone and creating the largest ever volume of drinking water capacity for the ACT.

We continued to be an active investor in ActewAGL to ensure it remains the energy supplier of choice for the majority of Canberrans, and we've continued to support the development and growth of the ACT and neighbouring regional areas, in particular through infrastructure investments in the Molonglo Valley and Googong Township.

We've maintained our commitment to the ACT and surrounding communities to support and enhance engagement in order to fulfil our role as a socially responsible organisation. We provided major and minor sponsorships and in-kind donations and support to 67 events, charities and organisations. It has been a momentous year as Canberra celebrates its Centenary and ACTEW is proud to support activities acknowledging the national capital's first 100 years.

The final water and sewerage pricing direction was a significant change in approach from previous determinations with the key features being a six year regulatory period to 30 June 2019, major biennial reviews, annual pricing adjustments and a firm specific return on infrastructure. There was a change in approach from the draft to the final direction in the financial return on infrastructure and resulted in no impairment impact. This determination has caused ACTEW and its shareholders to reassess our infrastructure investment and maintenance programs and processes.

As noted by the Acting Chairman, two reviews of ACTEW are currently underway and I expect the outcomes will provide opportunities to strengthen existing governance and institutional arrangements.

I acknowledge the dedication, professionalism and commitment of ACTEW's executive, the management team and all employees, and thank them for their contributions during a busy and at times challenging year.

I am looking forward to the next few years as we see the rewards of the significant groundwork we have done in the past eighteen months in transforming ACTEW into a water industry leader.

**Mark Sullivan AO**
Managing Director

# Highlights

## Business Integration and Transformation

On 1 July 2012 ActewAGL's water network and business operations division was successfully re-integrated into ACTEW, creating the new business brand of ACTEW Water.

Overnight the ACTEW organisation grew from 38 personnel to almost 400. The re-integration allowed the business to be more strategic in its business operations. In order to facilitate this change a business transformation team was established to conduct a formal analysis of the existing water and sewerage operations, identify opportunities for efficiencies and develop a new strategy for ACTEW moving forward.

The initial stage of the Business Transformation Program was aligned with priorities in contractor management and a focus on our customers and staff safety, and then established with a business diagnostic and benchmarking process. This process involved reviewing the existing financial health of the business, and benchmarking our operations against other similar businesses within Australia.

A cultural review was commissioned and a detailed external stakeholder survey undertaken. This identified areas for improvement as well as significant areas for opportunities, and amalgamated with developed strategies, lead to the program of transformation being endorsed by ACTEW Executive.

The cultural program has expanded into a formal strategy to change ACTEW's workplace culture in order to support the new strategic imperatives and business strategy from 1 July 2013.

*ACTEW Water's Group Management leadership team*

# Sewerage Operations

Strategic planning for the sewerage treatment plants culminated in the publication of the Lower Molonglo Water Quality Control Centre (LMWQCC) Strategic Plan. This plan together with the Fyshwick Treatment Plant Strategic Plan and Total Dissolved Solids Review formed the basis for ACTEW's regulatory submission for the 2013–18 regulatory period.

ACTEW achieved the following compliance results in order to comply with all its Environmental Authorisations.

| | |
|---|---|
| LMWQCC effluent reuse | 100% |
| North Canberra Water Reuse Scheme (NCWRS) | 100% |
| Southwell Park water reuse | 100% |
| Drinking Water Utility Licence (*Australian Drinking Water Guidelines*, 2004) | 100% |

Additional environmental licence compliance is outlined in Financial Statements on pages 4 and 5.

Development of concept designs to upgrade several LMWQCC treatment processes commenced, including the solids handling system (ie; sewage sludge incinerators), replacement of the LMWQCC aeration blowers system and upgrading of the LMWQCC secondary and tertiary treatment system.

We worked with the Environment Protection Authority (EPA) to develop the Environmental Management Plan for Uriarra Sewerage Treatment Plant. This provides further assurance that the plant is managed appropriately to mitigate any risk to the environment.

**3,206**
kilometres of sewerage pipes

**26**
pumping stations

**29,659ML**
of sewage treated at LMWQCC

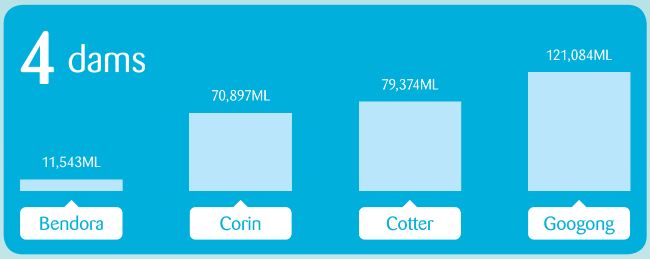
*Lower Molonglo Water Quality Control Centre*

# Water Operations

The year saw a return to below average annual rainfall. In particular, the late summer and autumn periods were dry but interspersed with very high intensity events in January and June which increased the annual rainfall total.

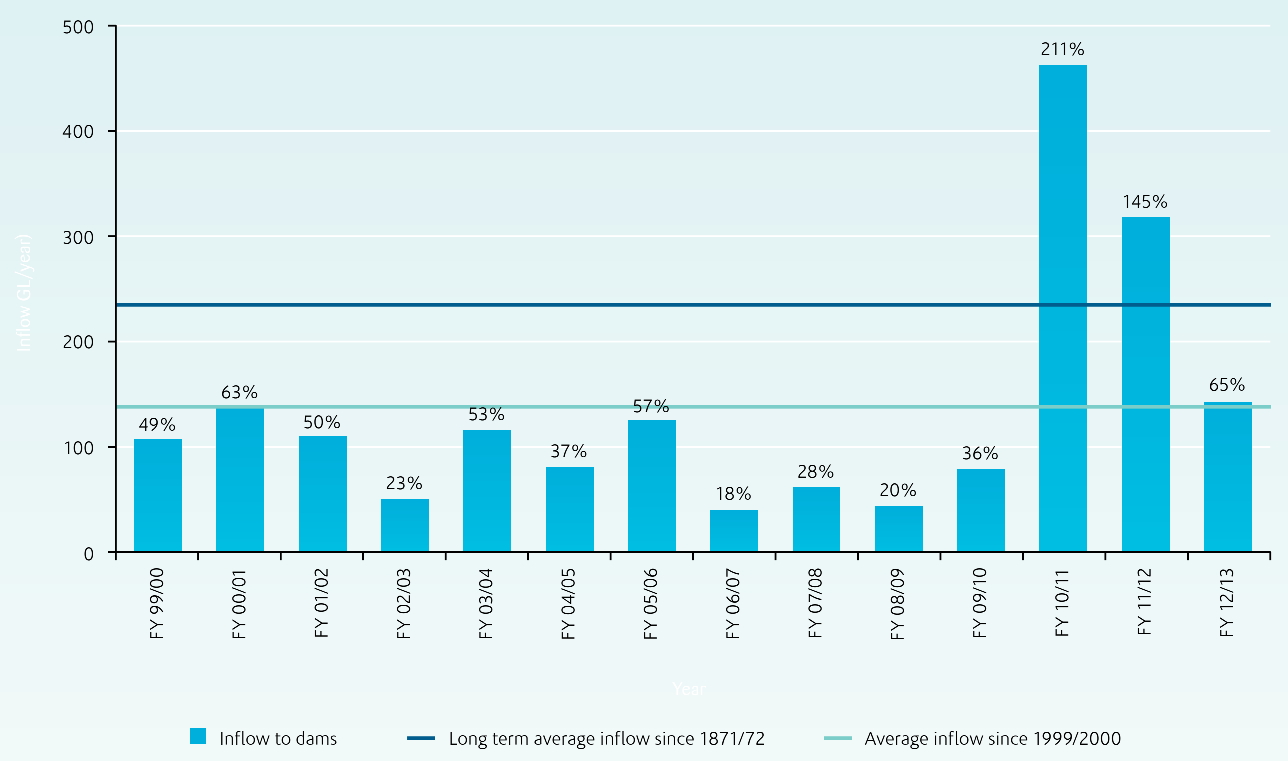
This reduced average rainfall meant that inflows into the four reservoirs totalled 149 gigalitres (GL), below the long-term average of 234.7GL. During this time the enlarged Cotter Reservoir commenced storing water. The new Cotter Dam increased the total storage capacity ~ 35%.

Water consumption during the year totalled 47.8GL. This represents a saving of 39.4% in per capita demand relative to 1993–2002 levels, a favourable comparison with the ACT Government's *Think water, act water* target of 12% by 2013 and 25% by 2023.





Annual inflows into Corin, Bendora, Cotter and Googong reservoirs



Net usage amounted to 18.8 GL. This was higher than previous years as the lower rainfall during the year slightly increased water demand and decreased return flows from the LMWQCC to the Molonglo River of 28.9GL.

Testing of the quality of water in the reservoirs and catchment waterways was undertaken in accordance with the Australian Drinking Water Guidelines. There were no breaches of the Guidelines and ACTEW complied with the Drinking Water Utility Licence and Public Health (Drinking Water) Code of Practice 2007.

A strategy for source water protection for the next five years was developed in order to guide investment and provide transparency in improved water quality outcomes. Ongoing liaison with key stakeholders has fostered collaborative relationships, including, ACTEW's participation in the development of The Upper Murrumbidgee Actions for Clean Water Plan.

**25**
pumping stations

**3,219**
kilometres of water mains

*Helicopter lifting one of six destratification units into enlarged Cotter Reservoir (Photo by Col Ellis)*

# Capital Works and Major Infrastructure

## Two major construction projects to address Canberra's long-term water security needs were effectively completed:

1. The new Cotter Dam wall increased the Cotter Reservoir's capacity from 4 gigalitres (GL) to approximately 78GL; and
2. Commissioning of the Murrumbidgee to Googong Water Transfer Pipeline. This project was designed to counter the effects of longer and more severe droughts; the pipeline allows the transfer of up to 100 megalitres of water per day from the Murrumbidgee River through a 12 kilometre underground pipeline and along Burra Creek to Googong Reservoir.

The project works at the new Cotter Dam involved the construction of a main dam wall and two auxiliary saddle dams. Additional works associated with upgrading selected recreation areas within the Cotter Precinct were also part of the project scope. This year saw significant progress on the dam wall which is now constructed to full height, is retaining water and is connected to the town supply.

The forecast completion of construction works directly associated with the dam wall at the end of July 2013, with associated operational access roads, downstream river works and landscape remediation by the end of August 2013. A number of open days were held to encourage the community to visit the site and see first-hand the extent of this significant and imposing structure. Thousands of visitors were provided with guided tours and an opportunity to walk along the crest of the dam wall.

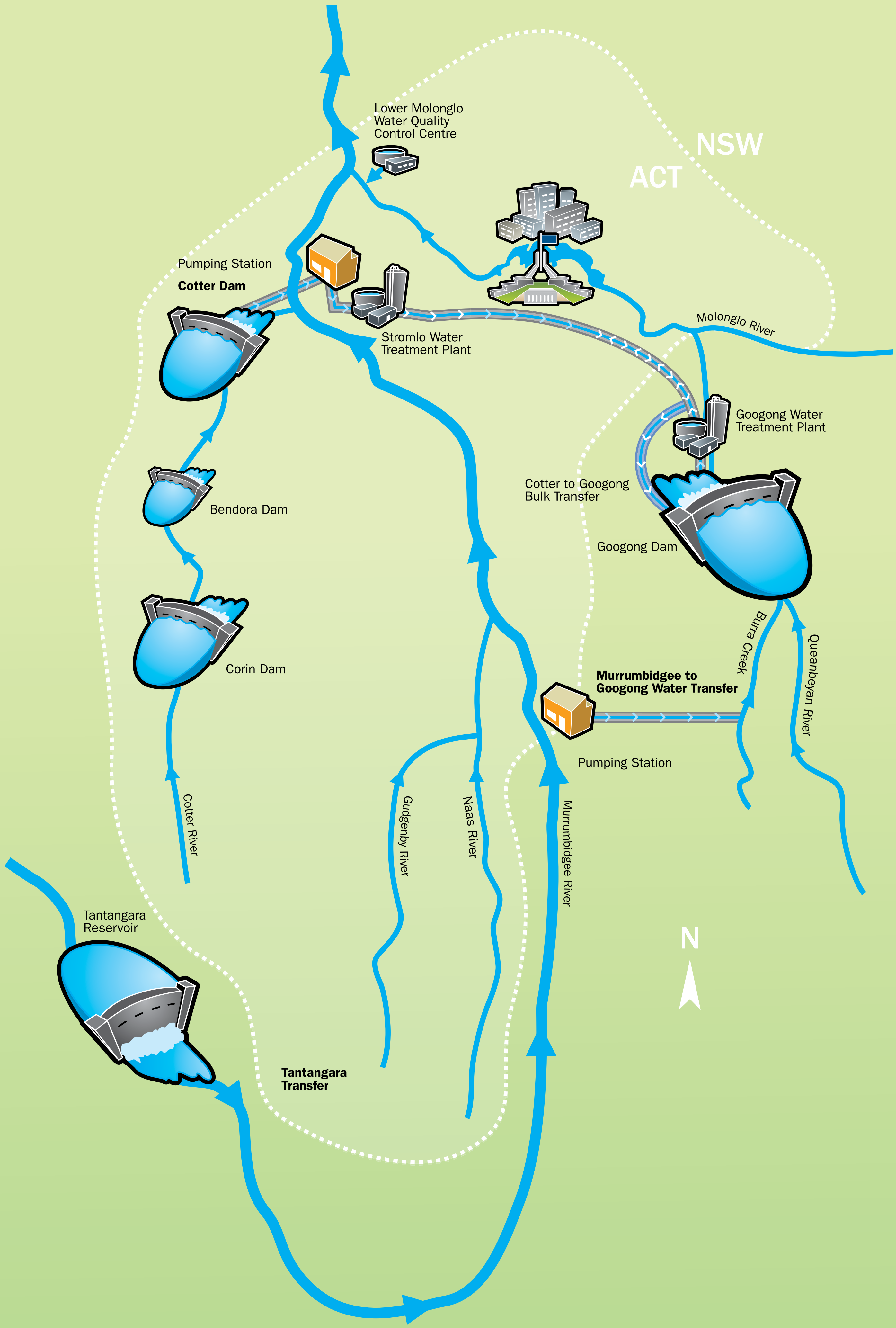
The artificial rock reef fish habitats within the Cotter catchment were completed, with continued works progressing well in revegetation and rehabilitation works. Revegetation and rehabilitation works, including to Cotter Avenue, will continue through to project completion.

The completion of the new Cotter Dam means that the original strategic objective of safeguarding the water supply for future generations has now come to fruition.

The Murrumbidgee to Googong Water Transfer Pipeline was commissioned and officially opened by the ACT's Chief Minister in August 2012. This project typified the successful partnership arrangements between ACTEW and the Bulk Water Alliance.

More than $110m was spent on capital works projects for water infrastructure during the year. Major projects undertaken included new reservoirs and associated trunk mains for the development of new suburbs in the Molonglo Valley and an ongoing program of network renewals and upgrades to older parts of the water supply network. Investments were also made in capital works totalling $27.4m for sewerage assets. Special projects undertaken included upgrades to older parts of the sewerage network.

*Enlarged Cotter Dam Construction June 2013*


Lower Molonglo
Water Quality
Control Centre
NSW
ACT
Pumping Station
Cotter Dam
Stromlo Water
Treatment Plant
Molonglo River
Googong Water
Treatment Plant
Cotter to Googong
Bulk Transfer
Bendora Dam
Googong Dam
Corin Dam
Burra Creek
Queanbeyan River
Murrumbidgee to
Googong Water Transfer
Pumping Station
Cotter River
Gudgenby River
Naas River
Murrumbidgee River
N
Tantangara
Reservoir
Tantangara
Transfer

# Regulatory Review and Pricing Determination

The Independent Competition and Regulatory Commission (ICRC) regulates prices for water and sewerage services in the ACT.

