

2008

ANNUAL  
REPORT



# MISSION

- To maximise return on our water, energy and communication investments
- To manage prudently public assets to provide water and sewerage services in the ACT region
- To continue our national leadership role in environmental matters beyond compliance

# VISION

- To be a benchmark in the public-private partnership (PPP) model for the provision of multi-utility services

# VALUES

- Maintain our high standards of probity and governance
- Maximise the environmental benefit from our asset management and service provision functions
- Act fairly and professionally with our stakeholders
- Operate in a commercial manner mindful of our public accountabilities

# OUR STAKEHOLDERS

## OUR OWNERS AND PARTNER

- Our owners are entitled to a commercial return on investment
- Dealing with AGL in a fair and equitable manner

## OUR MARKET

- Quality management of our assets and the competitiveness of our services are fundamental to the continuing success of our business

## OUR PEOPLE

- Provide a satisfying and challenging work environment

## OUR COMMUNITY

- Be an active participant in our community

# COMPANY PROFILE

ACTEW Corporation Limited (ACTEW) is a company wholly owned by the ACT Government with assets and investments in water, sewerage, electricity, gas and telecommunications totalling more than \$1.3b.

ACTEW was established on 1 July 1995. As a government owned company, ACTEW has reporting and compliance obligations under *Corporations Act 2001* and various ACT legislation.

ACTEW owns the water and sewerage business and assets in the ACT and is a 50 per cent owner of ActewAGL, a multi-utility provider of electricity and gas services, and operator of the water and sewerage business. The Corporation also holds a 24.9% interest in TransACT Communications Pty Limited, a broadband fibre optic cable network and telecommunications company.

ACTEW has three wholly owned subsidiary companies: ACTEW Retail Limited, ACTEW Distribution Limited and ACTEW China Pty Limited.

## **The Directors at 30 June 2003**

Mr James G Service AM (Chairman)  
Mr Michael B Easson AM (Deputy Chairman)  
Mr Peter M Phillips  
Mr Kevin L Neil  
Mr Michael J Costello AO  
Mr Edward W Mathews PSM  
Mr Paul J Perkins

## **Secretary**

Mr Peter Carrigy-Ryan

## **Principal Registered Office**

Level 9 ActewAGL House

221 London Circuit

CANBERRA ACT 2601

Telephone (02) 6248 3111

## **Auditor**

Auditor General of the  
Australian Capital Territory

## **Solicitors**

ACTEW uses Mallesons Stephen Jaques and Minter Ellison as its major providers of legal services.

## **Bankers**

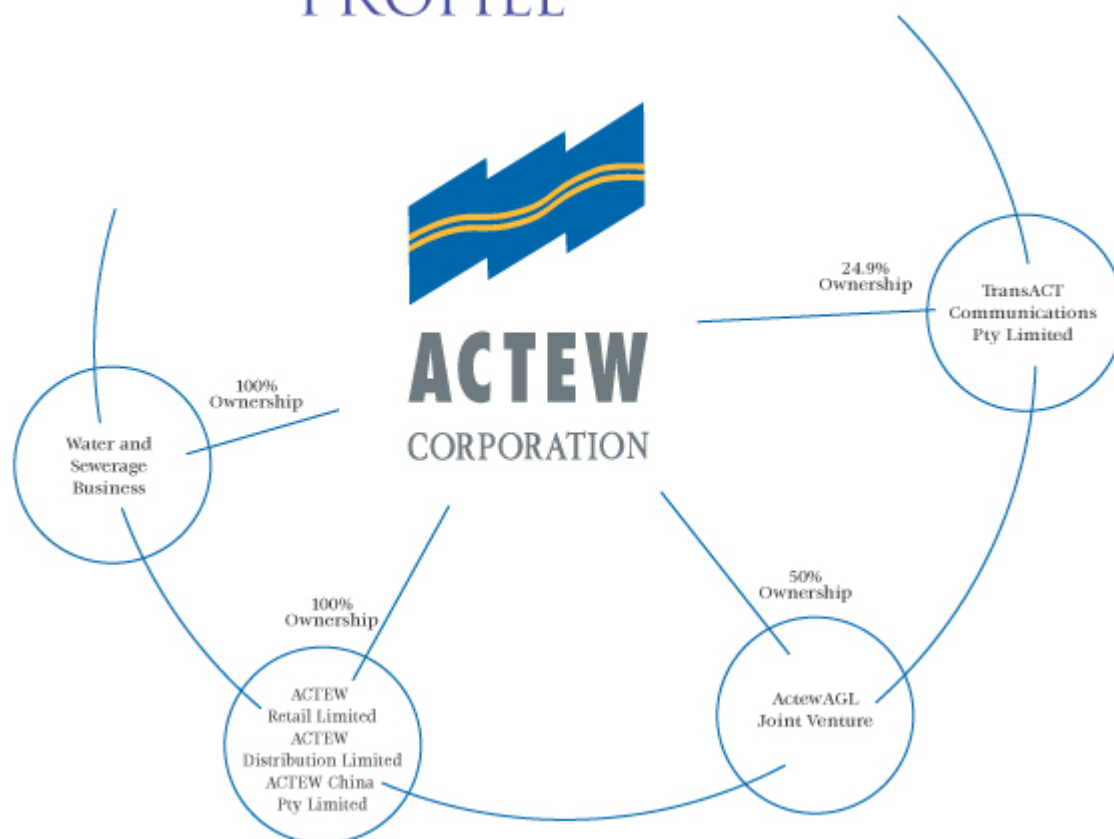
Australian and New Zealand Banking Group Limited

Reserve Bank of Australia

ABN 86 069 381 960

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# COMPANY PROFILE



ACTEW owns the ACT's water and sewerage business and assets. ActewAGL operates and maintains the water and sewerage networks under an alliance contract agreement with ACTEW.

ACTEW has three wholly owned subsidiary companies: ACTEW Retail Limited and ACTEW Distribution Limited are ACTEW's partnership companies in ActewAGL; and ACTEW China Pty Limited which develops business opportunities in the Peoples' Republic of China.

ACTEW owns 50% of ActewAGL, a multi-utility joint venture with AGL. ActewAGL is structured as two partnerships: ActewAGL Retail and ActewAGL Distribution.

ACTEW maintains a 24.9% investment in TransACT Communications Pty Limited, a company building and managing an advanced broadband communications network across Canberra.

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## HIGHLIGHTS FOR 2002-2003

- Group profit after income tax equivalents was \$43.4m
  - Dividends to shareholders totalled \$48.9m during 2002-2003
  - Full compliance with environmental and licence requirements for our water and sewerage facilities and operations
  - Invested \$11.4m in new and upgraded infrastructure assets
  - In principle approval to build a new treatment plant at Mt Stromlo and increase the capacity of the existing Googong Water Treatment Plant
  - Establishment of a Drought Management Taskforce to deal with water restrictions due to drought and bushfires
  - Development of a Cotter Remediation Action Plan for the recovery of the catchment from the January 2003 bushfires
  - A number of community initiatives, charities and events continued to be supported through ACTEW's community support and sponsorship program
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# CHAIRMAN'S REPORT

The 2002-2003 financial year was indeed unique and challenging. Despite this, the financial success of ACTEW continued with the payment of a \$48.9m dividend to the ACT Government during the year. This is another very impressive performance for ACTEW from its investments in the energy, water and wastewater businesses.

For the first time in over thirty years water restrictions were imposed last summer in the ACT. The response of the community to the voluntary and compulsory limits on water usage has been exceptional.

Another critical issue for ACTEW was the impact of the bushfires in the Cotter catchment. The legacy left was a rapid deterioration in water quality leaving the once pristine water, unusable for some time to come. ACTEW expects this to be a long-term issue and is planning accordingly.

The ActewAGL Joint Venture will expand its energy business after reaching agreement with AGL to transfer its national energy customers, and focus on the Capital Region, an area encompassing the ACT and a significant part of south-eastern New South Wales.