Following a terms of reference determination from the ACT Government in October 2011, the ICRC conducted a review into regulated water and sewerage services and issued a Price Direction on 26 June 2013. The Price Direction determined a major change to the form of regulation through a six year regulatory period from 1 July 2013 to 30 June 2019; major biennial reviews; annual pricing adjustments; and a firm specific return on infrastructure. This differs from the previous determination of a five year regulatory period and a typical firm return on investment. The key elements of the pricing model to be reviewed every two years are:

- operating and capital expenditure forecasts;
- historical capital expenditure;
- cost of capital, including the cost of debt, return on equity and gearing ratio;
- water sales volumes and customer number forecasts; and
- sewerage customer number and fixture forecasts.

On alternate years in which there is no review, an annual pricing adjustment will be undertaken in line with the Consumer Price Index (CPI) published by the Australian Bureau of Statistics.

Prices for water and sewerage services in 2013-14 were set in accordance with this Price Direction. From 1 July 2013, water bills will increase by up to 5% and sewerage charges will decrease by 18%. This resulted in an overall proposed decrease of 7% to a typical household water and sewerage bill.

There was a change in approach from the ICRC's draft to the Final Direction in the financial return on infrastructure which resulted in no impairment impact. This was highlighted as a possibility following the draft direction.

# Customer Services and Engagement

The business transformation journey has yielded clear thinking on our commitment to being customer centric in addition to being dynamic and sustainable, and committed to safety and the environment. The adoption of the ACTEW Water business name publicly reflects our continually evolving organisation.

ACTEW recorded high levels of service for our customers in 2012–13. Our challenging targets to improve service levels for customers are annually reported in a national performance report through the National Water Commission.

Our commitment to understanding our customers' needs, ensuring efficient and effective delivery against those customer expectations with a key focus on continual service improvement.

**159,593**
water customers

**155,322**
sewage customers

**114KL**
water consumption per person 2012-13

# Research and Development

Several projects were developed as part of the ongoing applied research and development program including: partnerships relating to the investigation of the resilience of native fish in the Cotter River catchment to the effects of climate change; electrochemical generation of caustic and oxygen from sewerage for emission control in sewers; and the continuing testing of how forests impact water flow, use and yield in the catchments of the upper Cotter River.

Research projects were also developed to assess methodology for the more rapid, cost effective and or safer collection of water quality data. The development of research and environmental science in the ACT was supported through postgraduate projects and scholarships as well as research projects at CSIRO, the University of Canberra and the Australian National University.

The first recipient of ACTEW's Aspi Baria Scholarship continued to undertake PhD work and is currently involved in producing experimental analytical works via a broad range of chemical and bio-assay techniques. Works are anticipated to be completed in the 2013-14 financial year with benefits to ACTEW including a better understanding of the contaminants that appear through sewerage treatment at LMWQCC. The outcomes from the project will assist in the long term planning for the LMWQCC plant.

*Construction of the world first freshwater rock reef at the Cotter Dam*

# Environmental and Sustainable Development

## We have maintained a fully compliant Environmental Management System to the international standard ISO:14001 and continued to implement compliant environmental actions.

A strategy was developed to reduce greenhouse gas emissions and improve its energy management systems. Initiatives in this strategy focus on the most cost effective and sustainable options that will help ACTEW reach greenhouse gas emission targets set by the ACT Government including:

- 40% reduction of 1990 emission levels by 2020;
- 80% reduction of 1990 emission levels by 2050; and
- Carbon neutrality by 2060.

A drive to implement these initiatives will focus on energy avoidance and efficiency, demand management, renewable low emission energy sources and carbon offsets. In the meantime, ACTEW achieved its target of 15% renewable energy supply in 2012-13 to comply with the ACT Government's targets for renewable energy supply in the *Climate Change and Greenhouse Reduction Act 2010*.

To offset its greenhouse gas emissions, ACTEW has been undertaking a process to certify its carbon forests under the Carbon Farming Initiative. The certification process is due to be completed in 2013-14. It is expected that this will result in about 20,000 tonnes of carbon equivalent being offset in the 2012-13 period.

To offset the environmental impacts from the Water Security Projects, ACTEW established two biodiversity offset sites. Continued progress with the enlarged Cotter Dam Biodiversity Offsets Program has provided positive landscape-scale change to the Cotter catchment area.

Work was also undertaken with the Indigenous Green Team to incorporate local indigenous bush tucker plants into the Offsets Program. Implementation of a Memorandum of Understanding between ACT Parks and Conservation Service and ACTEW is providing land stabilisation and enhanced water quality in the Cotter catchment. Weed control works for 2012-13 have also been completed. Results indicate that the weed control program is continuing to be successful, with revegetation outcomes to be determined over the coming years.

The Murrumbidgee to Googong Offsets Program has been implemented, securing over 90 hectares of land for in-perpetuity conservation. On-ground works to improve the conservation value of the property have continued, with extensive weed control measures implemented, and fencing modifications undertaken to exclude grazing stock from the offsets site and allow for greater connectivity across the property.

The enlarged Cotter Dam Fish Management Program continued, providing information and management actions to ensure our operations were not adversely affecting threatened fish and crayfish species in the Cotter catchment. The Fish Monitoring Program has been completed and will allow ACTEW to measure the effects of the filling and operation of the enlarged Cotter reservoir. Monitoring buoys were installed across the reservoir to allow ACTEW to track water quality changes. As the reservoir continues to fill, the threatened Macquarie Perch will soon be able to access the specially constructed habitat areas. The Fish Management Program received the Program Innovation Award at the 2013 Australian Water Association National Water Awards.

The Source Water Protection Program (SWPP) assesses and manages potential risks to the quality of source water supply through targeted work within the ACT drinking water catchments. The Program made substantial progress in building effective relationships with a wide range of drinking water catchment stakeholders. In 2013, we developed a strategy for source water protection for the next five years to guide investment and provide transparency in outcomes.

The development of a sustainability framework to guide the business and drive progress in all elements of sustainability commenced during the year. A sustainability policy and set of sustainability principles have also been introduced.

We continued to participate in the Be Green campaign which encourages staff to reduce their impact on the environment both at work and home. Net greenhouse gas emissions decreased by approximately 862 tonnes of $CO_2e$ compared with the previous year excluding offsets.

*ACTEW Water Field Service Crews working 24/7*

# About ACTEW Corporation

## Corporate Governance

ACTEW's corporate governance structures and practices provide the framework for the management and achievement of the Corporation's objectives.

It includes a corporate governance charter, Board and Committee charters, policies, procedures, delegations, guidelines, corporate registers, a code of conduct, a risk management register, an annual internal audit plan, and a legislative compliance system.

The documents detail and promote the high standards of governance, accountability and compliance required of all personnel. The Charter was reviewed and updated during the year, and ACTEW's executives and senior managers were issued with a governance manual to ensure awareness of the corporate governance framework.

The Board engaged Pricewaterhouse-Coopers to conduct a review of its governance framework in February 2013. The report is expected to be presented to the Board in August 2013.

ACTEW has reporting and compliance obligations under Commonwealth and ACT legislation including *Corporations Act 2001*, *Privacy Act 1989*, *Territory-owned Corporations Act 1990*, *Work Health and Safety Act 2011*, *Utilities Act 2000*, *Water Resources Act 2007*, *Environment Protection Act 1997*, *Water and Sewerage Act 2000* and the *Public Health Act 1997*.

A number of licences and regulations govern the operations of the water and sewerage business. A project is currently underway to implement a new legal compliance database that will identify the legislative obligations with which the business must comply, and map these obligations to relevant processes, procedures and responsible roles. The new system will also enable ACTEW to monitor and respond to changes in legislation and is scheduled for completion in September 2013.

Details of licence and regulation compliance for 2012-13 are on page 9 and in the Financial Statements at pages 4 and 5.

## Statement of Corporate Intent

ACTEW has agreed commercial and business objectives, activities and priorities with the voting shareholders. These are detailed in an annual Statement of Corporate Intent (SCI). The 2012-13 SCI was tabled in the ACT Legislative Assembly on 23 August 2012. Quarterly reports on the progress of priorities outlined in the SCI, financial and operational matters, as well as reports and briefings on key and emerging issues, were provided to the voting shareholders during the year.

## Code of Conduct

ACTEW's code of conduct outlines the high standards of honesty, integrity and ethical and law-abiding behaviour expected of all ACTEW personnel.

The code of conduct was reviewed and updated as part of the policies and procedures review. There were no breaches of the code during the year.

## Policies and Procedures

Shortly after 1 July 2012, a review of ACTEW's corporate policies and procedures commenced with the assistance of lawyers, King & Wood Mallesons. The aim of the review was to collate, amend and ensure the policies and procedures aligned with the new business structure and operations.

In October 2012 the Managing Director approved a new suite of eight corporate policies and 66 corporate procedures. These policies and procedures are available to all ACTEW staff on the ACTEW intranet.

# Risk Management and Internal Audit

The Audit and Risk Management Committee (ARMC) is a committee of the Board. The function of the Committee is to provide oversight of the risk management function, review accounting and reporting structures, monitor internal controls and performance, oversee the outcomes of the external and internal audits, and undertake investigations or reviews. The Committee met six times during the year. Carol Lilley was appointed Acting Chair of the ARMC from 1 July 2013.

As part of its role of risk management oversight, the Committee reviews reports on the Strategic Risk Register (SRR) on a regular basis. The scope of risks reported to the Committee includes financial, environmental, safety, service delivery, investments, compliance, governance and organisational capability.

Annual and quarterly reviews of the SRR were undertaken in accordance with the International Risk Management Standard ISO 31000:2009.

Our external auditor is Deloitte Touche Tohmatsu who is contracted by the ACT's Auditor-General's Office to audit the corporation. Internal audit services are provided by PricewaterhouseCoopers.

Annual and quarterly reviews of the SRR were undertaken in accordance with the International Risk Management Standard ISO 31000:2009.

# Members of the ACTEW Board

At 30 June 2013 the Board comprised eight Directors: seven Non-Executive Directors and one Executive Director. The Board met ten times during the year. The annual general meeting and two general meetings were also held. Details of attendance at Board and Committee meetings are on page 3 in the Financial Statements.

## John Mackay AM

BA FAIM

### Chairman

John Mackay was Chairman of ACTEW from 1 July 2008 to 30 June 2013. He was also Chairman of ActewAGL and is on the Board of Governors for the National Arboretum Canberra. Mr Mackay was a Member of the Board's Remuneration and Nomination Committees.

He is a Director of Canberra Investment Corporation Limited and the Little Company of Mary Healthcare, and a Member of the Canberra Raiders Board. He was appointed the inaugural Chairman of the Canberra Glassworks in 2006 and retired from the position in January 2011. On 1 January 2011 Mr Mackay took up his appointment as Chancellor of the University of Canberra.

Mr Mackay was Chief Executive Officer of ACTEW from 1998 until 2000. He was appointed Chief Executive Officer of ActewAGL in late 2000 and held the position until his retirement in 2008.

Mr Mackay was appointed a Member of the Order of Australia in 2004, Canberra Citizen of the Year in 2008 and awarded an honorary doctorate from the University of Canberra in 2009.

## Michael Easson AM

BA Hons (UNSW), MSc (Oxon.), PhD (ADFA), FAICD, FRICS

### Deputy Chairman

Michael Easson is Chairman of the EG Property Group, Chairman of Ridley & Co., and a Director of Stadium Australia Management Limited. He is the Deputy Chairman of the ActewAGL Joint Venture Partnerships Board and a Member of ActewAGL's Audit and Risk Management Committee.

He has served on the boards of various infrastructure, property and investment businesses.

Mr Easson has been a Director since July 1995 and Deputy Chairman since May 1996. He was Chairman of ACTEW's Audit and Risk Management Committee until 30 June 2013 and is a Member of the Remuneration and Nomination Committees. Mr Easson was appointed a Member of the Order of Australia in 1998.

He was appointed Acting Chairman of ACTEW from 1 July 2013.

## Mark A Sullivan AO

BEc, FCPA, FAIM, MAICD

### Managing Director

Mark Sullivan was appointed Managing Director of ACTEW in July 2008. He is a member of the ActewAGL Joint Venture Partnerships Board, the Australian Taxation Office Audit Committee and the John James Memorial Foundation Limited Board. In February 2013 Mr Sullivan was appointed a Director and Deputy Chairman of the Water Services Association of Australia, and in May 2013 a Director of the Australian Water Association. Mr Sullivan is Chairman of ACTEW Distribution Limited and ACTEW Retail Limited Boards.

Mr Sullivan was Secretary of the Department of Veterans' Affairs (DVA) and President of the Repatriation Commission and Chair of the Military Rehabilitation and Compensation Commission (2004-2008), Secretary of the Department for Family and Community Services (2001-2004), Chief Executive Officer of the Aboriginal and Torres Strait Islander Commission (1999-2001), and Deputy Secretary of the Department of Immigration and Multicultural Affairs (1988-1999). He has extensive senior managerial experience in both the private and public sectors.

Mr Sullivan received an Australian Centenary Medal in 2001 and was appointed an Officer of the Order of Australia in 2008.

## Wendy Caird

MAICD

### Director

Wendy Caird was appointed to the Board in December 2009 and was a Member of ACTEW's Audit and Risk Management Committee until May 2012. Ms Caird is a Member of the Remuneration and Nomination Committees, and Chair of the Safety and Environment Committee.

She has held a number of positions with Public Services International (France) including Co-chair Asia Pacific Region (1998-2002), a Member of the Executive Board (1997-2002), Global Director of the Quality Public Services campaign (2002-2006) and a Member of the Global Coordinating Committee of the "Global Call to Action Against Poverty: (Make Poverty History)" campaign (2005-2006).

Ms Caird held a number of executive positions with the Community and Public Sector Union (Australia) from 1983, including as NSW Branch Secretary, until her appointment as National Secretary in 1993. During this period she was Vice President of the Australian Council of Trade Unions and an Executive Member of the NSW Labour Council. She represented Australia at International Labour Organisation meetings, including as Co-chair of the Workers Group.

Ms Caird is a small business owner, the Vice President of the Kangaroo Valley Community Association, and a member of both the Kangaroo Valley Tourist Association and Kangaroo Valley Environment Group.

Ms Caird was appointed Acting Deputy Chair of ACTEW and a Member of the ActewAGL Joint Venture Partnerships Board from 1 July 2013.

## Dr Allan Hawke AC

BSc. (Hons), PhD (ANU), FAIM, FIPAA, FAICD

### Director

Dr Allan Hawke was appointed to the Board in December 2009 and is a Member of the Audit and Risk Management Committee, the Remuneration Committee and Nomination Committee. He holds a Bachelor of Science degree with first class honours and is a Doctor of Philosophy (ANU).

Dr Hawke was Secretary of the Department of Veterans' Affairs (1994–1996), Department of Transport and Regional Services (1996-1999) and the Department of Defence (1999-2002). He was Australian High Commissioner to New Zealand (2003-2006) and Chancellor of the Australian National University (2006-2009).

He is Chairman of the Civil Aviation Safety Authority, a Director of Datacom and a Member of the Canberra Raiders Board.

Dr Hawke was awarded an Australian Centenary Medal in 2001 and appointed a Companion of the Order of Australia in 2010.

## Rachel Peck

BEng (Civil) (Hons), MBA, GAICD

### Director

Rachel Peck was appointed to the Board in May 2011 and is a Member of the Remuneration, Nomination, and Safety and Environment Committees.

She is Principal of peckvonhartel. Ms Peck is currently on the Canberra Business Council Planning and Infrastructure Taskforce and a member of the Building and Grounds Committee for Trinity College at the University of Melbourne. She is a former Divisional Council Member of the Property Council of Australia (ACT), and has held a number of other committee positions with the Council including as a Member of the Infrastructure Committee, the Economic Development Committee and the Planning Committee. Ms Peck was an Interim Board Member of the Canberra International Arboretum from 2005 until 2006.

Ms Peck attended the Australia 2020 Summit and in 2010 completed a Masters of Business Administration at the Melbourne Business School. She was awarded a Future Leaders' Award in 2006 and was the Telstra ACT Young Business Woman of the Year in 2008. She is a Graduate of the Australian Institute of Company Directors.

## Jennifer Goddard

BCom (Hons), MAICD

### Director

Jennifer Goddard was appointed to the Board in November 2011 and is a Member of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee.
Ms Goddard is a non-Executive Director of the Grains Research and Development Corporation and Chair of the Corporation's Audit and Risk Committee, and a Member of the Australian Fisheries Management Authority Commission.

She was the inaugural Chair of the Australian Solar Institute Limited from 2009 to 2013.

During her twenty four year career in the Australian Public Service, she held a number of senior executive positions in the Department of the Prime Minister and Cabinet (PM&C) and worked as an economist in the Treasury. As a Deputy Secretary in PM&C, Ms Goddard advised the Prime Minister on a wide range of macroeconomic, industry, infrastructure, water, environment and climate change policy matters and carried responsibility for Cabinet, COAG and budget processes.

## Carol Lilley

BCom, FCA, CIA, CGAP, MAICD

### Director

Carol Lilley was appointed to the Board in April 2013. She has held a number of positions in the professional services sector including as a Partner of PricewaterhouseCoopers Canberra (2004-2011) and as a financial statement and internal auditor from 1993 to 2011. She has over 19 years experience providing assurance services to clients including financial statement audit, internal audit and project and risk management, and has spent the last 16 years with a particular focus on government, primarily the ACT and Federal Governments.

Ms Lilley is currently Deputy Chair of the Audit Committee of the ACT Government Commerce & Works Directorate and was previously Chair of the Audit Committee of the ACT Auditor General's Office. She is also Chair of the Board of a local IT start up company, Relational IO Pty Ltd and runs her own website business.

Ms Lilley is a Fellow of the Institute of Chartered Accountants, was a registered company auditor for seven years and is a certified internal auditor and government audit professional.

Ms Lilley was appointed Acting Chair of the Audit and Risk Management Committee from 1 July 2013.

# Executives

At 30 June 2013 the Executive comprised the Managing Director, the Deputy Chief Executive Officer, the Company Secretary and the Chief Financial Officer.

## Mark Sullivan* AO

BEc, FCPA, FAIM, MAICD

### Managing Director

Mark Sullivan is responsible for the corporate and strategic management of the company.

* Also a member of the ACTEW Board. See page 22 for full biography.

## Ian Carmody

BEc

### Deputy Chief Executive Officer

Ian Carmody commenced with ACTEW in November 2009 as Director of the Water Security Program which included the construction of the enlarged Cotter Dam and the Murrumbidgee to Googong Water Transfer Pipeline. In July 2012 he assumed additional responsibilities for business transformation, commercial development and business investment matters as Executive Manager Commercial.

In February 2013 Mr Carmody was appointed Deputy Chief Executive Officer with responsibility for the strategic management and operation of ACTEW's water and sewerage assets as well as retaining his existing portfolio of responsibilities.

Mr Carmody is a Director of ACTEW Distribution Limited and ACTEW Retail Limited.

## Michele Norris

FAICD FAIM

### Company Secretary and Executive Manager Governance

Michele 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, statutory compliance and reporting, secretariat services and support to the Board, government liaison and reporting, and legal matters for the Corporation and subsidiary companies.

Ms Norris is Company Secretary of ACTEW Distribution Limited and ACTEW Retail Limited. She is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Management, an Affiliate of Chartered Secretaries Australia and aJustice of the Peace.

## Simon Wallace

BCom, CPA

### Chief Financial Officer

Simon Wallace was appointed Chief Financial Officer in May 2011. He commenced with ACTEW in 2004 and was previously the Corporation's Chief Accounting Officer.

Mr Wallace is a Director of ACTEW Distribution Limited and ACTEW Retail Limited. He holds a Bachelor of Commerce degree from the Australian National University and is a Certified Practicing Accountant.

These Executives were responsible for the day to day management of the company. Executives' responsibilities are outlined on page 27.

# Remuneration

The voting shareholders determine the remuneration for Directors. The Board meets as the Remuneration Committee and the Committee met twice during the year. Members of the Board's Committees and Directors of ACTEW Distribution Limited and ACTEW Retail Limited are not remunerated.

| Name and Position | $ Short term benefits | | $ Post employment benefits super-annuation | $ Other long term benefits | $ Termination benefits | $ Total |
|---|---|---|---|---|---|---|
| | (a) cash salary, fees and short-term compensated absences | (b) short-term cash profit-sharing and other bonuses* | | | | |
| **John Mackay** — Non Executive Chairman | 69,127 | - | 5,291 | - | - | 74,418 |
| **Michael Easson** — Non Executive Director | 38,361 | - | 4,219 | - | - | 42,580 |
| **Mark Sullivan** — Managing Director | 511,494 | 178,973 | 79,096 | - | - | 769,563 |
| **Allan Hawke** — Non Executive Director | 33,358 | - | 3,669 | - | - | 37,027 |
| **Wendy Caird** — Non Executive Director | 33,358 | - | 3,669 | - | - | 37,027 |
| **Rachel Peck** — Non Executive Director | 33,358 | - | 3,669 | - | - | 37,027 |
| **Jennifer Goddard** — Non Executive Director | 33,358 | - | 3,669 | - | - | 37,027 |
| **Carol Lilley** — Non Executive Director (from 1 April 2013) | 8,688 | - | - | - | - | 8,688 |
| **Simon Wallace** — Chief Financial Officer | 213,334 | 50,000 | 28,967 | - | - | 292,301 |
| **Michele Norris** — Company Secretary and Executive Manager Governance | 163,796 | 58,020 | 35,978 | 2,268 | - | 260,062 |
| **Ian Carmody** — Executive Manager Commercial (until 24 February 2013); Deputy Chief Executive Officer (from 25 February 2013) | 392,300 | 70,000 | 25,000 | - | - | 487,300 |
| **Ross Knee** ^ — Executive Manager Water Strategy (until 8 March 2013) | 220,624 | - | 37,114 | 186,822 | 337,699 | 782,259 |
| **Asoka Wijeratne** ^ — Executive Manager Water Operations (until 25 February 2013) | 261,372 | - | 42,252 | - | 687,130 | 990,754 |
| TOTAL | 2,012,528 | 356,993 | 272,593 | 189,090 | 1,024,829 | 3,856,033 |

* Note total remuneration packages have been amended and no longer include bonuses post 1 July 2013.

The remuneration table above has been based on the following methodology:
- Salaries, employee entitlements, non monetary benefits and superannuation are on a cash method of reporting.
- Bonuses and termination remuneration are based on the accrual method of reporting, relating to the current period of service. These are not paid until the following financial year.

^ Asoka Wijeratne (Executive Manager Water Operations) became an unattached employee on 25 February 2013. His remuneration has been included for the period 1 July 2012 - 25 February 2013. Mr Wijeratne's redundancy has not been paid but has been provided for in the financial statements as at 30 June 2013 and has also been included in the remuneration note above. This amount does not include his long service leave entitlement ($263,159.64), which will be exhausted before his termination payment is made. Ross Knee ceased employment on 8 March 2013 and was paid out termination benefits in the current year. There were no redundancies in the prior year.

# Organisational Overview

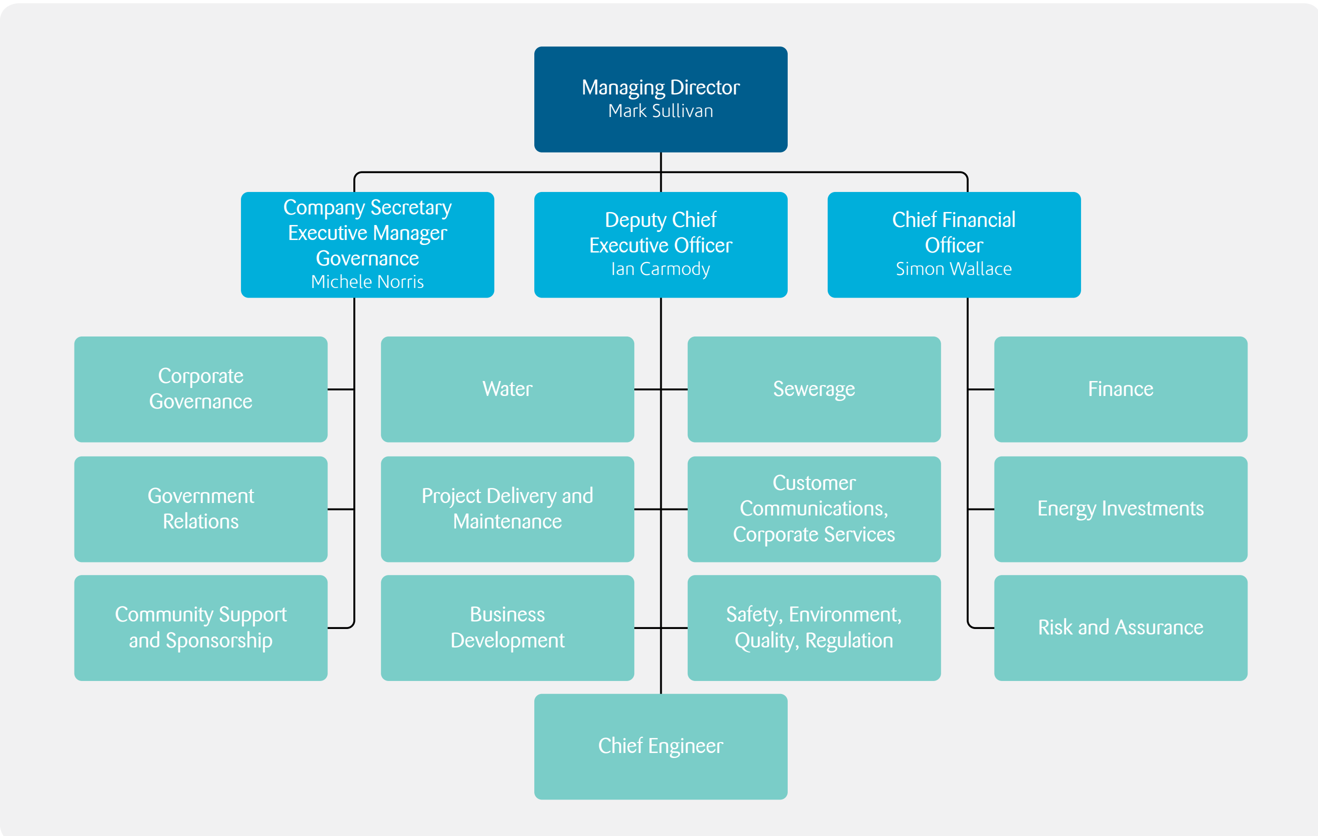
The integration of the management and operations of the water business resulted in a review and redesign of the organisational structure.

During the business diagnostic process it was identified that the existing organisational structure was going to inhibit the ability of the business to achieve the new corporate strategy. The business transformation team lead a project to develop a new operating model for ACTEW. This was an inclusive process with stakeholders being consulted across the organisation as well as business and government.

The new organisational structure reflects the diversity of the company's responsibilities. Staff have high levels of responsibility and accountability for business, financial and investment performance, governance, and regulatory and licence compliance.

At 30 June 2013 staffing numbers totalled 391.

## Organisational chart



# Investments

## ActewAGL

ACTEW is a 50% owner of ActewAGL, a multi utility provider of electricity and gas services to the ACT and surrounding regional New South Wales centres.

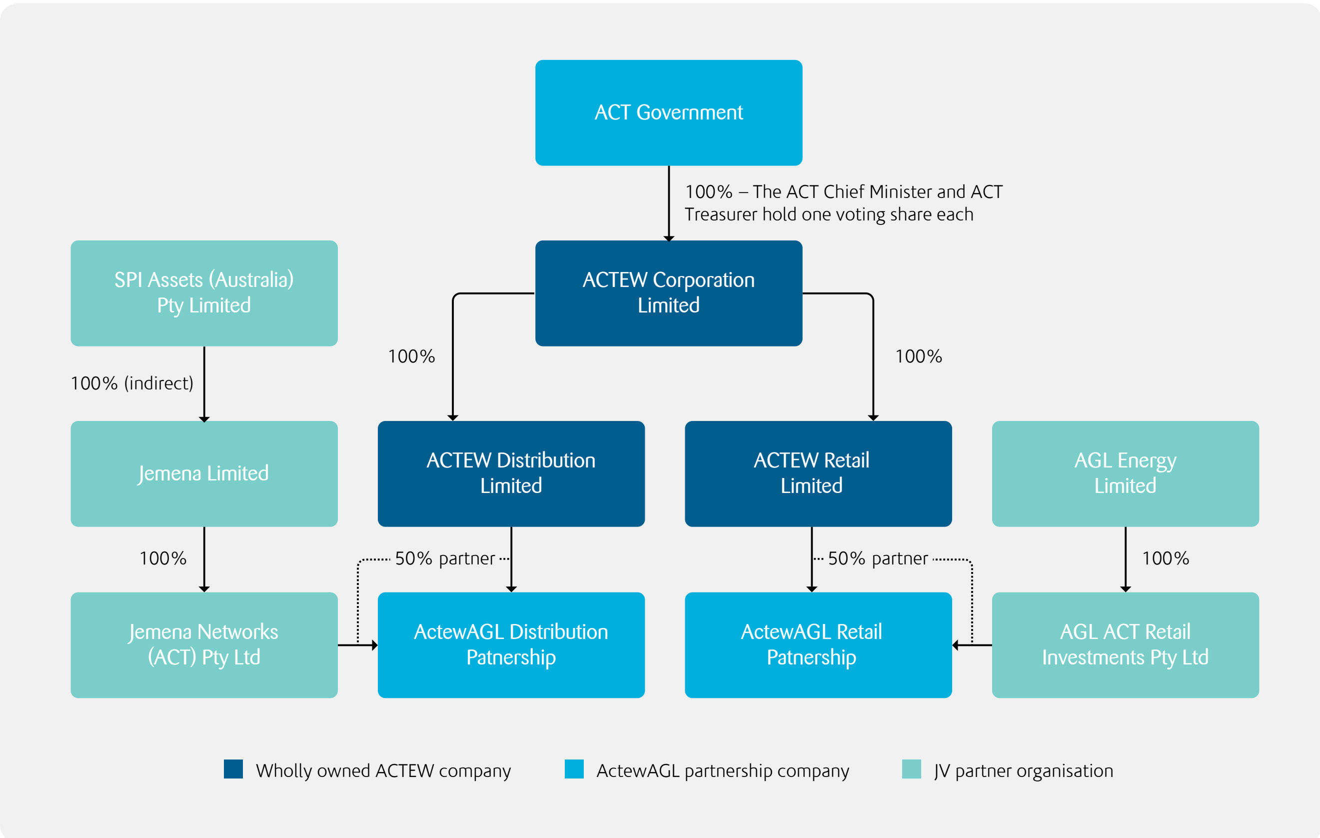
ActewAGL comprises two partnerships: ActewAGL Retail (a partnership between ACTEW Retail Limited and AGL ACT Retail Investments Pty Limited); and ActewAGL Distribution (a partnership between ACTEW Distribution Limited and Jemena Networks (ACT) Pty Limited).