Significant water policy issues have come to the fore in the past twelve months including the future capacity of existing infrastructure to supply water to the Capital Region. I remain convinced that the future growth of Canberra is vitally dependent on reliable water supply capacity.

ACTEW continues to hold 24.9% of the voting shares in TransACT Communications Pty Limited (TransACT), a broadband fibre optic cable network and telecommunications company. The process of rolling out this state of the art technology to Canberra remains difficult.

Paul Perkins announced his intention to retire as ACTEW Chief Executive in May 2003. Paul was Chief Executive of ACTEW from October 2000 and had been a senior executive since 1987. Paul has made a great contribution to the performance of ACTEW, the Canberra community and to Australia's water and environmental industries and policies.

Peter Phillips completed his term on the ACTEW Board on 30 June 2003. Peter has a long and distinguished association with ACTEW and its predecessors. His knowledge and experience have been greatly valued by his colleagues on the Board.

## **Audit Qualification**

The Auditor General of the Australian Capital Territory has qualified the Financial Statements of ACTEW in respect of three aspects:

- Application of Equity Accounting
- Recoverable Amount of the Investment in TransACT
- Application of UIG 11 Accounting for Contributions of, or Contributions for the Acquisition of Non-Current Assets

ACTEW sought legal advice on the Application of Equity Accounting and the Application of UIG 11 and the advice received strongly endorses the approach taken by ACTEW.

## **Application of Equity Accounting**

In general terms Accounting Standard AASB 1016 requires a company to equity account another company if the former has "significant influence" over the latter. The standard describes a number of relevant factors to determining the existence or otherwise of "significant influence." In the opinion of the Directors of ACTEW, and of its legal advisers, the application of those factors make it abundantly clear that, for the purpose of the Standard, ACTEW does not have and is unable to exert "significant influence" over TransACT.

The Shareholders Agreement - between all the investors in TransACT - contains a number of conditions which constrain ACTEW:

- A special resolution requires a majority of at least 70% and an ordinary resolution at least a 50% majority. The voting power of ACTEW is only 24.9%;
- Major decisions by Directors require at least a 70% majority. ACTEW has only 2 Directors out of 10;
- The other substantial shareholders are significant institutions (three of them much larger than ACTEW) who will, and do bring to TransACT their own totally independent positions; and
- TransACT is not reliant upon ACTEW for technical information, nor is there any material interchange of managerial personnel.

## **Recoverable Amount of the Investment in TransACT**

The Directors of ACTEW have noted the Auditor General's comments. As stated in Note 11 to the accounts, as there is no active or liquid market for this investment which is still in an establishment phase, the determination of its recoverable amount is a matter of considerable judgement.

## **Application of UIG 11 Accounting for Contributions**

In the opinion of the Directors of ACTEW, if the Financial Statements had been presented in accordance with the view of the Auditor General, that is, without the qualifying note, they would not have presented a true and fair view as required by S.297 of the Law.

The Directors of ACTEW consider that Contributions of Non Current Assets are on capital account not revenue account. However the Financial Statements have been prepared in compliance with UIG 11 and Accounting Standards.

Section 296 of the Corporations Act requires that the financial report comply with the Accounting Standards, and although section 297 requires that the financial report give a "true and fair view", that does not affect the obligation under section 296.

Section 295(4) requires that the directors, in their declaration (which forms part of the financial report) state whether, in their opinion, the financial statements and notes not only comply with Accounting Standards, but also present a true and fair view. Accordingly, the Corporations Act itself recognises that compliance with the Accounting Standards may not result in the presentation of a true and fair view. That conclusion is supported by section 295(3), which, in requiring that any notes include those required by the Accounting Standards, also requires that the notes include "any other information necessary to give a true and fair view".

If ACTEW were a company listed on the Australian Stock Exchange it would be required when making any announcement to the market to comply with the following;

"True and fair view. If this report does not give a true and fair view of a matter (for example, because compliance with an Accounting Standard is required) the entity must attach a note providing additional information and explanations to give a true and fair view".

The Auditor General is, of course, entitled to form any opinion that he wishes. The Directors - who are responsible for the accounts - have a Corporations Act duty to form their own opinion and express it. That is what they have done and will continue to do.

I thank the Board and the staff for their enthusiasm and dedication during this unusual but successful year for ACTEW.



## **DIRECTORS' Profiles**

### **James G Service AM, Chairman, FCPA, FCIS**



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

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



Michael Easson is Chair of the EG Property Group and the principal of Michael Easson Management, a consultancy providing specialist strategic services to Australian and multinational organisations, and a consultant to Allens Arthur Robinson. Mr Easson is a Director of the Macquarie Infrastructure Group, Telstra Stadium, York Mining, Metro Transport Services; and a Member of the ActewAGL Joint Venture Board. He has been a Director of the ACTEW Board since 11 July 1995 and Deputy Chairman since 29 May 1996.

### **Peter M Phillips, BA, Dip Thai Language Studies**



Peter Phillips is a Director of Endeavour Consulting Group Pty Limited. He is a Member of the National Executive of the Australia-Taiwan Business Council.

Mr Phillips is a Director of Bobundra Pty Limited, Auster Pty Limited, and Northern State Developments Pty Limited. Mr Phillips was Chairman of ACT Electricity and Water Authority from 1988 until corporatisation in 1995. He was appointed an alternate Director to the ACTEW Board on 1 July 1998 and was a Director from 1 July 2000 to 30 June 2003.

### **Kevin L Neil, MAICD**



Kevin Neil is a Director of the Stadiums Authority, the ACT Liquor Licensing and Adult Services Board, the Australian Rugby League Development Foundation Board; and a Member of the Australian Institute of Company Directors. Mr Neil was appointed a Director of the ACTEW Board on 6 December 2000.

### **Michael J Costello AO, BA, LLB**



Michael Costello is the Chief Executive of ACTEW Corporation. He is currently Chairman of Ecowise Environmental Pty Limited, a Member of the ActewAGL Joint Venture Board, a Director of C-Bus and a Director of Softlaw Corporation Limited. Mr Costello was previously Deputy-Managing Director of the Australian Stock Exchange, and a Director of Export Finance Insurance Corporation and the Australian Trade Commission. He was Chief of Staff to



the Opposition Leader, the Hon. Kim Beazley MP and Minister for Foreign Affairs, the Hon. Bill Hayden MP, Secretary of the Department of Foreign Affairs and Trade and the Department of Industrial Relations, and a Deputy Head of the Office of National Assessments. Mr Costello has held a number of senior diplomatic posts including Ambassador to the United Nations. He received an Order of Australia (AO) in 1996 for international relations. Mr Costello was appointed a Director of the ACTEW Board on 14 August 2002.

## **Edward (Ted) W Mathews, PSM, BA,**



Ted Mathews had twenty years experience at senior executive level with the Commonwealth Public Service including as Manager of Department of Finance Government Business Enterprise Reform Program (1986-1990), Head of the Asset Sales Taskforce (1992-1993), and Head of the Commonwealth Electricity and Gas Reform Taskforce (1993-1997).

From 1997 to 2001 Mr Mathews was engaged by PricewaterhouseCoopers as an adviser on energy market policy reforms, regulation and access arrangements. He was also a member of the team providing governance and probity advice.

In 2002 Mr Mathews assisted the Chairman of the ACT Commission of Audit in reviewing ACT finances and a number of government business enterprises. He was appointed a Director of the ACTEW Board in August 2002.

## **Paul J Perkins, BBus, DipLGA, AMP (Harv), FCPA, FAICD**



Paul Perkins was Chief Executive of ACTEW Corporation from October 2000 until his announcement to retire in May 2003. He is Chairman of the Australian Science Festival Limited, ACTEW China Pty Limited, ACTEW Retail Limited, ACTEW Distribution Limited and the Barton Group (Environmental Industry Action Agenda). Mr Perkins is Deputy Chair of Beijing Green World Environment Protection Technology Co Limited, a Director of Australia China Holdings Pty Limited, a Member of the ACT Sustainability Expert Reference Group and the Federal Government Business Roundtable on Sustainable Development, and an Honorary Ambassador for Canberra. Mr Perkins was appointed a Director of the ACTEW Board on 22 December 2000.