Members of the ActewAGL Joint Venture Partnerships Board at 30 June 2013 were:

- Mr John Mackay AM – Chairman
- Mr Michael Easson AM – Deputy Chairman
- Mr Paul Adams
- Mr Law Chin Ho
- Mr Mark Sullivan AO
- Mr Paul Frazer

More information on ActewAGL can be found at www.actewagl.com.au

ActewAGL Joint Venture structure



# Outlook

## Strategic Imperatives 2013–14

As a result of the re-integration and transformation process implementation strategy and ongoing consultation processes lead by the Business Transformation team, the executive and senior leadership team developed a new Mission and Vision that reflects the new business strategy.

These actions led to the development of strategic imperatives which embody the changes that have been targeted to be achieved across ACTEW over the next few years:

**Safety** — We will be a best practice provider of safety for our people and the community.

**Culture** — We will develop a culture that grows the capability of people and drives high performance.

**Sustainable Business** — We will have a commercial business focus that drives profit for shareholders through efficient business management.

**Diversified Revenue** — We will generate diversified revenue through new business activities.

**Customer-centric Culture** — We will be a customer centric organisation.

**Strategic Partnerships** — We will continue to develop strong relationships with government, industry and the community to build an innovative and efficient business.

**Operations and Delivery** — We will improve our quality of services to the community in an environmentally sustainable manner while driving efficiencies in operations.

### Mission Statement

We will provide safe, innovative and sustainable water, energy and related services to support the economic, cultural and social development of the Capital Region.

### Vision Statement

To inspire our people to excel in the services we provide in order to be recognised by our customers, community, industry and shareholders as a highly valued business.

# Section 2

# Financial Statements

ACTEW Corporation Limited and Controlled Entities
For year ended 30 June 2013

## Contents



This financial report is the consolidated financial report of the consolidated entity consisting of ACTEW Corporation Limited and its controlled entities. The financial report is presented in Australian dollars.

The financial report was authorised for issue by the directors on 4 September 2013.

ACTEW Corporation Limited and Controlled Entities

# Directors' Report
**For the year ended 30 June 2013**

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 2013.

**Directors**

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:

- John Angus Mackay AM, Chairman (to 30 June 2013)
- Michael Bernard Easson AM, Deputy Chairman
- Mark Anthony Sullivan AO
- Allan Douglas Hawke AC
- Wendy Caird
- Rachel Sarah Hartel Peck
- Jennifer Lois Goddard
- Carolyn Jean Lilley (from 1 April 2013).

Refer to pages 21-23 of the Annual Report for information on directors' experience and qualifications.

**Company Secretary**

Michele Norris joined ACTEW in August 1999 as Legal Compliance Education Manager and in 2000 was appointed Assistant Company Secretary and in December 2003, Company Secretary. She is responsible for the management and coordination of corporate governance, statutory compliance and reporting, secretariat services and support to the Board, government liaison and reporting, and legal matters for the Corporation and subsidiary companies. Ms Norris is Company Secretary of ACTEW Distribution Limited and ACTEW Retail Limited. She is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Management, an Affiliate of Chartered Secretaries Australia and a Justice of the Peace.

**Directors' Meetings**

Ten directors' meetings were held during the financial year. The Board's four Committees also met during the year. The Audit and Risk Management Committee met six times during the year. The newly established Safety and Environment Committee met four times during the year. The entire ACTEW Board meets as the Remuneration Committee. The Remuneration Committee met once during the year. The Nomination Committee met twice during the year.

Details of directors' attendance at these meetings are outlined below.

| Director | ACTEW Board Meetings | Audit & Risk Management Committee Meetings | Remuneration Committee Meetings | Nomination Committee Meetings | Safety and Environment Committee |
|---|---|---|---|---|---|
| J A Mackay | 10 (10) | 0 (0) | 2 (2) | 2 (2) | 0 (0) |
| M B Easson | 9 (10) | 6 (6) | 2 (2) | 2 (2) | 0 (0) |
| M A Sullivan | 10 (10) | 0 (0) | 2 (2) | 2 (2) | 4 (4) |
| A D Hawke | 10 (10) | 4 (6) | 2 (2) | 2 (2) | 0 (0) |
| W Caird | 10 (10) | 0 (0) | 2 (2) | 2 (2) | 4 (4) |
| R S H Peck | 9 (10) | 0 (0) | 2 (2) | 2 (2) | 3 (4) |
| J L Goddard | 10 (10) | 6 (6) | 2 (2) | 2 (2) | 0 (0) |
| C J Lilley | 3 (3) | 2 (2) | 2 (2) | 0 (0) | 0 (0) |

Figures in 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
- ActewAGL Generation Pty Ltd - ACTEW Retail Limited entered into a joint venture with AGL ACT Retail Investments Pty Ltd to form ActewAGL Generation Pty Ltd in order to participate in the ACT Government's Solar Auction process.

**Review and results of operations**

A summary of the revenue and results is set out on the next page.

| | 2013 $ million | 2012 $ million |
|---|---|---|
| Revenue (from continuing operations and other income) | 332.9 | 279.9 |
| Share of net profit from joint ventures partnership | 97.8 | 81.8 |
| Total revenue and share of net profit from joint venture partnership | 430.7 | 361.7 |
| | | |
| Profit before income tax expense | 121.1 | 104.8 |
| Income tax | 41.5 | 30.9 |
| Profit for the year | 79.6 | 73.9 |
| | | |
| Payments to ACT Government: | | |
| Interim dividend for current year profit | - | 55.6 |
| Final dividend for previous year profit | 18.4 | 11.8 |
| | 18.4 | 67.4 |
| Tax equivalent payments | 57.1 | 43.2 |
| Total payments to ACT Government | 75.5 | 110.6 |

Profit for the year increased from prior year due to increased water revenue from higher volumes and an increase in income from the ActewAGL Joint Venture. This is offset by increased interest expenses and expenses relating to the integration of the water and sewerage business.

**Dividends**

The interim dividend was not paid in June 2013 (2012 interim: $55.6m) due to the Independent Competition and Regulatory Commission (ICRC) final price direction in June 2013 and uncertainty in the water and sewerage infrastructure assets valuation. The directors expect to declare a 2012-13 final dividend of $79.6m (2012 final: $18.4m) at the annual general meeting.

**Significant changes in the state of affairs**

ACTEW owns ACT's water infrastructure and assets; up to 30 June 2012 ActewAGL Water Division managed, operated and maintained the ACTEW's network and business in accordance with the Utilities Management Agreement (UMA). ACTEW performed a review of the governance, structure and operations of the water and sewerage business during 2011. As a result of the review, the UMA has been terminated and the water and sewerage business has been integrated into ACTEW. The integration took effect on 1 July 2012.

**Matters subsequent to the end of the financial year**

On the 19th of August 2013, ActewAGL Generation Pty Ltd was informed it was unsuccessful in the regular stream of the ACT Government's Large-scale Solar Auction held by the ACT Government. No other matters of significance have arisen since the end of the financial year.

**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 ICRC under the *Utilities Act 2000* on 29 June 2001. On 30 September 2011 ACTEW provided its Capex 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 regulations for the discharge from Googong Water Treatment Plant. ACTEW complied with all reporting requirements during 2012-13.

Compliance details were:

| | **Compliance 2012-13** | **Target** |
|---|---|---|
| Googong pollution control licence compliance | 100% | 100% |
| Sewage treatment discharge compliance | 99% | 100% |
| Sewage treatment incinerator air emission compliance | 99% | 100% |

ACTEW has assessed that there are no other particular or significant environmental regulations that apply. However, ACTEW does have a register of approval conditions applied through the major project assessment process that requires compliance. ACTEW has maintained compliance with all current approval commitments.

*Licence to Take Water*

Issued by the ACT Environment Protection Authority (EPA) under the *Water Resources Act 2007,* the licence provides for taking of water covered by water access entitlements and the protection of environmental flows. ACTEW provided its annual report to the EPA on 31 October 2012. ACTEW complied with the requirements of the licence throughout 2012-13. ACTEW provided monthly reports to the EPA detailing compliance with the environmental flows requirements.

*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 *Australian Drinking Water Guidelines 2004* under this Licence. ACTEW complied with all reporting requirements to ACT Health throughout 2012-13.

**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 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 directors and officers of ACTEW and wholly owned subsidiary companies against liabilities and legal costs arising in the course of their duties including as a director appointed by ACTEW or by a subsidiary company of ACTEW to serve on the board of a company or partnership that is part owned directly or indirectly by ACTEW or by a subsidiary company of ACTEW, to the extent permitted by the *Corporations Act 2001*. This indemnity is to operate only where and to the extent that the director or officer is unable to require an insurer to meet the damage, liability, cost, loss or expense.

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 page10.

**Rounding of amounts**

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<br>Acting Chairman | Mark Sullivan AO<br>Managing Director | Carolyn Lilley<br>Acting Chair<br>Audit and Risk Management Committee |
| Canberra | Canberra | Canberra |
| 4 September 2013 | 4 September 2013 | 4 September 2013 |

ACTEW Corporation Limited and Controlled Entities

# Directors' Declaration

**for the year ended 30 June 2013**

In the director's opinion:

(a) the financial statements and notes set on pages 11 to 58 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, and comply with Australian Accounting Standards, the Corporations Regulation and other professional reporting requirements; and

(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<br>Acting Chairman | Mark Sullivan AO<br>Managing Director | Carolyn Lilley<br>Acting Chair<br>Audit and Risk Management Committee |
| Canberra | Canberra | Canberra |
| 4 September 2013 | 4 September 2013 | 4 September 2013 |

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

## INDEPENDENT AUDIT REPORT

## ACTEW CORPORATION LIMITED

## To the Members of the ACT Legislative Assembly and ACTEW Corporation Limited

### Report on the financial report

The financial report of ACTEW Corporation Limited and Controlled Entities (the Company) for the year ended 30 June 2013 has been audited. The financial report comprises the consolidated income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes and directors' declaration.

### 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 Australian Accounting Standards (including Australian Accounting Interpretations) – Reduced Disclosure Requirements, *Corporations Act 2001* and *Corporations Regulations 2001*. This includes responsibility for maintaining adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and the accounting policies and estimates used in the preparation of the financial report.

### The auditor's responsibility

Under the *Corporations Act 2001*, I am responsible for expressing an independent audit opinion on the financial report of the Company.

The audit was conducted in accordance with Australian Auditing Standards to obtain reasonable assurance that the financial report is free from material misstatement.

I formed the audit opinion following the use of audit procedures to obtain evidence about the amounts and disclosures in the financial report. As these procedures are influenced by the use of professional judgement, selective testing of evidence supporting the amounts and other disclosures in the financial report, inherent limitations of internal control and the availability of persuasive rather than conclusive evidence, an audit cannot guarantee that all material misstatements have been detected.

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

The audit is not designed to provide assurance on the prudence of decisions made by the Company.

## Electronic presentation of the audited financial report

Those viewing an electronic presentation of this financial report should note that the audit does not provide assurance on the integrity of information presented electronically and does not provide an opinion on any other information which may have been hyperlinked to or from this financial report. If users of the financial report are concerned with the inherent risks arising from the electronic presentation of information, they are advised to refer to the printed copy of the audited financial report to confirm the accuracy of this electronically presented information.

## Independence

Applicable independence requirements of Australian professional ethical pronouncements were followed in conducting the audit.

## Audit opinion

In my opinion, the financial report of the Company is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2013 and its performance for the year ended on that date; and

(b) complying with the Australian Accounting Standards (including Australian Accounting Interpretations) – Reduced Disclosure Requirements and *Corporations Regulations 2001*.

The audit opinion should be read in conjunction with other information disclosed in this report.

M. Cooper.

Dr Maxine Cooper
Auditor-General
5 September 2013

ACT AUDITOR-GENERAL'S OFFICE

ACT Government

Board of Directors
ACTEW Corporation Limited
ActewAGL House
40 Bunda Street
CANBERRA CITY ACT 2601

Dear Board Members

**AUDITOR'S INDEPENDENCE DECLARATION**
**ACTEW CORPORATION LIMITED FINANCIAL REPORT**
**FOR THE YEAR ENDED 30 JUNE 2013**

In relation to the audit of the financial report of ACTEW Corporation Limited and Controlled Entities for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Yours sincerely

M. Cooper

Dr Maxine Cooper
Auditor-General
4 September 2013

ACTEW Corporation Limited and Controlled Entities

# Consolidated Income Statement

**For the year ended 30 June 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Revenue from continuing operations | 5 | **305,484** | 261,604 |
| Other income | 6 | **27,380** | 18,286 |
| | | **332,864** | 279,890 |
| ACT Government charges | | **30,930** | 27,246 |
| Employment and associated costs | | **60,986** | 8,965 |
| Depreciation and amortisation expense | 7 | **35,917** | 40,524 |
| Finance costs | 7 | **73,863** | 65,035 |
| Operational costs | | **82,941** | 105,881 |
| Consumables used | 12 | **9,461** | - |
| Impairment of assets | 7 | **4,927** | 2,131 |
| Other expenses arising from ordinary activities | | **10,551** | 7,157 |
| Investments in associates' equity accounted profits | 35 | **-** | 79 |
| (Reversal) of impairment of investments | | **-** | (79) |
| Share of net (profit) of joint ventures partnership accounted for using the equity method | | **(97,790)** | (81,821) |
| **Profit before income tax** | | **121,078** | 104,772 |
| Income tax expense | 8 | **41,498** | 30,873 |
| **Profit for the year** | | **79,580** | 73,899 |
| **Attributable to:** | | | |
| Owners of ACTEW Corporation Limited | | 79,580 | 73,899 |
| | | **79,580** | 73,899 |

*The above consolidated income statement should be read in conjunction with the accompanying notes as set out on pages 16 to 58.*

ACTEW Corporation Limited and Controlled Entities

# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Profit for the year** | | **79,580** | 73,899 |
| Other comprehensive income | | | |
| Fixed asset revaluation increment net of tax | 28 | **51,808** | - |
| Changes in the fair value of cash flow hedges | 28 | - | 10 |
| **Other comprehensive income for the year, net of tax** | | **51,808** | 10 |
| **Total comprehensive income for the year** | | **131,388** | 73,909 |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes as set out on pages 16 to 58.*

ACTEW Corporation Limited and Controlled Entities

# Consolidated Balance Sheet

**For the year ended 30 June 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 10 | 83,744 | 190,505 |
| Trade and other receivables | 11 | 53,818 | 46,990 |
| Inventories | 12 | 3,690 | - |
| Other | 13 | 12,026 | 36,028 |
| **Total Current Assets** | | 153,278 | 273,523 |
| **Non-Current Assets** | | | |
| Held-to-maturity investments | 14 | 468 | 582 |
| Investments accounted for using the equity method | 15 | 601,287 | 552,455 |
| Property, plant and equipment | 16 | 2,025,593 | 1,840,570 |
| Intangible assets | 18 | 27,066 | 31,112 |
| Other | 19 | 2,112 | 106 |
| **Total Non-Current Assets** | | 2,656,526 | 2,424,825 |
| **TOTAL ASSETS** | | 2,809,804 | 2,698,348 |
| **Current Liabilities** | | | |
| Trade and other payables | 20 | 55,367 | 87,241 |
| Borrowings | 21 | 17,392 | 15,760 |
| Provisions | 22 | 105,964 | 39,188 |
| Other | 23 | 3,496 | 2,874 |
| **Total Current Liabilities** | | 182,219 | 145,063 |
| **Non-Current Liabilities** | | | |
| Borrowings | 24 | 1,335,105 | 1,343,358 |
| Provisions | 25 | 9,613 | 1,313 |
| Other liabilities | 26 | 724 | - |
| Deferred tax balances | 17 | 287,315 | 265,594 |
| **Total Non-Current Liabilities** | | 1,632,757 | 1,610,265 |
| **TOTAL LIABILITIES** | | 1,814,976 | 1,755,328 |
| **NET ASSETS** | | 994,828 | 943,020 |
| **Equity** | | | |
| Contributed equity | 27 | 758,871 | 758,871 |
| Reserves | 28 | 228,156 | 176,348 |
| Retained profits | 29 | 7,801 | 7,801 |
| **TOTAL EQUITY** | | 994,828 | 943,020 |

*The above consolidated balance sheet should be read in conjunction with the accompanying notes as set out on pages 16 to 58.*

ACTEW Corporation Limited and Controlled Entities

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2013**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers (inclusive of goods & services tax) | | **313,334** | 258,142 |
| Payments to suppliers and employees (inclusive of goods & services tax) | | **(165,038)** | (159,842) |
| | | **148,296** | 98,300 |
| Interest received | | **6,426** | 10,093 |
| Income tax equivalents paid | | **(57,050)** | (43,242) |
| Interest paid | | **(73,558)** | (68,416) |
| **Net Cash Inflow/(Outflow) from Operating Activities** | | **24,114** | (3,265) |
| **Cash Flows from Investing Activities** | | | |
| Payments for property, plant and equipment | | **(154,418)** | (224,333) |
| Payments for intangibles | | **(540)** | (12,646) |
| Distribution received from joint venture partnerships | | **48,950** | 43,700 |
| Proceeds from other financial assets | | **114** | 5,059 |
| **Net Cash (Outflow) from Investing Activities** | | **(105,894)** | (188,220) |
| **Cash Flows from Financing Activities** | | | |
| Repayment of borrowings | | **(6,622)** | (73,752) |
| Proceeds from borrowings | | **-** | 214,145 |
| Dividend paid | | **(18,359)** | (67,371) |
| **Net Cash Inflow/(Outflow) from Financing Activities** | | **(24,981)** | 73,022 |
| **Net (Decrease) in Cash and Cash Equivalents** | | **(106,761)** | (118,463) |
| **Cash and Cash Equivalents at the beginning of the financial year** | | **190,505** | 308,968 |
| **Cash and Cash Equivalents at the end of the financial year** | **10** | **83,744** | 190,505 |

*The above consolidated cashflow statement should be read in conjunction with the accompanying notes as set out on pages 16 to 58.*

ACTEW Corporation Limited and Controlled Entities

# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2013**

| | Note | Capital $'000 | Retained Profits $'000 | General Reserve $'000 | Hedge Reserve $'000 | Property, Plant and Equipment Revaluation Reserve $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2011** | | 758,871 | 7,801 | 9,820 | (10) | 166,528 | 943,010 |
| Profit for the year | | - | 73,899 | - | - | - | 73,899 |
| Other comprehensive income for the year, net of tax | 28 | - | - | - | 10 | - | 10 |
| Total comprehensive income for the year | | - | 73,899 | - | 10 | - | 73,909 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Dividends provided for or paid | | - | (73,899) | - | - | - | (73,899) |
| **Balance at 30 June 2012** | | 758,871 | 7,801 | 9,820 | - | 166,528 | 943,020 |
| Profit for the year | | - | 79,580 | - | - | - | 79,580 |
| Other comprehensive income for the year, net of tax | 28 | - | - | - | - | 51,808 | 51,808 |
| Total comprehensive income for the year | | - | 79,580 | - | - | 51,808 | 131,388 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Dividends provided for or paid | | - | (79,580) | - | - | - | (79,580) |
| **Balance at 30 June 2013** | | **758,871** | **7,801** | **9,820** | **-** | **218,336** | **994,828** |

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**Contents of the notes to the Financial Report** **Page**

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for the consolidated entity consisting of ACTEW Corporation Limited (ACTEW) and its subsidiaries.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, the *Corporations Act 2001* and other requirements of the law. For the purposes of preparing the financial statements, the company is a for-profit entity.

*Compliance with Australian Accounting Standards – Reduced Disclosure Requirements*

The consolidated financial statements of ACTEW and its subsidiaries (ACTEW Group) comply with Australian Accounting Standards – Reduced Disclosure Requirements as issued by the Australian Accounting Standards Board (AASB).

*Early adoption of standards*

The ACTEW Group has elected under s.334(5) of the *Corporations Act 2001* to apply Australian Accounting Standard AASB 1053 'Application of Tiers of Australian Accounting Standards', AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements' and AASB 2011-2 'Amendments to Australian Accounting Standards advisory from the Trans-Tasman convergence Project-Reduced Disclosure Requirements' in accordance of their effective dates. AASB 1053, AASB 2010-2, AASB 2011-2 are not required to be applied until annual reporting periods beginning on or after 1 July 2013.

*Historical Cost Convention*

This financial report has been prepared on an historical cost basis except for the revaluation of certain classes of property, plant and equipment and intangible assets that have been measured at fair value, which have been outlined in note 1 (h).

*Critical accounting estimates*

The preparation of financial statements in conformity with AASB requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

*Rounding of amounts*

ACTEW is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998. In accordance with that Class Order amounts in the financial report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(b) Principles of consolidation**

*(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by ACTEW as at 30 June 2013 and the results of all subsidiaries for the year then ended. ACTEW and its subsidiaries together are referred to in this financial report as the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

The subsidiaries are 100% owned by ACTEW which has full power to govern the financial and operating policies of the subsidiaries. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. Investments in subsidiaries are accounted for in the financial statements of ACTEW using the equity method carried at cost. The share of the electricity and gas network assets of the ActewAGL Partnership in 2007 was adjusted to fair value applying a Director's valuation based on future discounted cash flows.

*(ii) Associates*

Associates are all entities over which ACTEW has significant influence but not control, generally accompanying a shareholding of less than 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post acquisition movements are adjusted against the cost of investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

*(iii) Joint ventures*

*Joint venture partnership*

The ActewAGL Joint Venture is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent. The share of the electricity and gas network assets of the ActewAGL Partnership in 2007 was adjusted to fair value applying a Director's valuation based on future discounted cash flows.

Under the equity method, the share of the profit and losses of partnerships are recognised in the income statement, and the share of movements in reserves are recognised in other comprehensive income. 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. Details relating to the Partnership are set out in Note 36.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(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 managed the water and sewerage business of ACTEW Corporation. Partnership changes occurred in August 2007 resulting in AGL Energy being 50% owner of the ActewAGL Retail Partnership and Jemena Networks (ACT) Pty Ltd being 50% owner of the ActewAGL Distribution Partnership. The ActewAGL Joint Venture Partnerships consists of ACTEW Corporation's 50% ownership in the ActewAGL Distribution and Retail Partnerships.

During 2011 ACTEW undertook a review of its water and sewerage business. Following that review, responsibility for the management, operation and maintenance of the infrastructure was returned to ACTEW on 1 July 2012 and all Water Division staff were transferred to ACTEW.

A number of employees of ACTEW have been seconded to the Joint Venture Partnerships. The Joint Venture Partnerships reimburse ACTEW for all costs related to these seconded employees. ACTEW legally employs seconded employees however, as they are seen to be employees of the Joint Venture Partnerships from an accounting viewpoint, the employee entitlement liabilities and a corresponding receivable from the partnerships is disclosed in the financial report.

In April 2012, ACTEW Retail Limited entered into a joint venture with AGL ACT Retail Investments Pty Ltd to form ActewAGL Generation Pty Ltd in order to participate in the ACT Government's Solar Auction process.

ACTEW has a 50% ownership in ActewAGL Generation Pty Ltd. As at 30 June 2013, there have been no transactions within ActewAGL Generation Pty Ltd.

**(d) Income tax equivalents**

ACTEW is exempt from Federal income tax. ACTEW 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 and its subsidiaries have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(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 ACTEW 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 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 shareholder's 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.

Contributed assets are measured at replacement cost and subsequently revalued as part of the class of property, plant and equipment to which the assets belong.

**(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.

Contributed assets provided free of charge are valued at replacement cost of those assets and subsequently revalued as part of the class of property, plant and equipment to which the assets belong.

**(g) Trade receivables**

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

The amount of the impairment loss is recognised in the income statement within Other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(h) Property, plant and equipment**

*Valuation*

Plant and equipment assets are stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are shown at fair value less subsequent depreciation for buildings. Valuations are undertaken by external independent valuers every 5 years with the most recent valuation in June 2013 resulting in an increase of $12.9 million to land and buildings. The majority of ACTEW's land and buildings are considered specialised assets and hence are valued using the depreciated replacement cost approach. Other non specialised land and buildings are valued using capitalisation of income approach and market value approach.

Water and sewerage assets are shown at fair value. The value was determined by applying a discounted cash flow analysis to the asset base. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

Increases in the carrying amounts arising on revaluation of land and buildings and water and sewerage assets are credited, net of tax, to the asset revaluation reserve in shareholders' equity. Any revaluation increase arising on the revaluation of such land and building and water and sewerage assets is recognised in the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and building and water and sewerage assets is recognised in profit or loss to extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

*Depreciation*

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

| | Years |
|---|---|
| Buildings | 60 |
| Plant and equipment | 5 - 15 |
| System Assets | |
| Dams | 30 - 150 |
| Reservoirs | 50 - 100 |
| Mains | 80 |
| Treatment Plants | 30 - 60 |
| Sewer Tunnels | 120 |
| Other Assets | 10 - 80 |

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)).

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(i) Impairment of assets**

At each reporting date, the ACTEW Group assesses whether there is any indication that an asset may be impaired. If such an indication of impairment exists, the ACTEW Group will 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.

**(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 that are readily convertible to cash and bank overdrafts.

**(k) Investments and other financial assets**

**Classification**
ACTEW classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

*(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*(ii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ACTEW Corporation has the positive intention and ability to hold to maturity. If ACTEW Corporation were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

*(iii) Available-for sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

*Financial assets - reclassification*

A non-derivative trading financial asset may be reclassified out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

*Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which ACTEW 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. These instruments 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.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

*Subsequent measurement*

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss and available for sale" categories are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognised in the income statement as part of revenue from continuing operations when ACTEW's right to receive payments is established.

*Fair value*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the ACTEW Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

*Impairment*

ACTEW assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(l) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lesee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease principal repayments are recorded in the balance sheet as a reduction in the current lease liability payable and finance lease interest is charged to the income statement when incurred.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards of ownership. Operating lease payments are charged to the income statement on a straight line basis over the lease term.

**(m) Intangible assets**

*Water Licences*

Under the Tantangara Transfer project, water is purchased and transferred from the Murrumbidgee Regulated River System and stored and released from Tantangara Reservoir in the Snowy Mountains Scheme; to the ACT. ACTEW commenced purchase of water licences in mid-2009. Water licences are recognised at fair value. Water licences have an infinite useful life and are thus not subject to amortisation, but are tested for impairment by comparing their recoverable amount with their carrying amount. Water licences are tested for impairment annually or whenever there is an indication that the intangible assets may be impaired (Note 18).

*Carbon Credits*

ACTEW has committed to offset the carbon production associated with the construction and operation of the Water Security Major Projects (WSMP). ACTEW has confirmed contracts with AusCarbon Pty Ltd and CO2 Australia Limited to supply 900,000 tonnes of carbon credits over 30 years. The legislation framework governing carbon credits remains uncertain at this stage. An impairment of the full amount has been recognised for the year ended 30 June 2013 of $340,749 (2012: $964,993).

*Computer Software*

ACTEW capitalises and amortises specific-use computer software, such as Geospatial Information Systems and design drawing software.
Computer software includes capitalised development costs being an internally generated intangible asset.

**(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.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(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 based on the Consumer Price Index (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 21 and 24.

**(p) Borrowing costs**

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

**(q) Employee benefits**

*(i) Wages and salaries*
Liabilities for wages and salaries 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) Annual, sick and long service leave*
A liability for annual, sick leave and long service leave seven years or greater is recognised as a current provision for employee benefits. An employee who has completed seven years service with a single employer is entitled to long service leave for the period of the service and hence considered a current provision. Long service leave less than seven years is measured as a non-current provision for employee benefits. Long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and for long service leave expectation 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.

iii) Some ACTEW staff are seconded to the ActewAGL Joint Venture Partnerships and all employee related expenses are billed to the partnerships. 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 Joint Venture Partnerships.

**(r) Dividends**

The voting shareholders have a 100% distribution after tax dividend policy for ACTEW. In previous years, dividends were paid on an 80% interim and 20% final payment. The 80% interim dividend was based on estimated profit since this is not confirmed until after 30 June each year. This policy is reviewed each financial year with the voting shareholders. Due to finalisation of the ICRC final price direction in June 2013 the dividend policy was reviewed for the current financial year. It was agreed with the ACT Treasurer that dividends will be paid in full in the next financial year on finalisation of the financial statements.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**1 Summary of significant accounting policies (continued)**

**(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) Inventory**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first in-first out basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. This is the first period ACTEW has applied this policy due to the integration of the water and sewerage business.

**(u) 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.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financial activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

**(v) 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. Details of segments are contained in Note 4.

**(w) Parent entity financial information**

The financial information for the parent entity, ACTEW, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements except for interest in the Joint Venture, which are accounted at cost.

**(x) Provisions**

Provisions are recognised when the ACTEW Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

## 2 Financial risk management - valuation techniques

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. ACTEW uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment allowance of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 3 Critical accounting judgements and estimates

*Fair value assessment*

ACTEW water and sewerage infrastructure assets are held at fair value in accordance with AASB 116 *Property, Plant and Equipment*. The fair value of infrastructure assets is determined annually by application of an income approach by way of a Discounted Cash Flow (DCF) method, to determine the extent of difference in the economic value and the carrying amount of these assets. The nature of water and sewerage infrastructure assets is such that market-based evidence of fair value is unlikely to exist because of the specialised nature of these assets. Therefore, the application of fair value by way of a DCF method is adopted. This valuation includes business assumptions about future income streams, operational and capital expenditure. The expected net cash flows are then discounted to their present value using a market determined risk adjusted discount rate. This fair value methodology is consistent with the approach taken by other Australian water and sewerage utilities.

The DCF valuation for the year ended 30 June 2013 reflects the ICRC's final report and Price Direction (26 June 2013). The method uses ACTEW's forecast net cash flow, with a terminal value based on cash flow perpetuity, discounted using a market based post-tax nominal rate of 5.92%. Forecast cash flow estimates are based on the final ICRC determination and assumes that revenue for the period is fully recovered, with no revenue shortfall or over recovery from volume variations. This valuation exercise resulted in an increase to the value of sewerage infrastructure assets of $61.1 million and no material change to water infrastructure assets (refer to note 16). This is recognised in the asset revaluation reserve net of tax of $42.8 million and an associated deferred tax liability of $18.3 million.

The calculation of the DCF valuation is highly sensitive to variations in key assumptions. The key assumptions underlying valuation calculations for the current reporting period are:

- The cash flow forecasts are based on the ICRC's six-year regulatory period and presumes that the assumptions of the final report are maintained.

- Revenue is forecast with a current rate of return on equity (ROE) of 2.8%, a proposed rate of ROE to 4.4% after two years and to 6% in the final two years.