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## **CHIEF EXECUTIVE'S**

# REPORT



ACTEW is an investor in the energy and broadband technology businesses and the owner of water and sewerage assets in the ACT. In the energy business, gas and electricity, we are a partner with AGL in the ActewAGL Joint Venture. Under an alliance agreement, ActewAGL has operational responsibility for water and sewerage.

The year held a number of challenges for ACTEW. The January bushfires were the most significant event for the ACT and certainly for ACTEW during the year. Specifically, the water quality issues that were a direct result of the bushfires are likely to continue for many years.

Despite the varied events, ACTEW sustained its successful financial performance in 2002-2003. Profit after tax was \$43.4m. Water revenue was \$66.5m, wastewater \$60.5m and distributions from the ActewAGL Joint Venture returned \$43.0m. Revenue in the water business was generally above budget prior to water restrictions because of the hot weather conditions and continuing drought.

At this stage, we do not expect the level of earnings to be maintained in 2003-2004 due to the predicted impact of more severe water restrictions in the coming months. Also the bushfire damage in the Cotter catchment will mean there will be difficulty in maintaining usual supply levels. We expect water revenue to be down around \$12m per year and profit after tax to be reduced by around \$8m per year when stage 3 water restrictions are in place.

It will be a considerable time before the previous pristine conditions of the Cotter catchment return. As a result, the ACTEW Board has agreed in principle to undertake any necessary capital expenditure over the next eighteen months to secure sustainable long-term water treatment capabilities.

ACTEW, in close consultation with the ACT Government, is responsible for implementing and managing the compulsory water restrictions that have applied in the ACT since December 2002. In response to the drought, we established a Drought Management Taskforce. The team, a small dedicated group of staff, is responsible for monitoring water usage, communicating with customers and providing information to the community.

The implementation and management of water restrictions has been a great success but a bigger challenge for the community and the Taskforce lies ahead. The drought combined with the impact of the bushfires make it likely stage 3 restrictions will be implemented and apply through spring and summer of 2003-2004. ACTEW will do everything in its power to ameliorate the effect of the restrictions on the community.

During the year there was considerable debate on major water issues in a variety of contexts including, at a local and regional level, the regional economy, sustainability, land-use and urban planning.

Nationally, debate centred around water policy, the Murray-Darling Basin and the concept of water trading. Two matters remain particularly significant: the cap - a suggested restriction on the volume of water that can be taken by the ACT from the Murray-Darling Basin in the future; and environmental flows from our major water reservoirs in periods of sustained drought or water shortage. We expect the emergence of water policy issues and debate to

continue for many years while major issues are worked through.

The Independent Competition and Regulatory Commission (ICRC) determines the price paid by consumers for water and wastewater services. Government levies are in addition to that price. The ICRC has commenced its review of water and wastewater pricing. The process involves the release of discussion and issues papers, and public consultation. ACTEW will be extensively involved in that process over the next twelve months.

I offer thanks to my predecessor, Paul Perkins, for the outstanding contribution he made at ACTEW and to national environment and water policy issues.

The small team at ACTEW faced a myriad of new challenges during the year and these are expected to continue for the next two years. Special thanks go to them for meeting these challenges.



Michael Costello AO

Chief Executive

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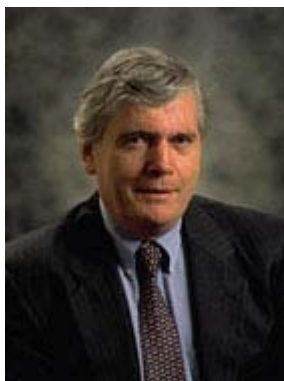
## **EXECUTIVE GROUP**

**Michael Costello AO, BA,  
LLB - Chief Executive**



Mr Costello was appointed Chief Executive of ACTEW in May 2003. He has held a number of senior executive positions including Secretary of the Department of Foreign Affairs and Trade, Secretary of the Department of Industrial Relations, Deputy-Managing Director of the Australian Stock Exchange, and Deputy Head of the Office of National Assessments. Mr Costello is a Member of the ActewAGL Joint Venture Board and Chairman of Ecowise Environmental Pty Limited.

**Mike Luddy, BCom - Chief Finance Executive**



Mr Luddy commenced with ACTEW in November 2000. He has held many senior management positions in Australia and overseas including Group Financial Controller and Company Secretary for Capital Property Trust and Mirvac Property Group, and Financial Controller for the Swiss Aluminium Group. Mr Luddy is responsible for the Corporation's finances including planning, budgeting and reporting. He is a Director of ACTEW Retail Limited, ACTEW Distribution Limited and ACTEW China Pty Ltd.

### **Peter Carrigy-Ryan, BA LLB - Company Secretary**



Mr Carrigy-Ryan was appointed part-time Company Secretary in October 2000. He is principal of a consultancy business with a background in investment, superannuation and regulatory issues. Mr Carrigy-Ryan is responsible for providing and coordinating governance, legal, insurance and risk management services to the Corporation. He is also Company Secretary of ACTEW Retail Limited, ACTEW Distribution Limited and ACTEW China Pty Limited.

### **Asoka Wijeratne, BE (Chem Eng) - Executive Manager Water & Regulatory Affairs**



Mr Wijeratne commenced with ACTEW in 1988. He has extensive experience in water quality, operational and senior management positions and has published a number of papers and case studies on water related matters. Mr Wijeratne is responsible for management of the alliance contract agreement for the operation and maintenance of the water and sewerage business, water planning, and regulatory and licensing matters. He is a Director of ACTEW Retail Limited and ACTEW Distribution Limited.

**The Executive Group leads a team of six skilled and professional staff who provide technical, financial, policy, governance and strategic support and advice to the Chief Executive and the Board.**

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# PERFORMANCE AGAINST OBJECTIVES

A number of strategic objectives and priorities were outlined in the 2002-2003 Statement of Corporate Intent. The Corporation's performance and achievements against key objectives and priorities are as follows.

## *Asset Management & Infrastructure*

Benchmark best practice for future investment strategy

**Ongoing.** The first phase of this project is complete. The work program for the next stage is under consideration.

Refine and continue to develop commercial models for operating costs

**Achieved**

Negotiate and agree an appropriate framework for a utility management agreement

**Progressing.** Negotiations are at an advanced stage.

Research and develop policies and arrangements for the protection of and access to ACTEW infrastructure assets

**Ongoing.** Risk management strategies reviewed. Further assessment post January 2003 bushfires required.

## *Financial Performance & Management*

Achieve earnings before interest and tax (EBIT) of approximately \$85M

**Achieved** - \$87.9m

Achieve return on equity of 7.5%

**Achieved** - 7.9%

Pay shareholders a dividend during 2002-2003 of approximately \$48M

**Achieved** - \$48.9m

Develop strategies to compensate for projected flat returns in energy segments

**Continuing**

Negotiate and agree future arrangements for gifted assets and capital contributions

**Ongoing.** Under consideration with the Independent Competition and Regulatory Commission.

## *Customers & the Community*

To provide competitive products and services to our customers

**Achieved** through the Joint Venture.

Contribute to our community by supporting organisations, events and initiatives that benefit Canberra

A number of community initiatives, charities and events received support through ACTEW's community support and sponsorship program to provide valuable services and programs to the ACT community: ACT Bushfire Appeal, Australian Science Festival, ACT Red Cross Caring Across Canberra Appeal, Hartley Lifecare, Australian Federal Police Mounted Police Team, Canberra Symphony Orchestra and the Australian Centre for Christianity.

OBJECTIVES & PRIORITIES

PERFORMANCE & ACHIEVEMENTS

## CORPORATE GOVERNANCE

The Board



A number of statutes and the Constitution of ACTEW govern the activities of the Company. ACTEW's Board comprises seven Directors: one executive Director and six non-executive Directors. Procedures for the appointment of Directors are outlined in the *Territory Owned Corporations Act 1990* and the Constitution.

The Board met on twelve occasions during the year. Details of Directors' attendance at the Board meetings are set on page 30. Profiles of the Directors can be found on pages 8 and 9. ACTEW has agreed business goals with the voting shareholders, the Chief Minister and Deputy Chief Minister of the ACT. These goals are outlined in the Statement of Corporate Intent which is provided annually to the voting shareholders and tabled in the ACT Legislative Assembly.

## **Audit and Risk Management**

The entire ACTEW Board previously comprised the Audit Committee and considered audit and risk management business in the course of its monthly meetings. During the year the Board adopted a revised audit charter and will be implementing revised internal audit arrangements during 2003-2004.

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

ACTEW considered assessments of the significant risks confronting the water and sewerage business during the year. Details of the assessments are outlined on page 22.

## **Remuneration**

The voting shareholders determine the term of appointment and remuneration paid to Directors. Details of income paid to Directors is outlined on page 68.

The entire ACTEW Board meets as the Remuneration Committee. The Committee met on two occasions during the year.

## **Code of Conduct**

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

Legislation governing water and sewerage services in the ACT region is outlined below.



Details of regulation and licence compliance are included in the Directors' Report on pages 32 and 33.

## YEAR IN REVIEW

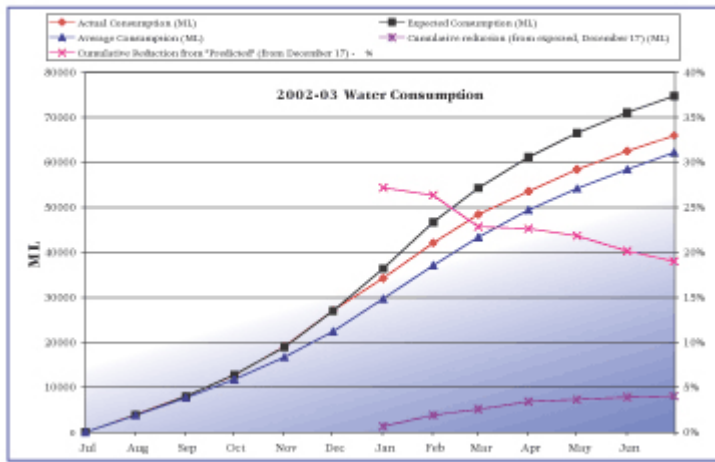
### Water and Sewerage Business

#### Water storages and Restrictions

Exceptional natural conditions and events significantly impacted on the water and sewerage business during the year. The prolonged dry conditions across the region resulted in the depletion of water storages - see ACT water catchment areas on page 18. Higher operating costs were incurred as a result of the Googong Water Treatment Plant operating continually for twelve months, the first time this has occurred since it commenced operation in 1978.

In anticipation of a hot dry summer and further reductions in dam levels, ACTEW established a Taskforce to monitor water storage levels and manage water consumption. When dam levels fell to 65 per cent, voluntary water restrictions were introduced in November 2002.

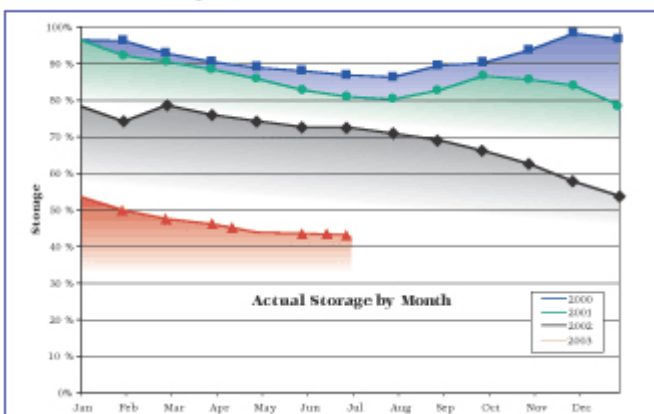
Graph 1



The community responded well to the voluntary restrictions but with continuing drought conditions dam levels fell to 56 per cent in mid-December and it was necessary to introduce mandatory stage 1 water restrictions. This is the first time in over thirty years that mandatory restrictions have applied in the ACT.

An extensive campaign, "Stop the Drop", was launched at the start of the 2002-2003 summer period. The campaign aimed to raise awareness of the seriousness of the situation and educate the community on ways to reduce water consumption. Support was received from the business and government sectors, many of whom entered into voluntary agreements with ACTEW to reduce water consumption and achieve target savings stipulated in the water restrictions scheme. The target reduction of 15 per cent was exceeded thanks to the overwhelming commitment and support of the community and business and government sectors - see graph 1 below.

Graph 2



With the ongoing drought and impact of the January bushfires in the Cotter catchment, water supply and storage conditions continued to deteriorate. The situation was exacerbated when water storages in the Cotter catchment were contaminated by ash and debris following a severe storm in late March. ACTEW ceased drawing water from Bendora Dam and since April all water has been taken from Googong Dam which was unaffected by the bushfires. In April water restrictions were elevated to stage 2 when water storage levels dropped to 45 per cent - see graph 2 above.

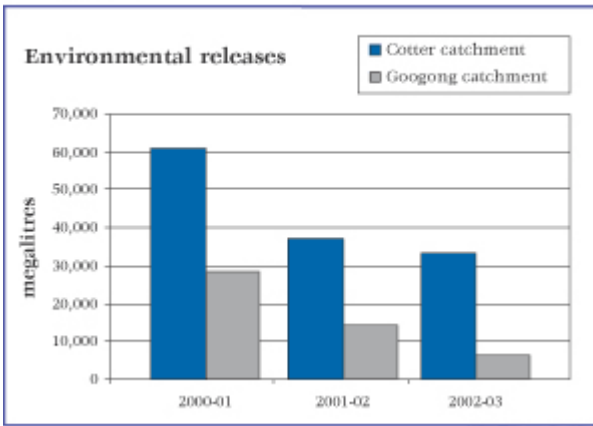
To address the long-term consequences of the drought and the bushfires, ACTEW is continuing to monitor the situation and developing strategies to manage the situation over the coming summer months including planning for the introduction of stage 3 water restrictions, refurbishing and increasing existing treatment facilities and the construction of a new treatment plant.