- Operating and capital expenditure for the first two years are based on the ICRC decision, from years three to six expenditure is based on ACTEW's assumptions.

ACTEW Corporation Limited and Controlled Entities

- The market based nominal discount rate (post tax) used is 5.92%.
- The terminal growth rate used is 2.5%.

The DCF methodology is highly sensitive to variations in the market based nominal discount rate. For example, a 0.1% increase (decrease) in this discount rate, results in a decrease (increase) in the recoverable amount of the asset bases of approximately $40 million for water infrastructure assets and $28 million for sewerage infrastructure assets. Independent advice of the discount rate adopted for the current financial year was obtained from PriceWaterhouseCoopers.

*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 2013 amount totalled $16.1 million (2012 - $13.3m).

The joint venture partnerships provide a fair value estimate of consumption of electricity and gas which has not been read from the customer's meters as at 30 June 2013. The method used in measuring unbilled energy volumes is to add the current sales to the closing unbilled energy volumes for the previous period and subtract current billings. The closing unbilled energy volumes are then allocated across the tariff classes using the actual throughput volumes for the month and multiplied by the prevailing tariff rates to determine unread consumption.

*Revaluation of Water Licences*

Water Licences are held at fair value. As part of the annual impairment assessment, ACTEW has undertaken an analysis of recent observable water transactions within the market and determined the upper and lower price limits for the March 2013 Quarter. The upper price value was used as the water licences held are of a larger volume, which are assumed to be higher priced in the market. This analysis resulted in an impairment of $4.6 million charged against the water licences for the year ended 30 June 2013. Refer to note 18.

*Carbon Credits*

The legislation framework governing carbon credits remains uncertain at this stage. An impairment of the full amount has been recognised for the year ended 30 June 2013. Refer to note 18.

*Comcare provision*

Since 2002, ACTEW Water has participated in the ComCare workers compensation scheme (for ACT Government). The ACT Government and ACTEW have agreed to cancel ACTEW's arrangement with ComCare under the provisions outlined in the ACTEW Withdrawal from the Safety, Rehabilitation and Compensation Act 1988 Deed dated 30 August 2012 (the 'Deed'). Regardless of the withdrawal ACTEW continues to have obligations that may arise out of related events that occurred prior to the exit date, 1 September 2012.

At 30 June 2013, the expected total payments over ten years are estimated at $11.2m. The net present value of these payments is estimated at $9.6m and after initial payments have been made ($2.7m) and unwinding of discount ($0.6m), a provision of $7.5m has been recognised at 30 June 2013 (refer to note 22 and 25). A receivable has also been recognised for 35% of this amount due to an agreement with ActewAGL Joint Venture to reimburse a portion of the costs (refer to note 11 and 19). The estimate may vary as a result of changes in the case claims where applicable.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**3 Critical accounting judgements and estimates (continued)**

*Employee Entitlements*
A liability for annual, sick leave and long service leave seven years or greater is recognised as a current provision for employee benefits. An employee who has completed seven years service with a single employer is entitled to long service leave for the period of the service and hence considered a current provision. Long service leave less than seven years is measured as a non-current provision for employee benefits.

Long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and for long service leave expectation 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.

*Application of new and revised accounting standards*
There are no new and revised standards and interpretations adopted in these financial statements affecting the reporting results or financial position apart from those early adopted in note 1a).

**4 Segment information**

Management has determined the operating segments that are used to make strategic decisions.

**Business segments**

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

*Water and sewerage*

The supply of water and the provision of sewerage services.

*Investments*

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

**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 Note1(w) and the Australian Accounting Standard AASB 8 *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 allowances.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**4 Segment information (continued)**

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. Borrowings, interest expense and interest revenue have been allocated to the segments based on an average percentage of borrowings as deemed reasonable by management.

**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 includes 100% of ACTEW Retail Ltd and ACTEW Distribution Ltd. ACTEW Retail Ltd has entered into a partnership with AGL Energy Limited to manage and market the retail operations of the ACT electricity and gas markets.

ACTEW Distribution Ltd has entered into a partnership with Jemena Networks (ACT) Pty Ltd to manage the ACT electricity network and the ACT, Queanbeyan and Nowra gas networks. These investments are accounted for using the equity method. These investments are included in the investment segment.

In April 2012, ACTEW Retail Ltd entered into a joint venture with AGL ACT Retail Investments Pty Ltd to form ActewAGL Generation Pty Ltd in order to participate in the ACT Government's Solar Auction process.

ACTEW has a 50% ownership in ActewAGL Generation Pty Ltd. As at 30 June 2013, there have been no transactions within ActewAGL Generation Pty Ltd.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**4 Segment information (continued)**

**Primary reporting - business segments**

| **Year ended 30 June 2013** | **Water $'000** | **Sewerage $'000** | **Investments $'000** | **Unallocated $'000** | **Consolidated $'000** |
|---|---|---|---|---|---|
| ***Income statement*** | | | | | |
| Sales to external customers including share of net profit of joint venture partnerships | 167,700 | 132,177 | 97,790 | - | 397,667 |
| Other revenue | 12,491 | 14,344 | 1,417 | - | 28,252 |
| Gifted assets | 1,998 | 2,738 | - | - | 4,736 |
| Total segment revenue | 182,189 | 149,259 | 99,207 | - | 430,655 |
| Segment result before tax expense | 150 | 36,988 | 83,940 | - | 121,078 |
| Tax expense | 47 | 11,595 | 29,856 | - | 41,498 |
| Segment result for the year | 103 | 25,393 | 54,084 | - | 79,580 |
| ***Balance Sheet*** | | | | | |
| Segment assets | 1,407,968 | 768,094 | 633,742 | - | 2,809,804 |
| Segment liabilities | 1,104,558 | 339,102 | 371,316 | - | 1,814,976 |
| Investments in associates and joint venture partnerships | - | - | 601,287 | - | 601,287 |
| ***Other*** | | | | | |
| Acquisition of property, plant and equipment (including gifted assets) | 114,318 | 32,387 | - | - | 146,705 |
| Depreciation and amortisation | 20,649 | 15,268 | - | - | 35,917 |
| Impairment of assets | 4,756 | 171 | - | - | 4,927 |

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**4 Segment information (continued)**

**Primary reporting - business segments**

| Year ended 30 June 2012 | Water $'000 | Sewerage $'000 | Investments $'000 | Unallocated $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| ***Income statement*** | | | | | |
| Sales to external customers including share of net profit of joint venture partnerships | 133,862 | 118,126 | 81,821 | - | 333,809 |
| Other revenue | 10,436 | 10,751 | 2,495 | - | 23,682 |
| Gifted Assets | 2,000 | 2,220 | - | - | 4,220 |
| Total segment revenue | 146,298 | 131,097 | 84,316 | - | 361,711 |
| Segment result before tax expense | (7,005) | 41,257 | 70,520 | - | 104,772 |
| Tax expense | (1,327) | 7,815 | 24,385 | - | 30,873 |
| Segment result for the year | (5,678) | 33,442 | 46,135 | - | 73,899 |
| ***Balance Sheet*** | | | | | |
| Segment assets | 1,390,567 | 691,729 | 616,052 | - | 2,698,348 |
| Segment liabilities | 1,111,158 | 289,843 | 354,327 | - | 1,755,328 |
| Investments in associates and joint venture partnerships | - | - | 552,455 | - | 552,455 |
| ***Other*** | | | | | |
| Acquisition of property, plant and equipment | 195,255 | 26,687 | - | - | 221,941 |
| Depreciation and amortisation | 22,135 | 18,389 | - | - | 40,524 |
| Impairment of assets | 2,131 | - | - | - | 2,131 |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**5 Revenue from continuing operations**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Sales revenue** | | | |
| Water revenue | | **167,700** | 133,862 |
| Sewerage revenue | | **132,177** | 118,126 |
| | | **299,877** | 251,988 |
| **Other revenue** | | | |
| Interest | | **5,607** | 9,616 |
| | a | **305,484** | 261,604 |

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

**6 Other income**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Commonwealth subvention | a | **10,587** | 10,390 |
| Contributed assets | | **4,736** | 4,220 |
| Regulated income | | **2,026** | 2,395 |
| Other income | b | **10,031** | 1,281 |
| | | **27,380** | 18,286 |

a) The Commonwealth Government provides financial assistance to ACTEW to offset increased costs due to the ACT's inland location and the national capital influences.

b) Other income relates to revenue received from the stormwater contract and revenue from Fyshwick premises lease income. This income has been recognised for the year ended 30 June 2013 due to the integration of the water and sewerage business.

# Notes to the Financial Report

**For the year ended 30 June 2013**

## 7 Expenses

Operating profit from ordinary activities includes the revenues disclosed in Note 5 and 6 above and the following specific net expenses:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Profit before income tax includes the following specific expenses:** | | |
| Finance costs | **73,863** | 65,035 |
| Depreciation: | | |
| Water system assets | **20,089** | 21,883 |
| Sewerage system assets | **14,707** | 18,130 |
| Infrastructure land and buildings | **7** | 7 |
| Non-infrastructure land and buildings | **453** | 400 |
| Plant and equipment | **416** | 86 |
| Finance lease | **14** | - |
| Total depreciation | **35,686** | 40,506 |
| Amortisation: | | |
| Computer software | **224** | - |
| Leasehold improvement | **7** | 18 |
| Total amortisation | **231** | 18 |
| Total depreciation and amortisation | **35,917** | 40,524 |
| Superannuation | **6,060** | 911 |
| Rental expenses relating to operating leases | **3,163** | 815 |
| Impairment losses recognised - financial assets - trade receivables | **129** | 267 |
| Impairment losses - assets | **4,927** | 2,131 |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**8 Income tax expense**

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

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **(a) Income tax expense** | | | |
| Current tax | | **42,653** | 59,779 |
| Adjustment to prior year | a | **(4,896)** | (1,125) |
| Adjustment for acquisition | | **4,222** | - |
| | | **41,979** | 58,654 |
| **Deferred tax** | | | |
| Deferred tax expense recognised in the current year | | **(4,198)** | (27,781) |
| Adjustment of deferred tax for prior periods | a | **3,717** | - |
| | | **(481)** | (27,781) |
| **Aggregate income tax expense** | | **41,498** | 30,873 |
| **(b) Numerical reconciliation of income tax equivalents to prima facie tax payable** | | | |
| Profit from continuing operations before income tax equivalents | | **121,078** | 104,772 |
| Income tax calculated at 30% | | **36,323** | 31,432 |
| Other items | | | |
| Non-deductible expenses | | **2,365** | 265 |
| Inter-company dividends | | **(144)** | 448 |
| Research and development | | **-** | (178) |
| Previously unrecognised temporary differences | b | **4,153** | - |
| Share of Joint Venture profits and partner share of profits | | **(20)** | 31 |
| Adjustment to prior year income tax expense | a | **(1,179)** | (1,125) |
| **Income tax expense** | | **41,498** | 30,873 |

a) Adjustment to prior year relates to differences between the 2011/12 financial statements and the 2011/12 Income tax return. The net adjustment is $1.2m.

b) Previously unrecognised temporary differences relates to employee entitlements from the integration of water and sewerage business from 1 July 2012.

ACTEW and controlled entities are exempt from Federal income tax. However, ACTEW is required to pay income tax equivalents to the ACT Government.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**8 Income tax expense (continued)**

***Tax consolidation legislation***

ACTEW 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 the parent entity, ACTEW for any current tax payable assumed and are compensated by ACTEW for any current tax receivable and deferred tax assets relating to unused tax credits that are transferred to ACTEW 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.

**9 Dividends**

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| At the beginning of the financial year | **18,359** | 11,831 |
| Amount appropriated from operating profit | **79,580** | 73,899 |
| | **97,939** | 85,730 |
| Amount paid during the year | **(18,359)** | (67,371) |
| At the end of the financial year | **79,580** | 18,359 |

**10 Current assets - cash and cash equivalents**

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Cash at bank and on hand | **6,244** | 7,520 |
| Short-term deposits | **77,500** | 182,985 |
| **Cash and cash equivalents** | **83,744** | 190,505 |

Cash held under short term deposits has a maturity of 1 to 6 months and is classified as cash because these funds can be accessed at call.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**11 Current assets - trade and other receivables**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Water revenue receivable | | **32,105** | 24,885 |
| Sewerage revenue receivable | | **12,700** | 11,765 |
| Other trade receivables | a | **4,346** | 6,797 |
| Allowance for impairment of receivables | b | **(908)** | (779) |
| | | **48,243** | 42,668 |
| Sundry receivables and accrued revenue | c | **5,575** | 4,322 |
| **Total trade receivables** | | **53,818** | 46,990 |

**a) Other trade receivables**
These amounts generally arise from transactions outside the usual operating activities of the Group.

**b) Movements in the allowance for impairment of receivables are as follows:**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| At the beginning of the financial year | **779** | 512 |
| Allowance for impairment recognised during the year | **140** | 332 |
| Receivables written off during the year as uncollectible | **(11)** | (65) |
| At the end of the financial year | **908** | 779 |

Movements in the allowance for impaired receivables has been included in 'other expenses' in the income statement.

c) $0.618m of sundry receivables is made up of a receivable from ActewAGL Joint Venture in respect to the ComCare exit scheme. Refer to note 25.

**12 Inventories**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Finished goods for operational use | a,b | **3,690** | - |
| **Total Inventories** | | **3,690** | - |

a) Inventories consist of consumables such as spare system asset components, chemicals and fuel, and personal issue items for operational use. Inventories were acquired during the integration of the water and sewerage business on 1 July 2012.

b) The cost of consumables used and recognised as an expense during the year in respect of continuing operations was $9.5 million (2012: $0) this increase is due to integration of the Water and Sewerage business on 1 July 2012.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**13 Current assets - other**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Employee entitlement receivable - related parties | | **11,286** | 19,647 |
| Acquisition of ActewAGL Water Division | a | **-** | 15,695 |
| Other | | **740** | 686 |
| **Total other assets** | | **12,026** | 36,028 |

a) Included as prepayments in 2012 was the cash consideration paid to ActewAGL Distribution for the water and sewerage business, which took effect on 1 July 2012.