## Environmental Flows

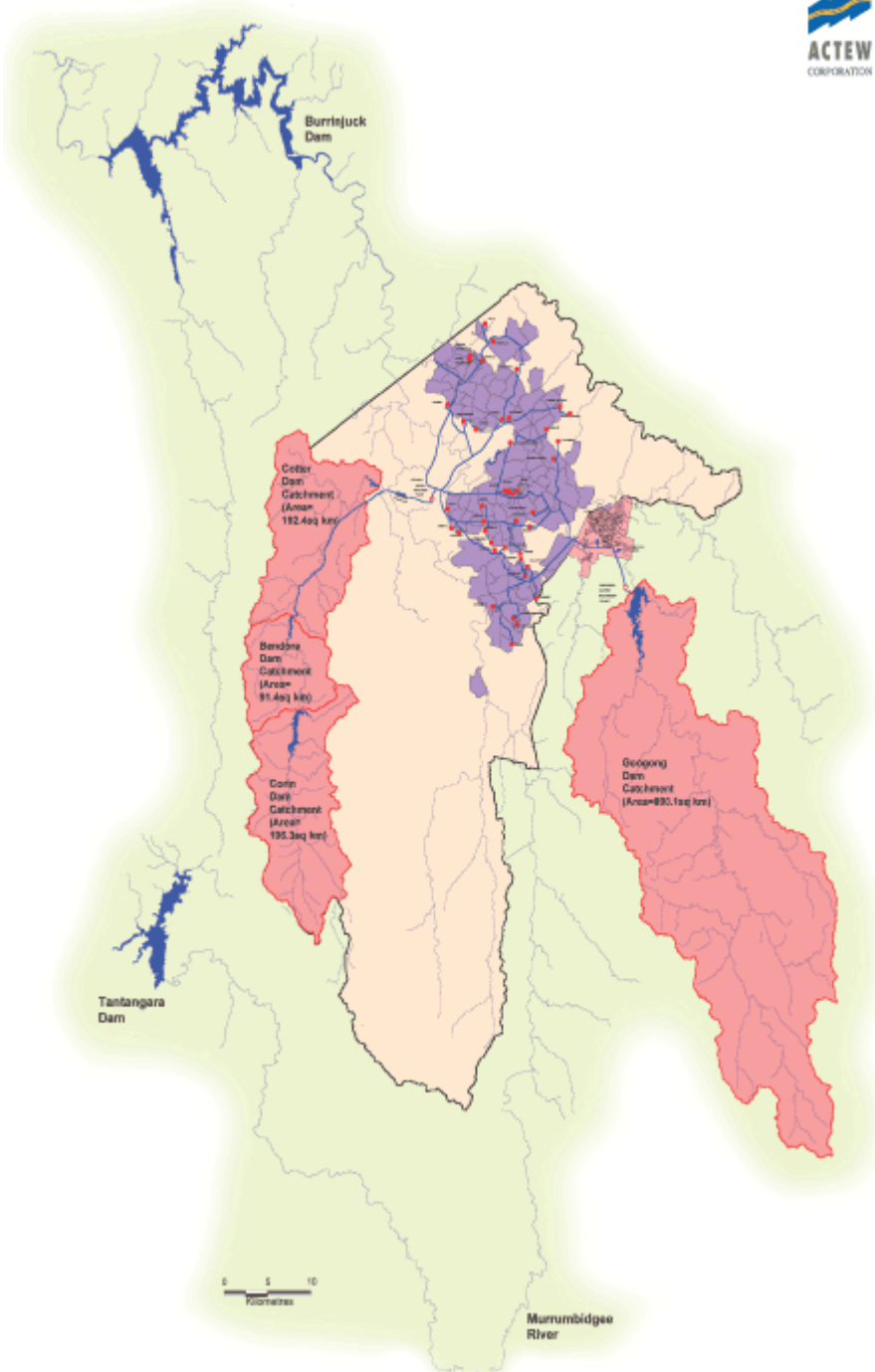
The ACT *Water Resources Act 1999* is supplemented by Environmental Flow Guidelines which were issued in December 1999. Since that time ACTEW has been releasing a significant proportion of the inflow into our dams to sustain environment values downstream - see graph 3 below.

With the water storages diminishing and inflows to dams dwindling as a result of the drought, ACTEW approached the Environment Protection Authority (EPA) and requested a reduction in flow releases for environmental needs. Under a "demonstrated need" clause in the Environmental Flow Guidelines, approval was given in December 2002 for ACTEW to substantially reduce environmental flow releases from water supply dams. ACTEW and the EPA are continuing to monitor the situation.

Graph 3



ACT WATER CATCHMENT AREAS



**Impact of the January Bushfires**

The January bushfires caused damage initially estimated at \$4.6m: \$2.6m for repair or replacement of water and sewerage infrastructure, and \$2m for immediate remediation work in the Cotter catchment. It is evident that the impact of the bushfires on the water quality in the Cotter catchment will remain a problem for some time and the long-term cost of remediation work is expected to be quite significant.

Mt Stromlo Water Treatment Plant was evacuated and inoperative immediately after the firestorm. Within a few hours the plant was back in operation. The cost of repairs and restoration of the plant totalled approximately \$150,000. The roof was blown off the Chapman Reservoir and work to replace it was completed in June at a cost of \$481,000. The Lower Molonglo Water Quality Control Centre (LMWQCC) sustained damage estimated at \$302,000. This restricted the treatment of sewage flow to 5%. Emergency work to restore LMWQCC to full operating capacity was undertaken and the plant was back on line within a day and a half, avoiding the potential for an environmental event.

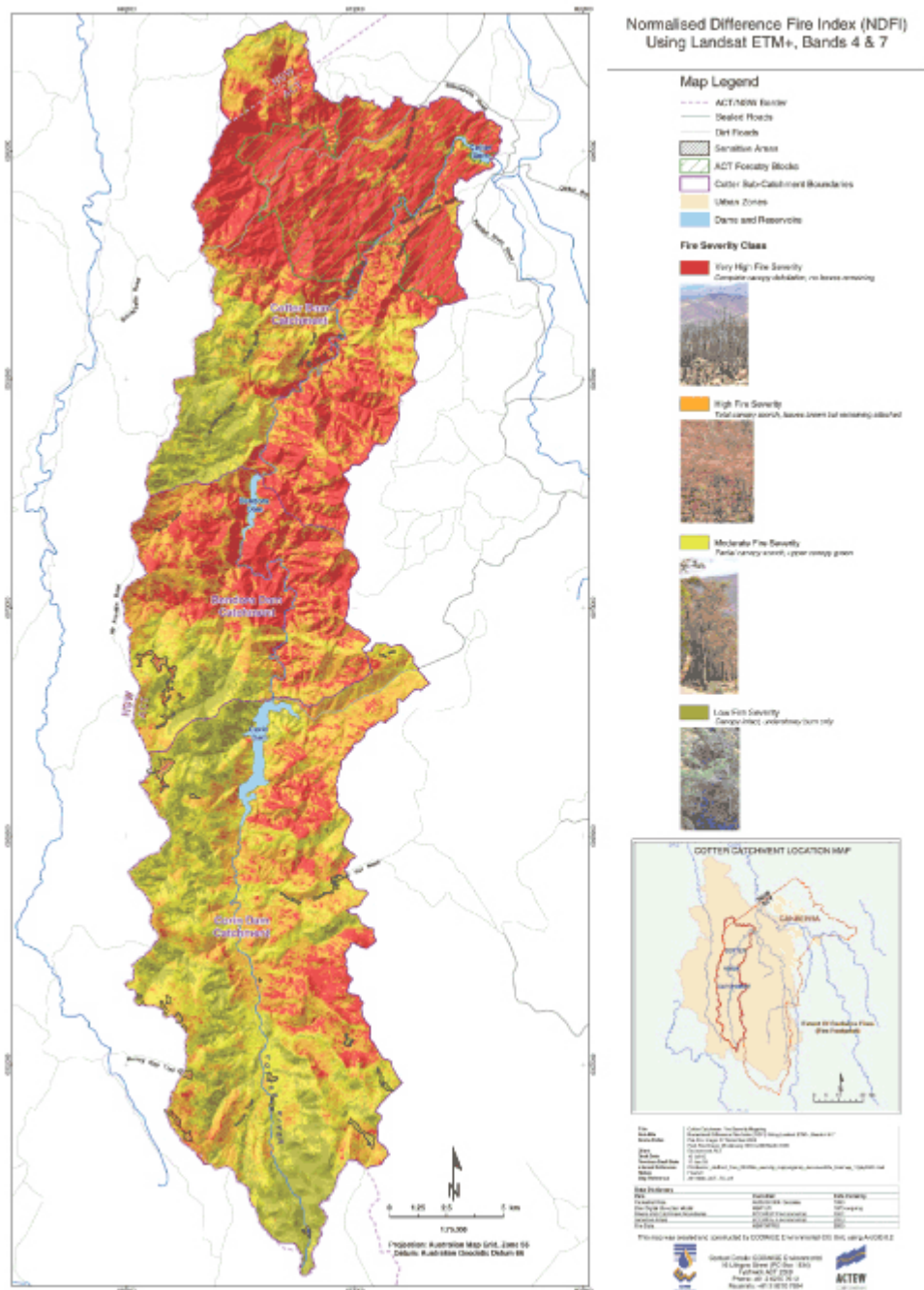
The bushfires destroyed nearly 95% of the groundcover and 65% of the canopy in the Cotter catchment. As an immediate precautionary measure, floating booms and silt curtains, costing \$375,000 were installed at strategic points in Bendora and Corin Dams to prevent ash and debris from entering the tower intake. These measures helped to minimise pollution from runoff after several minor storms but could not hold back the extreme runoff from a storm in late March when more than 30mm of rain fell in the catchment in less than half an hour. Large quantities of debris from the bushfires infiltrated the dams and rendered the water unusable.

Following the bushfires, ACTEW, in conjunction with Environment ACT, convened an expert panel to provide advice on recovery actions for the catchment. The panel, comprising Australia's leading experts in water management, developed the Cotter Catchment Remediation Plan. Implementation of the Plan over the next three years is progressing.

Bushfire damage in the Cotter catchment - see page below.



## COTTER CATCHMENT FIRE SEVERITY MAPPING



## Assets and Infrastructure

ACTEW is committed to continual improvement and protection of water and sewerage assets through investment in a capital works program. As the contractor to ACTEW, ActewAGL undertakes capital works associated with the water and sewerage assets. Details of the capital works program for the past twelve months are summarised below.

### Capital Works

| 2002-2003    | \$ Millions   |
|--------------|---------------|
| Water        | \$4.6         |
| Sewerage     | \$6.8         |
| <b>Total</b> | <b>\$11.4</b> |

To manage the outcomes of the drought and bushfires, significant capital works have been initiated to sustain water supply and quality for next summer and beyond.

Refurbishment of Mt Stromlo Water Treatment Plant, to produce up to 60 ML a day by summer 2003-2004, has commenced. This will supplement the supply from Googong which is currently limited to 180 ML a day.

After consideration of a number of long-term options, the ACTEW Board approved in principle, a new treatment plant at Mt Stromlo and an increase in the capacity of the Googong Water Treatment Plant. It is expected that the plants will be operational by summer 2004-2005.

The Board approved construction of a mini hydrogenerator at Googong Dam. This involves the installation of twin 300 kW generators for an estimated output of 3.1 GWh per annum at a cost of \$2.25m. The plant is scheduled for commissioning by May 2004. This is the second hydrogenerator plant installed by ACTEW. The first, at the Mt Stromlo Water Treatment Plant, was commissioned in August 1999 to increase locally produced renewable energy.

The ACTEW Board approved capital works expenditure to upgrade facilities at the Fyshwick Sewerage Treatment Plant. The capital expenditure for the project is estimated at \$3.41m and the plant is scheduled to be operational by January 2004. Leading edge membrane technology will be installed at the plant to provide exceptionally high quality reclaimed water. The proposed turnkey plant will provide 20 litres per second of treated effluent and will have the ability to upgrade to 40 litres per second. The plant will supply irrigation water for public parks and sporting fields in O'Connor, Ainslie, Turner, Braddon, Reid and Campbell as well as the Australian Defence Force Academy. ACTEW is continuing to undertake research into water reuse to provide the best possible advice to government.

|                                 | 1994    | 1995    | 1996    | 1997    | 1998    | 1999    | 2000    | 2001    | 2002    | 2003    |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Water</b>                    |         |         |         |         |         |         |         |         |         |         |
| Customers                       | 108,421 | 113,371 | 116,008 | 117,343 | 118,856 | 120,349 | 122,760 | 124,570 | 126,750 | 129,114 |
| No. of dams                     | 4       | 4       | 4       | 4       | 4       | 4       | 4       | 4       | 4       | 4       |
| Capacity of dams (GL)           | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   | 215.4   |
| Number of reservoirs            | 43      | 43      | 44      | 44      | 44      | 44      | 42      | 44      | 45      | 45      |
| Capacity of reservoirs (ML)     | 950     | 950     | 950     | 912     | 912     | 912     | 912     | 912     | 912     | 912     |
| No. of pumping stations         | 18      | 18      | 18      | 17      | 17      | 17      | 17      | 21      | 21      | 21      |
| Length of mains (km)            | 2,793   | 2,830   | 2,877   | 2,895   | 2,901   | 2,907   | 2,921   | 2,933   | 2,948   | 2964    |
| Max daily demand (ML)           | 378     | 332     | 296     | 349.5   | 406     | 371     | 331     | 392     | 415.7   | 366.7   |
| Total consumption (ML)          | 59,388  | 60,572  | 53,254  | 61,810  | 73,009  | 60,361  | 57,929  | 62,834  | 65,904  | 65,567  |
| Consumption / person p/a (kL)   | 197.1   | 199.2   | 174     | 187     | 220     | 182     | 175.5   | 185.6   | 193.7   | 206.2   |
| Rainfall (mm)                   | 566.4   | 586.6   | 645     | 674.6   | 438.6   | 688.6   | 666     | 618.2   | 633.2   | 340.2   |
| <b>Sewerage</b>                 |         |         |         |         |         |         |         |         |         |         |
| No. of customers                | 108,421 | 113,371 | 116,008 | 115,083 | 116,268 | 117,648 | 119,846 | 121,618 | 123,641 | 125,784 |
| No. of pumping stations         | 30      | 29      | 29      | 28      | 28      | 28      | 28      | 28      | 28      | 28      |
| Quantity of sewage treated (ML) | 32,718  | 30,065  | 32,200  | 33,704  | 31,524  | 32,718  | 32,585  | 30,277  | 30,645  | 28,313  |
| Max daily load (ML)             | 209.6   | 256.9   | 182     | 152     | 138     | 235     | 137     | 151.4   | 190.6   | 116     |

|                                  |       |       |       |       |       |       |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Sewage treated / person p/a (kL) | 109   | 98    | 105   | 109   | 101   | 106   | 105.2 | 97    | 97.6  | 89.2  |
| Length of mains (km)             | 2,737 | 2,774 | 2,784 | 2,806 | 2,812 | 2,817 | 2,836 | 2,852 | 2,875 | 2,897 |

## Risk Management

As the operator of ACTEW's water and sewerage business, ActewAGL undertook assessments of significant risks in the water and sewerage business during the year. These included:

- Contamination of water supply from human intervention
- Single point of failure of a dam
- Loss of supply due to single point of failure bulk supply pipelines from dams to water treatment plants
- Loss of supply due to single point of failure bulk supply mains from water treatment plants to reservoirs
- Inability to treat sewage due to single point of failure at the Lower Molonglo Water Quality Control Centre (LMWQCC) treatment plant and Fyshwick Sewerage Treatment Plant
- Single point of failure of major sewer pipelines

## Benchmark Project

In October 2002 the first phase of ACTEW's Strategic Investment and Benchmarking Project commenced with an extensive review of the water and sewerage business in the context of a sustainable total water cycle. A consortium, headed by Deloitte Touche Tohmatsu, Marsden Jacob and Associates and Katalyst 21 was engaged to undertake this phase of the Project. The outcomes of the Project to date have contributed to ACT water policy development and assisted in developing a priority agenda for ACTEW's role in sustainable total water cycle management for the ACT and larger region. Currently ACTEW is considering the work program for the next stage of the Project.

## Statistical Information

Detailed statistical information on the water and sewerage business and assets is outlined above. Until 1996 a common figure was used for water and sewerage customers. From 1997 separate calculations of sewer properties connected and water customers, including standpipe customers and sporting field irrigation, have been provided.

## Water Resources Strategy

The ACT Government announced the development of a draft Water Resources Strategy in December 2002. The Strategy, a comprehensive whole of government approach to the management of the ACT's water resources, will be used to secure reliable quality water for the ACT into the future through sustainable water use and management. It also aims to improve water use efficiency, reduce water quality impacts, enhance ecological values in waterways and protect recreational and amenity value.