**14 Non-current assets - held-to-maturity investments**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Long-term securities | **468** | 582 |
| **Total held-to-maturity investments** | **468** | 582 |

**15 Non-current assets - investments accounted for using the equity method**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Investments in joint venture partnerships | 36 | **601,287** | 552,455 |
| **Total investments accounted for using equity method** | | **601,287** | 552,455 |

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**16 Non-current assets - property, plant and equipment**

| | Water $'000 | Sewerage $'000 | Infrastructure land & buildings $'000 | Non-infra - structure land & buildings $'000 | Plant & equipment $'000 | Equipment under finance lease at cost $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **At 30 June 2011** | | | | | | | |
| Fair value | 1,050,808 | 705,514 | 7,135 | 22,425 | 703 | - | 1,786,585 |
| Accumulated depreciation | (54,744) | (67,485) | (320) | (4,542) | (359) | - | (127,450) |
| Net book amount | 996,064 | 638,029 | 6,815 | 17,883 | 344 | - | 1,659,135 |
| **Year ended 30 June 2012** | | | | | | | |
| Opening net book amount | 996,064 | 638,029 | 6,815 | 17,883 | 344 | - | 1,659,135 |
| Additions | 192,363 | 23,575 | - | 667 | 1,116 | - | 217,721 |
| Gifted assets | 2,000 | 2,220 | - | - | - | - | 4,220 |
| Transfer/adjustments | - | - | 639 | (639) | - | - | - |
| Depreciation charge | (21,883) | (18,130) | (7) | (400) | (86) | - | (40,506) |
| Closing net book amount | 1,168,544 | 645,694 | 7,447 | 17,511 | 1,374 | - | 1,840,570 |
| **At 30 June 2012** | | | | | | | |
| Fair value | 1,245,171 | 731,309 | 7,774 | 22,453 | 1,819 | - | 2,008,526 |
| Accumulated depreciation | (76,627) | (85,615) | (327) | (4,942) | (445) | - | (167,956) |
| Net book amount | 1,168,544 | 645,694 | 7,447 | 17,511 | 1,374 | - | 1,840,570 |
| **At 30 June 2013** | | | | | | | |
| Opening net book amount | 1,168,544 | 645,694 | 7,447 | 17,511 | 1,374 | - | 1,840,570 |
| Additions | 110,105 | 27,434 | - | 1,878 | 1,740 | 812 | 141,969 |
| Gifted assets | 1,998 | 2,738 | - | - | - | - | 4,736 |
| Retirement | - | - | - | - | (8) | - | (8) |
| Revaluation | - | 61,118 | 7,716 | 5,178 | - | - | 74,012 |
| Transfer/adjustments | (160) | (188) | 252 | 98 | (2) | - | - |
| Depreciation charge | (20,089) | (14,707) | (7) | (453) | (416) | (14) | (35,686) |
| Closing net book amount | 1,260,398 | 722,089 | 15,408 | 24,212 | 2,688 | 798 | 2,025,593 |
| **At 30 June 2013** | | | | | | | |
| Fair value | 1,357,114 | 722,089 | 15,408 | 24,678 | 3,549 | 812 | 2,123,650 |
| Accumulated depreciation | (96,716) | - | - | (466) | (861) | (14) | (98,057) |
| Net book amount | 1,260,398 | 722,089 | 15,408 | 24,212 | 2,688 | 798 | 2,025,593 |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**16 Non-current assets - property, plant and equipment (continued)**

a. All property, plant and equipment are held by the parent entity.

b. A finance lease has been entered into by the parent entity with Toyota Fleet Management on 19 February 2013 ending 18 February 2020. This is for a specialised heavy vehicle used in operations and included above. Minimum lease payments included in note 32.

**Valuation**

*Water and Sewerage infrastructure assets*

ACTEW water and sewerage infrastructure assets are held at fair value in accordance with AASB 116 *Property, Plant and Equipment*. The fair value of infrastructure assets is determined annually by application of an income approach by way of a Discounted Cash Flow (DCF) method, to determine the extent of difference in the economic value and the carrying amount of these assets. The nature of water and sewerage infrastructure assets is such that market-based evidence of fair value is unlikely to exist because of the specialised nature of these assets. Therefore, the application of fair value by way of a DCF method is adopted. The DCF was determined over a six-year period that reflects the ICRC's final report and Price Direction. The method uses ACTEW's forecast net cash flow results with a terminal value based on cash flow perpetuity discounted using a market based post-tax nominal cash flow of 5.92%. The DCF model is highly sensitive to some key assumptions, including the discount rate adopted. (Refer note 3 for information on these key assumptions). This resulted in an increase of $61.1 million to the value of the sewerage assets, and no material change in valuation for water assets. This is recognised in the asset revaluation reserve net of tax of $42.8 million (note 28) and an associated deferred tax liability of $18.3 million (note 17).

*Land and buildings*

An independent valuation of land and buildings was undertaken by Colliers International Consultancy and Valuation Pty Limited, who are Certified Practicing Valuers and financial members of the ACT Division of the Australian Property Institute. The fair value of each land and building has been assessed as at 30 June 2013 for financial reporting purposes. Land and buildings were assessed to fair value in accordance with Australian Accounting standard AASB116 '*Property Plant and Equipment*'. Land assets have been valued on the basis of existing use with consideration of legal and physical restraints. Building assets have been valued with regard to their physical and functional obsolescence. A $12.9 million revaluation increase to land and buildings was recognised as a result, with an associated increase to the land and buildings revaluation reserve of $9 million (note 28) and deferred tax liability of $3.9 million (note 17) recognised.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**17 Deferred tax balances**

| **2013** | **At the beginning of the financial year** | **Recognised in profit or loss** | **Recognised directly in equity** | **Acquisitions or disposals** | **At the end of the financial year** |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | | $'000 |
| **Temporary Differences** | | | | | |
| Distributions from ActewAGL Partnerships | (22,373) | (3,560) | - | - | (25,933) |
| Adjustment to prior year tax | - | (3,718) | - | - | (3,718) |
| Employee entitlements | 6,787 | 3,693 | - | - | 10,480 |
| Audit fees | 8 | - | - | - | 8 |
| Depreciation | (228,294) | 535 | - | - | (227,759) |
| Joint Venture receivable - employee entitlements | (5,894) | 2,502 | - | - | (3,392) |
| Other | 1,197 | 1,031 | - | - | 2,228 |
| Asset Revaluation | (17,025) | - | (22,204) | - | (39,229) |
| | (265,594) | 483 | (22,204) | - | (287,315) |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**17 Deferred tax balances (continued)**

| **2012** | **At the beginning of the financial year** | **Recognised in profit or loss** | **Recognised directly in equity** | **Acquisitions or disposals** | **At the end of the financial year** |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | | $'000 |
| **Temporary Differences** | | | | | |
| Distributions from ActewAGL Partnerships | (43,257) | 20,884 | - | - | (22,373) |
| Employee entitlements | 6,635 | 152 | - | - | 6,787 |
| Audit fees | 9 | (1) | - | - | 8 |
| Unread consumption income | (3,979) | 3,979 | - | - | - |
| Depreciation | (231,323) | 3,029 | - | - | (228,294) |
| Joint Venture receivable - employee entitlements | (5,814) | (80) | - | - | (5,894) |
| Other | 2,146 | (949) | - | - | 1,197 |
| Asset Revaluation | (17,025) | - | - | - | (17,025) |
| Hedge Reserve | (466) | 483 | (17) | - | - |
| | (293,074) | 27,497 | (17) | - | (265,594) |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**18 Non-current assets - intangible assets**

| | Notes | Computer Software ~ | Carbon Credits ^ | Licences * | Total |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **At 30 June 2012** | | | | | |
| Cost | | - | 965 | 32,718 | 33,683 |
| Accumulated impairment | | - | (965) | (1,606) | (2,571) |
| Net book value | | - | - | 31,112 | 31,112 |
| **Year ended 30 June 2013** | | | | | |
| Opening net book value | | - | - | 31,112 | 31,112 |
| Additions - acquisitions | | 764 | 341 | - | 1,105 |
| Amortisation expense | | (224) | - | - | (224) |
| Impairment charge | a , b | - | (341) | (4,586) | (4,927) |
| Closing net book value | | 540 | - | 26,526 | 27,066 |
| **At 30 June 2013** | | | | | |
| Cost | | 764 | 1,306 | 32,718 | 34,788 |
| Accumulated impairment | | - | (1,306) | (6,192) | (7,498) |
| Accumulated amortisation | | (224) | - | - | (224) |
| Net book value | | 540 | - | 26,526 | 27,066 |

~ ACTEW capitalises and amortises specific-use computer software, such as Geospatial Information systems and design drawing software. Computer software includes capitalised development costs being an internally generated intangible asset.

^ ACTEW has committed to offset the carbon production associated with the construction and operation of the Water Security Major Projects (WSMP). ACTEW has contracts with AusCarbon Pty Ltd and CO2 Australia Limited to supply 900,000 tonnes of carbon credits over 30 years.

* Under the Tantangara Transfer project, ACTEW has purchased water licences to extract and transfer water from the Murrumbidgee Regulated River System, which is stored and released from Tantangara Reservoir in the Snowy Mountains Scheme, to the ACT.

a) The legislation framework governing carbon credits remains uncertain at this stage. An impairment of the full amount has been recognised for the year ended 30 June 2013.

b) As part of the annual impairment assessment, ACTEW has undertaken an analysis of recent observable water transactions within the market and determined the upper and lower price limits for the March 2013 Quarter. The upper price value was used as the water licences held are of a larger volume, which are assumed to be higher priced in the market. This analysis resulted in an impairment of $4.6 million charged against the water licences for the year ended 30 June 2013.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**19 Non-current assets - other**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Other | a | 2,112 | 106 |
| **Total other non-current assets** | | 2,112 | 106 |

a) $1.9 million of other non-current assets relates to a receivable from ActewAGL Joint Venture in respect to the ComCare exit scheme. Refer to note 25.

**20 Current liabilities - trade and other payables**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade payables | 4,682 | 17,852 |
| Other payables and accruals | 42,845 | 38,387 |
| Income tax payable | 7,840 | 31,002 |
| **Total payables** | 55,367 | 87,241 |

**21 Current liabilities - borrowings**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Unsecured** | | |
| Loans | 17,392 | 15,760 |
| **Total borrowings** | 17,392 | 15,760 |

**22 Current liabilities - provisions**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Employee entitlements | a | 10,274 | 928 |
| Employee entitlements - seconded employees | a | 11,286 | 19,621 |
| Provision for dividend | 9 | 79,580 | 18,359 |
| Redundancy provision | b i) | 2,707 | - |
| Workers' compensation (Pre-1989) | b ii) | 185 | 130 |
| Provision for make good restoration | b iii) | 166 | 150 |
| Comcare exit scheme provision | b iv) | 1,766 | - |
| **Total provisions** | | 105,964 | 39,188 |

a) Subsequent to the integration of the water and sewerage business, employees seconded to ActewAGL Joint Venture have returned to ACTEW.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**22 Current liabilities – provisions (continued)**

**Movements in consolidated non-current provisions**

b) Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **i) Redundancy Provision** | | | |
| At the beginning of the financial year | | - | - |
| (Credited) to profit or loss | | | |
| - additional provisions recognised | | 2,707 | - |
| - unused amounts reversed | | - | - |
| At the end of the financial year | | 2,707 | - |

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **ii) Workers' Compensation (Pre 1989)** | | | |
| At the beginning of the financial year | | 130 | 125 |
| (Credited) to profit or loss | | | |
| - additional provisions recognised | | 55 | 5 |
| - unused amounts reversed | | - | - |
| At the end of the financial year | | 185 | 130 |

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **iii) Provision for make good restoration** | | | |
| At the beginning of the financial year | | 150 | 124 |
| (Credited) to profit or loss | | | |
| - additional provisions recognised | | 16 | 26 |
| - unused amounts reversed | | - | - |
| At the end of the financial year | | 166 | 150 |

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **iv) Comcare exit scheme provision** | | | |
| At the beginning of the financial year | | - | - |
| (Credited) to profit or loss | | | |
| - additional provisions recognised | | 1,766 | - |
| - unused amounts reversed | | - | - |
| At the end of the financial year | 25b | 1,766 | - |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**23 Current liabilities – other**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Unearned revenue | **3,496** | 2,874 |
| **Total other** | **3,496** | 2,874 |

**24 Non-current liabilities - borrowings**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Unsecured** | | | |
| Loans | | **1,335,105** | 1,343,358 |
| **Total non-current borrowings** | **a** | **1,335,105** | 1,343,358 |

a) ACTEW maintains a balanced portfolio consisting of two CPI linked indexed annuity bonds (IABs), a capital indexed bond (CIB) and two medium term notes.

The IABs consist of $250 million borrowed on 17 April 2000 at a yield of 3.89%, which matures on 17 April 2020 and $397 million, which consists of $300 million borrowed on 12 June 2008 at a yield of 2.42% and a further $97 million maturing on 12 June 2048 at a yield of 3.94%. The bonds are issued paying a base coupon amount, with a CPI component attached. Principal and interest payments are made quarterly with the interest component directly reflecting the movements in the CPI.

The CIB of $243 million was acquired on 17 June 2010 at a yield of 3.72% and matures on 17 June 2030. Interest payments are made on a quarterly basis with the principal inflated by CPI with full payment in 2030.

On 7 June 2011, a $300 million seven year Medium Term Note at a fixed interest rate of 5.72% was acquired. Interest payments are made semi-annually. On 22 May 2012, a $215 million eight year Medium Term Note at a fixed rate of 4.33% was acquired. Interest payments are made semi-annually.

As at 30 June 2013 the total principal outstanding was $1,352 million (2012 - $1,359 million) consisting of $17.4 million current liability (note 21) and $1,335 million non current liability (note 24).

# Notes to the Financial Report

**For the year ended 30 June 2013**

**25 Non-current liabilities - provisions**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Employee entitlements | | 1,587 | 140 |
| Employee entitlements - seconded employees | | 19 | - |
| Workers' compensation (Pre-1989) | a | 2,310 | 1,173 |
| Comcare exit scheme provision | a, b | 5,697 | - |
| **Total provisions** | | 9,613 | 1,313 |

**Movements in consolidated non-current provisions**

a) Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **i) Workers' Compensation (Pre 1989)** | | |
| At the beginning of the financial year | 1,173 | 1,252 |
| (Credited) to profit or loss | | |
| - additional provisions recognised | 1,137 | - |
| - unused amounts reversed | - | (79) |
| At the end of the financial year | 2,310 | 1,173 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **ii) Comcare exit scheme provision** | | |
| At the beginning of the financial year | - | - |
| (Credited) to profit or loss | | |
| - additional provisions recognised | 5,697 | - |
| - unused amounts reversed | - | - |
| At the end of the financial year | 5,697 | - |

b) Since 2002, ACTEW Water has participated in the ComCare workers compensation scheme (for ACT Government). The ACT Government and ACTEW have agreed to cancel ACTEW's arrangement with ComCare under the provisions outlined in the ACTEW Withdrawal from the Safety, Rehabilitation and Compensation Act 1988 Deed dated 30 August 2012 (the 'Deed'). Regardless of the withdrawal ACTEW continues to have obligations that may arise out of related events that occurred prior to the exit date, 1 September 2012.

At 30 June 2013, the expected total payments over ten years are estimated at $11.2m. The net present value of these payments is estimated at $9.6m and after initial payments have been made ($2.7m) and unwinding of discount ($0.6m), a provision of $7.5m has been recognised at 30 June 2013 (refer to note 22 and 25). A receivable has also been recognised for 35% of this amount due to an agreement with ActewAGL Joint Venture to reimburse a portion of the costs (refer to note 11 and 19). The estimate may vary as a result of changes in the case claims where applicable

**26 Non-current liabilities - Other liabilities**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Finance Lease | a | 724 | - |
| | | 724 | - |

a) Finance Lease commitments are detailed within note 32.

# Notes to the Financial Report

**For the year ended 30 June 2013**

## 27 Contributed equity

| | 2013 Shares | 2012 Shares |
|---|---|---|
| **a) Paid up capital:** | | |
| Ordinary shares fully paid | **2** | 2 |
| **Total share capital** | **2** | 2 |

| **b) Total capital** | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Contributed Capital | **758,871** | 758,871 |
| **Total capital** | **758,871** | 758,871 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

**c) Movement in ordinary share capital**

There has been no movement in share capital.

**d) Capital risk management**

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

The ACTEW Group's strategy is to maintain financial flexibility to accommodate future investments.