A Water Resources Strategy Taskforce, established within Environment ACT, is working with ACTEW, other government agencies and the community to develop the draft Strategy. As water conservation and reuse are key components of the Government's approach, ACTEW has been providing input into the types of water conservation programs that could be possible and is also assisting in the development of a range of fact sheets to support the community consultation component of the Strategy. The current drought has highlighted the need to ensure that sufficient water resources are available for future growth in the Canberra region. ACTEW is investigating likely sources of water that may be needed to supplement the water conservation and reuse measures into the future. ACTEW is also assisting in setting the Cap on Diversion for the ACT as a part of the Murray-Darling Basin Initiative.

## Pricing

The ACT's jurisdictional regulator, the Independent Competition and Regulatory Commission (ICRC), issued a five year price path for water and wastewater services in May 1999 and concluding on 30 June 2004. ICRC allows tariffs to be structured annually within the revenue cap determined by ICRC as long as certain side constraints that minimise the impact of price increases on customers are not exceeded.

ACTEW determines water and wastewater prices which are subject to ICRC approval. For 2002-2003, the price step

for water fell from 225 kL per annum to 200 kL per annum. For 2003-2004 the price step will fall from 200 kL per annum to 175 kL per annum providing further incentive for customers to manage their water consumption.

In 2000 a charge of 10c per kL for water abstracted from ACT dams and water catchments was imposed. ACTEW collects this charge, which is passed onto customers through their water accounts, on behalf of the ACT Government. The Government announced in the 2003-2004 Budget, an increase in the water abstraction charge to 20 cents per kL from 1 January 2004 and to 25 cents per kL from 1 July 2005.

## Our Investments

### ActewAGL Joint Venture

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

ActewAGL combined ACTEW's electricity network and retail operations with AGL's ACT and Queanbeyan gas network and retail operations. ACTEW and AGL each hold a 50% interest in the Joint Venture. Two of ACTEW's subsidiary companies, ACTEW Distribution Limited and ACTEW Retail Limited are partnership companies in the Joint Venture.

The water and sewerage business and assets of ACTEW are retained in the ownership of ACTEW. ActewAGL operates and maintains the water and sewerage networks under an alliance contract agreement with ACTEW.

ActewAGL is structured as two partnerships; distribution and retail. ActewAGL Distribution is responsible for the network side of the energy business, operates and maintains the water and sewerage networks, and provides financial, human resource, information technology and some legal services to ACTEW. ActewAGL Retail is responsible for the marketing of electricity and gas, forecasting energy needs and procuring energy supplies, billing, and the provision of customer contact retail services.

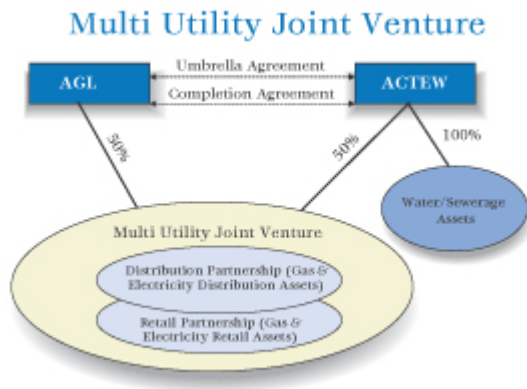
All ACTEW employees, with the exception of ten who remained with the Corporation, were seconded to the Joint Venture.

Management oversight of the Joint Venture is undertaken by the Joint Venture Board. The Board comprises six members: three members appointed by the ACTEW partnership companies and three appointed by the AGL partnership companies. The members of the Board at 30 June 2003 were:

Mr James Service AM- Chairman  
Mr Michael Fraser - Deputy Chairman  
Mr John Fletcher  
Mr Michael Easson AM  
Mr Mark Harper  
Mr Michael Costello AO

A diagram outlining the structure of the Joint Venture can be seen below.

ActewAGL reported a successful year with strong financial results. Details can be found in the ActewAGL Annual Report which is available at [www.actewagl.com.au](http://www.actewagl.com.au).



## TransACT Communications Pty Limited

TransACT Communications Pty Limited (TransACT) is building and managing an advanced broadband communications network across Canberra. TransACT was officially launched in May 2000. ACTEW, with a 24.9% shareholding, is one of eight shareholders in the Company.

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

The TransACT network is state of the art technology and is regarded as one of the most advanced networks in the world.

More information on TransACT can be found at [www.transact.com.au](http://www.transact.com.au) .

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## ENVIRONMENT REPORT

Environmental management of ACTEW's water and sewerage business and assets is undertaken by the Joint Venture. Priorities and actions are included in the ActewAGL 2002-2003 Environment Action

Plan. The Plan covers all the businesses and operations in the Joint Venture. A review of the priorities was undertaken as at 30 June 2003. A summary of the priorities and the results of the review are outlined below.



| Category                                                                                                              | Number of tasks | Completed | Ongoing or in progress | Yet to commence or discontinued |
|-----------------------------------------------------------------------------------------------------------------------|-----------------|-----------|------------------------|---------------------------------|
| <b>Business Commitments</b>                                                                                           | <b>40</b>       | <b>14</b> | <b>24</b>              | <b>2</b>                        |
| • Maintain certification against international standards                                                              | 2               | -         | 2                      | -                               |
| • Comply with environmental legislation, codes of practice, licences, authorisations, protection agreements           | 13              | 4         | 8                      | 1                               |
| • Promote and demonstrate waste reduction, recycling and efficiency in water and energy use throughout our facilities | 21              | 8         | 12                     | 1                               |
| • Develop the ActewAGL vegetation management program                                                                  | 4               | 2         | 2                      | -                               |
| <b>Community Responsibilities</b>                                                                                     | <b>12</b>       | <b>2</b>  | <b>10</b>              | <b>-</b>                        |
| • Involvement of the community in our environmental activities                                                        | 3               | 1         | 2                      | -                               |
| • Assist customers in the efficient use of energy and water                                                           | 8               | -         | 8                      | -                               |
| • Produce a stand-alone annual environment report                                                                     | 1               | 1         | -                      | -                               |
| <b>Broader Obligations</b>                                                                                            | <b>8</b>        | <b>-</b>  | <b>8</b>               | <b>-</b>                        |
| • Continue and enhance the GreenChoice Program                                                                        | 2               | -         | 2                      | -                               |
| • Promote development of "green" energy within the ACT to assist compliance with 2% renewable energy target by 2010   | 6               | -         | 6                      | -                               |

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## 2003-2004 THE YEAR AHEAD

### Our top priorities for 2003-2004 are:-

- Achieve earnings before interest and tax (EBIT) of approximately \$73m
  - Pay shareholders a dividend during 2003-2004 of approximately \$43m
  - Ensure a satisfactory outcome for pricing of water and sewerage charges from 1 July 2004 through ongoing consultation and cooperation with the independent regulator
  - Establish an appropriate structure and mechanisms for future water and sewerage operational management with the Joint Venture
  - Provide commercial and competitive returns
  - Investment of capital expenditure on new and upgraded water treatment facilities at Mt Stromlo and Googong to sustain water supply and quality for next summer and beyond
  - Develop and implement a stricter water restriction scheme to further reduce the discretionary use of water
  - Be a substantial contributor to water policy issues at local, regional and national levels with particular focus and attention on the Murray Darling Basin Cap, Water Resources Management Strategy, water trading, environmental flows and regional water supply
  - Consult and educate our customers about water management and usage through an extensive campaign about the seriousness of the impact of the drought and the bushfires on our water supplies
-

# FINANCIAL REPORT

For the year ended 30 June 2003

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

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

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

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ACTEW Corporation Limited and Controlled Entities

## DIRECTORS' REPORT

For the year ended 30 June 2003

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 2003.