The net debt to equity ratio at 30 June 2013 and 30 June 2012 were as follows:

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Total borrowings | 21,24 | **1,352,497** | 1,359,118 |
| Less: cash as per statement of cash flows | 10 | **(83,744)** | (190,505) |
| Net debt | | **1,268,753** | 1,168,613 |
| Total equity | | **994,828** | 943,020 |
| Total capital | | **2,263,581** | 2,111,633 |
| Net debt to capital ratio | | **56.1%** | **55.3%** |

## 28 Reserves

| **Reserves** | **2013 $'000** | 2012 $'000 |
|---|---|---|
| Asset revaluation | **218,336** | 166,528 |
| General insurance | **9,820** | 9,820 |
| **Total reserves** | **228,156** | 176,348 |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**28 Reserves (continued)**

| **a) Movements in reserves:** | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Asset revaluation** | | |
| At the beginning of the financial year | **166,528** | 166,528 |
| Revaluation – net of tax | | |
| Water | **-** | - |
| Sewerage | **42,783** | - |
| Land and Buildings | **9,025** | - |
| | **51,808** | - |
| At the end of the financial year | **218,336** | 166,528 |
| **Hedging reserve - cash flow hedges** | | |
| At the beginning of the financial year | **-** | (10) |
| Revaluation - net | **-** | 10 |
| At the end of the financial year | **-** | - |

**b) Nature and purpose of reserves**

*(i) General insurance reserve*

Due to the difficulty in obtaining 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.

*(ii) Asset revaluation reserve*

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets.

*(iii) Hedging reserve - cash flow hedges*

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects the income statement.

**29 Retained profits**

| Movements in retained earnings were as follows: | **2013 $'000** | 2012 $'000 |
|---|---|---|
| At the beginning of the financial year | **7,801** | 7,801 |
| Net profits available for reserves and dividends | **79,580** | 73,899 |
| Total available for appropriation | **87,381** | 81,700 |
| Dividends provided for or paid | **(79,580)** | (73,899) |
| At the end of the financial year | **7,801** | 7,801 |

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**30 Key management personnel**

**Key management personnel compensation**
The aggregate compensation made to key management personnel of the Group is set out below:

| | 2013 $ | 2012 $ |
|---|---|---|
| Short-term employee benefits | 2,369,521 | 1,860,021 |
| Post-employment benefits | 272,593 | 227,117 |
| Other long-term benefits | 189,090 | - |
| Termination benefits | 1,024,829 | - |
| Total benefits | 3,856,033 | 2,087,138 |

The compensation of each member of the key management personnel of the Group for the current year is set out on the following page.

The remuneration table below is based on the following methodology:

- Salaries, employee entitlements, non-monetary benefits and superannuation are on a cash method of reporting.

- Bonuses and termination remuneration are based on the accrual method of reporting, relating to the current period of service. These are not paid out until following periods.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**30 Key management personnel (continued)**

| 2013 | short term employee benefits (a) cash salary, fees and short-term compensated absences | short term employee benefits (b) short-term cash profit-sharing and other bonuses* | post-employment benefits | long-term employee benefits | termination benefits | Total |
|---|---|---|---|---|---|---|
| John Mackay | $ 69,127 | $ - | $ 5,291 | $ - | $ - | $ 74,418 |
| Michael Easson | $ 38,361 | $ - | $ 4,219 | $ - | $ - | $ 42,580 |
| Allan Hawke | $ 33,358 | $ - | $ 3,669 | $ - | $ - | $ 37,027 |
| Jennifer Goddard | $ 33,358 | $ - | $ 3,669 | $ - | $ - | $ 37,027 |
| Wendy Caird | $ 33,358 | $ - | $ 3,669 | $ - | $ - | $ 37,027 |
| Carolyn Lilley | $ 8,688 | $ - | $ - | $ - | $ - | $ 8,688 |
| Rachel Peck | $ 33,358 | $ - | $ 3,669 | $ - | $ - | $ 37,027 |
| Mark Sullivan | $ 511,494 | $ 178,973 | $ 79,096 | $ - | $ - | $ 769,563 |
| Michele Norris | $ 163,796 | $ 58,020 | $ 35,978 | $ 2,268 | $ - | $ 260,062 |
| Simon Wallace | $ 213,334 | $ 50,000 | $ 28,967 | $ - | $ - | $ 292,301 |
| Ian Carmody | $ 392,300 | $ 70,000 | $ 25,000 | $ - | $ - | $ 487,300 |
| Ross Knee | $ 220,624 | $ - | $ 37,114 | $ 186,822 | $ 337,699 | $ 782,259 |
| Asoka Wijeratne | $ 261,372 | $ - | $ 42,252 | $ - | $ 687,130 | $ 990,754 |
| **TOTAL** | $ 2,012,528 | $ 356,993 | $ 272,593 | $ 189,090 | $ 1,024,829 | $ 3,856,033 |

* Note total remuneration packages have been amended and no longer include bonuses post 1 July 2013.

Asoka Wijerante (Executive Manager Water Operations) became an unattached employee on 25th February 2013. His remuneration has been included for the period 1 July 2012 - 25th February 2013. Mr Wijeratne's redundancy has not been paid but has been provided for in the financial statements as at 30 June 2013 and has also been included in the remuneration note above. This amount does not include his long service leave entitlement ($263,159.64), which will be exhausted before his termination payment is made. Ross Knee ceased employment on 8th March 2013 and was paid out termination benefits in the current year. There were no redundancies in the prior year.

ACTEW Corporation Limited and Controlled Entities

# Notes to the Financial Report

**For the year ended 30 June 2013**

**30 Key management personnel (continued)**

The compensation of each member of the key management personnel of the Group for the prior year is set out below:

| 2012 | short term employee benefits | | | | | |
|---|---|---|---|---|---|---|
| | (a) cash salary, fees and short-term compensated absences | (b) short-term cash profit-sharing and other bonuses | post-employment benefits | long-term employee benefits | termination benefits | Total |
| John Mackay | $ 60,084 | $ - | $ 6,008 | $ - | $ - | $ 66,092 |
| Michael Easson | $ 34,519 | $ - | $ 3,452 | $ - | $ - | $ 37,971 |
| Allan Hawke | $ 30,017 | $ - | $ 3,002 | $ - | $ - | $ 33,019 |
| Jennifer Goddard | $ 19,281 | $ - | $ 1,928 | $ - | $ - | $ 21,209 |
| Wendy Caird | $ 30,017 | $ - | $ 3,002 | $ - | $ - | $ 33,019 |
| Rachel Peck | $ 30,017 | $ - | $ 3,002 | $ - | $ - | $ 33,019 |
| Ted Matthews | $ 808 | $ - | $ 73 | $ - | $ - | $ 881 |
| Mark Sullivan | $ 442,614 | $ 316,300 | $ 95,124 | $ - | $ - | $ 854,038 |
| Michele Norris | $ 161,687 | $ 58,419 | $ 30,725 | $ - | $ - | $ 250,831 |
| Simon Wallace | $ 211,875 | $ 50,000 | $ 25,549 | $ - | $ - | $ 287,424 |
| Ross Knee | $ 271,457 | $ 142,926 | $ 55,252 | $ - | $ - | $ 469,635 |
| **TOTAL** | $ 1,292,376 | $ 567,645 | $ 227,117 | $ - | $ - | $ 2,087,138 |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**31 Related parties**

**Parent entities**

The wholly owned group consists of ACTEW Corporation Limited and its wholly owned controlled entities. These entities are ACTEW Retail Limited and ACTEW Distribution Limited. The results of the ActewAGL joint venture partnerships, which are 50% owned by ACTEW Corporation Limited through its subsidiaries, ACTEW Retail Limited and ACTEW Distribution Limited are accounted for using the equity method. ACTEW Corporation Limited has several operational arrangements with its controlled entities. All transactions are at an arm's length basis.

The following transactions occurred with related parties:

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Wholly owned controlled entities** | | |
| Dividend revenue | **67,452** | 56,934 |
| Aggregate amounts receivable from and payable to entities in the wholly-owned group at balance date were as follows: | | |
| Current receivables (tax funding agreement) | **18,832** | 45,249 |
| Current receivables (other) | **74,639** | 55,211 |
| Current payables and other | **79,580** | 73,899 |
| Non-interest bearing loans | **434,937** | 390,596 |

**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% (2012 - 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 34.

**Other related parties**

| | **2013** | 2012 |
|---|---|---|
| **The following transactions occurred with ActewAGL Joint Venture:** | **$'000** | $'000 |
| Aggregate amounts included in the determination of operating profit before income tax equivalents that resulted from transactions with other related parties: | | |
| Operating expenses | **58,924** | 105,881 |
| Capital expenses | **-** | 47,191 |
| Aggregate amounts receivable from and payable to joint venture partnerships at balance date: | | |
| Current receivables | **13,715** | 19,647 |
| Current accounts payables and other | **14,729** | 19,621 |
| Non-current receivables | **1,994** | - |
| Non-current accounts payables and other | **-** | - |

# Notes to the Financial Report

**For the year ended 30 June 2013**

**32 Commitments for expenditure**

| | Notes | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Capital expenditure commitments | a | **166,784** | 183,308 |
| Other expenditure commitments | b | **321,134** | 289,447 |
| Operating lease commitments | | | |
| Commitments in relation to operating leases contracted for at balance date, but not provided for in accounts payable: | | | |
| Within 1 year | | **2,765** | 638 |
| Later than 1 year but not later than 5 years | | **5,812** | 2,513 |
| Later than 5 years | | **5,653** | 6,063 |
| | c | **14,230** | 9,214 |
| Finance lease commitments | | | |
| Commitments in relation to finance leases contracted for at balance date, but not provided for in accounts payable: | | | |
| Within 1 year | | **101** | - |
| Later than 1 year but not later than 5 years | | **404** | - |
| Later than 5 years | | **458** | - |
| Minimum lease payments | d | **963** | - |

a) Capital commitments includes the ICRC final determination for Capital expenditure for 2013-14 year of $152.7 million and amounts for purchase of carbon credits through contracts with CO2 and AusCarbon for $14.1 million.

b) On 27 June 2012 ACTEW entered into a contract with ActewAGL Distribution Partnership to provide corporate services to ACTEW, and a contract with ActewAGL Retail Partnership to provide retail services. These services were previously provided under the Utilities Management Agreement (UMA) and the Umberella Agreement. The expenditure commitments include these contracts as well as general expenditure commitments.

c) Operating lease commitments are for computer equipment and motor vehicles, with Capital Easy Finance & Leasing, the supplier for computer equipment, and Toyota Finance Australia, the supplier of Motor Vehicles. It also includes property lease with ActewAGL for the building in Bunda Street in Canberra.

d) Finance lease has been entered into by the parent entity with Toyota Fleet Management on 19 February 2013 ending 18 February 2020. This is for a specialised heavy vehicle used in operations.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**33 Contingent liabilities and assets**

*Contingent Liabilities*

*i) Claims*

Entities within the Group are involved in disputes in the normal course of operations. The directors believe, based on legal advice, that these disputes can be successfully defended and therefore no material losses (including for costs) will be incurred.

*ii) Bank Guarantees*

ACTEW has given bank guarantees in respect to:

- Performance guarantees in relation to its service contracts amounting to $100,000 (2012: $0).

*Contingent Assets*

In March 2012 all Water Security Program construction projects were affected by heavy rainfall and severe flooding. Pre-flood safety and mitigation actions, project site debris clean up and post-flood reparation works undertaken at the site resulted in an interim assessment of estimated costs up to $9.9 million. However, once final costs have been determined it is anticipated that a significant portion of these costs will be recovered via insurance claims. No amounts have been recorded in these financial statements for any recovery.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**34 Investment in controlled entities**

| **Name of Entity** | **Country of Incorporation** | **Class of shares** | **Equity Holding** | Equity Holding |
|---|---|---|---|---|
| | | | **2013** | 2012 |
| | | | **%** | % |
| ACTEW Distribution Ltd | Australia | Ordinary | **100%** | 100% |
| ACTEW Retail Ltd | Australia | Ordinary | **100%** | 100% |
| ActewAGL Generation Pty Ltd | Australia | Ordinary | **50%** | 50% |

**35 Investments in associates**

| | **Ownership Interest** | **2013 $'000** | 2012 $'000 |
|---|---|---|---|
| TransACT Communications Pty Limited | 0% (2012: 0%) | | |
| **Movement in carrying amount of investments in associates** | | | |
| At the beginning of the financial year | | - | 60,799 |
| Prior year equity accounted losses | | - | (50,157) |
| Current year equity accounted (profits)/losses | | - | (79) |
| Allowance for impairment | | - | (5,867) |
| Proceeds from Sale of Investment | | - | (4,901) |
| Reversal of prior impairment | | - | 205 |
| At the end of the financial year | | - | - |

ACTEW sold its investment in TransACT in August 2011.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**36 Interests in joint ventures**

**(a) Joint Venture Partnerships - ActewAGL Partnership**

ACTEW Retail Ltd entered into joint venture partnership with AGL Ltd to manage the retail operations of the ACT electricity and gas networks. ACTEW Distribution Ltd entered into a joint venture partnership with Jemena Networks (ACT) Pty Ltd to manage the ACT electricity network and the ACT, Queanbeyan and Nowra 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) (iii) is set out below:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| **Share of partnership's commitments** | | |
| Lease commitments | **38,239** | 38,058 |
| Total expenditure commitments | **38,239** | 38,058 |
| Capital and other commitments | **23,875** | 38,332 |
| | **62,114** | 76,390 |

**(b) Joint Venture Partnerships - ActewAGL Generation**

In April 2012, ACTEW Retail Ltd entered into a joint venture with AGL ACT Retail Investments Pty Ltd to form ActewAGL Generation Pty Ltd in order to participate in the ACT Government's Solar Auction process.

ACTEW has a 50% ownership in ActewAGL Generation Pty Ltd. As at 30 June 2013, there have been no transactions within ActewAGL Generation Pty Ltd.

**(c) Contingent liabilities relating to joint ventures**

*(i) Claims*

There are a number of public liability insurance claims against the ActewAGL partnerships at year end. Should the partnerships be proved liable, the partnerships must pay the first $25,000 of each claim. This contingent liability is estimated to be $32,595 as at 30 June 2013 (2012: $340,229).

*(ii) Bank guarantees*

The Group has given a number of bank guarantees in respect to:

Security deposits in relation to its leases amounting to $4,735,985 (2012: $4,777,235)
Security deposits in relation to its service contracts amounting to $0 (2012: $32,500)
Performance guarantees in relation to its service contracts amounting to $0 (2012: $100,000)

These have not been recognised in the balance sheet.

**37 Events subsequent to balance date**

On the 19$^{th}$ of August 2013, ActewAGL Generation Pty Ltd was informed it was unsuccessful in the regular stream of the ACT Government's Large-scale Solar Auction held by the ACT Government. No other matters of significance have arisen since the end of the financial year.

# Notes to the Financial Report

**For the year ended 30 June 2013**

**38 Parent entity financial information**

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Balance Sheet** | | |
| Current Assets | **244,977** | 373,983 |
| Total Assets | **2,753,256** | 2,646,340 |
| Current Liabilities | **180,421** | 145,015 |
| Total Liabilities | **1,779,465** | 1,723,877 |
| Equity | | |
| Contributed equity | **758,872** | 758,872 |
| Reserves | | |
| Asset revaluation | **178,612** | 126,802 |
| General insurance | **9,820** | 9,820 |
| Retained profits | **26,487** | 27,448 |
| | **973,791** | 922,942 |
| **Profit or loss for the year** | **79,102** | 73,418 |
| **Total comprehensive income** | **130,910** | 73,428 |

**b) Guarantees entered into by the parent entity**

The parent entity bank guarantees as at 30 June 2013 are referred to in Note 33.

**c) Contingent liabilities of the parent entity**

The parent entity contingent liabilities as at 30 June 2013 are referred to in Note 33.

**d) Contractual commitments for the acquisition of property, plant or equipment**

The parent entity contractual commitments for the acquisition of property, plant and equipment as at 30 June 2013 are referred to in note 32.

actew.com.au

CRE8IVE 1013-13141