### 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:

- James Glen Service AM Chairman
- Michael Bernard Easson AM Deputy Chairman
- Peter Maxwell Phillips (term expired 30 June 2003)
- Kevin Leslie Neil
- Michael John Costello AO (appointed 14 August 2002)
- Edward William Mathews PSM (appointed 14 August 2002)
- Paul Joseph Perkins

Refer to Annual Report for further information on directors.

### Directors' Meetings

Twelve directors' meetings were held during the financial year, and the number attended by each of the directors was:

|                | <b>No. of meetings<br/>attended</b> | <b>Meetings eligible to<br/>attend</b> |
|----------------|-------------------------------------|----------------------------------------|
| J G Service    | 10                                  | 12                                     |
| M B Easson     | 10                                  | 12                                     |
| P M Phillips   | 11                                  | 12                                     |
| K L Neil       | 10                                  | 12                                     |
| M J Costello   | 10                                  | 11                                     |
| E W<br>Mathews | 11                                  | 11                                     |
| P J Perkins    | 10                                  | 12                                     |

The full board of directors meets as the Audit Committee and Remuneration Committee.

### Principal Activities

The principal activities of ACTEW during the year were to:

- Supply water

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

ACTEW's role is principally one of an asset manager.

The principal activities of the subsidiary companies were as follows:

- ACTEW Retail Limited – a holding company for ACTEW's interest in the Retail Partnership of the ActewAGL joint venture
- ACTEW Distribution Limited – a holding company for ACTEW's interest in the Distribution Partnership of the ActewAGL joint venture
- ACTEW China Pty Limited – exploring business opportunities in China

## Review and results of operations

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

|                                                   | <b>2003</b>    | <b>2002</b>    |
|---------------------------------------------------|----------------|----------------|
|                                                   | <b>\$</b>      | <b>\$</b>      |
|                                                   | <b>million</b> | <b>million</b> |
| Revenue (excludes ActewAGL joint venture profits) | 147.9          | 142.7          |
| Profit before income tax equivalents              | 62.9           | 72.8           |
| Income tax equivalents                            | 19.5           | 26.0           |
| Profit after income tax equivalents               | 43.4           | 46.8           |
| Payments to ACT Government:                       |                |                |
| Interim dividend for current years profit         | 38.0           | 36.0           |
| Final dividend for previous years profit          | 10.9           | 18.6           |
|                                                   | 48.9           | 54.6           |

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

Despite increased distributions from the ActewAGL joint venture profit after income tax equivalents was down due to drought and bushfire related costs and the increase in provision for diminution on the TransACT Communications Pty Ltd investment.

Dividends are reduced due to a non recurring profit from the formation of the joint venture that increased the dividend of last financial year.

## Dividends

An interim dividend of \$38m (2002: \$36m) was paid in June 2003. The directors have recommended the payment of the 2002/03 final dividend of \$9.7m (2002: \$10.9m).

## Audit Qualification

The Auditor-General's qualifications to the accounts are discussed in the Chairman's Report.

## Significant changes in the state of affairs

ACTEW increased the provision for diminution for the TransACT Communications Pty Ltd (developer and owner of a broadband fibre optic cable network) investment by \$13.8m during the year, recognising that the network rollout in the ACT is not complete at this stage.

## Matters subsequent to the end of the financial year

ACTEW has called tenders for an upgrade of the Googong water treatment plant and the building of a water treatment plant at Mt Stromlo. Estimated expenditure is around \$50m at this stage.

ACTEW expects to introduce stage 3 water restrictions during October 2003. Stage 3 aims for a 40% reduction in water usage and will therefore have a significant effect on water revenue.

## Likely developments and expected results of operations

Relevant issues are treated elsewhere in this report.

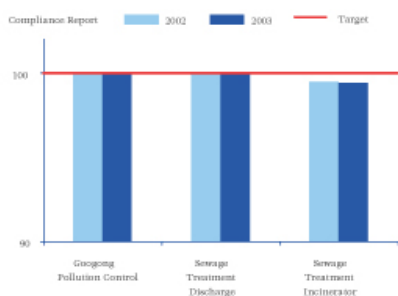
## Regulation and Licence Compliance

### Utility Services Licence

ACTEW must comply with the obligations set out in the Utility Services Licence which was issued by the Independent Competition and Regulatory Commission (ICRC) under the *Utilities Act 2000* on 29 June 2001. In October 2002 ACTEW provided its annual report to the ICRC on its obligations under the Licence and other reporting requirements of the Act.

## Environmental Regulations

In accordance with the ACT *Environment Protection Act 1997*, ACTEW is subject to environmental regulation in respect of its operations of the Lower Molonglo Water Quality Control Centre. ACTEW is also subject to New South Wales Environment Protection Authority (EPA) regulations for the discharge from Googong water treatment plant. During 2002-2003 ACTEW's compliance details were:



|                                                          | Compliance 2002 | Compliance 2003 | Target |
|----------------------------------------------------------|-----------------|-----------------|--------|
| Googong pollution control licence compliance *           | 100.0%          | 100%            | 100%   |
| Sewage treatment discharge compliance **                 | 100.0%          | 99.9%           | 100%   |
| Sewage treatment incinerator air emission compliance *** | 99.5%           | 99.4%           | 100%   |

\* Googong pollution control licence period runs from 15 August 2002 to 14 August 2003.

\*\* Sewage treatment plant discharge non compliance was primarily due to the bushfires of January which affected the operational process.

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

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

## Licence to Take Water

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

## Drinking Water Utility Licence

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

## Insurance of Officers

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

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company, other than where such liabilities arise out of conduct involving wilful breach of duty by the officers or the improper use by the officers of their position.

The policy also applies if a claim is made against directors or officers after they have left the service of ACTEW, where the claim was over events during the ACTEW service.

## Indemnity of Officers

ACTEW has indemnified:

- a former officer of ACTEW in respect of his services as a director of various companies in the interest of ACTEW. The indemnity applies until 26

March 2006;

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

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

### **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.



J G Service AM  
Chairman  
28 August 2003  
Canberra



Michael Costello AO  
Director and Chief Executive  
28 August 2003  
Canberra

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ACTEW Corporation Limited and Controlled Entities

### **DIRECTORS' DECLARATION**

For the year ended 30 June 2003

The directors declare that the financial report and notes set on pages 41 to 77:

- comply with Accounting Standards, the Corporations Act 2001 and other professional reporting requirements; and
- give a true and fair view of the corporation and consolidated entity's financial position as at 30 June 2003 and of their performance, as represented by the results of their operations and cash flows, for the financial year ended on that date. In the directors' opinion:
  - the financial report and notes are in accordance with the Corporations Act 2001. Although ACTEW has followed these reporting requirements, in particular UIG 11: Accounting for Contributions of, or Contributions for the Acquisition of Non Current Assets, the board of directors strongly disagrees with the requirements that ACTEW's non cash developer assets be treated as income. It is believed by the board of directors that the nature of this receipt is capital, not income, and should be taken directly to reserves; and
  - 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.



J G Service AM  
Chairman  
28 August 2003  
Canberra



Michael Costello AO  
Director and Chief Executive  
28 August 2003  
Canberra

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## INDEPENDENT AUDIT REPORT



### AUDITOR-GENERAL

Australian Capital Territory



#### Independent Audit Report

#### To the Members of ACTEW Corporation Limited and to the Members of the Legislative Assembly for the Australian Capital Territory

##### Scope

I have audited the financial statements of ACTEW Corporation Limited (the Company) for the financial year ended 30 June 2003.

The Company's directors are responsible for the financial statements, which include the financial statements of the Company and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the end of, or during, the financial year. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the Company and the ACT Legislative Assembly.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements present fairly in accordance with the *Corporations Act 2001*, *Corporations Regulations 2001*, Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with my understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

##### Qualifications

###### 1. Application of Equity Accounting

*Note 11: Non Current Assets – Investments* to the financial statements indicates that the Company holds an investment in TransACT Communications Pty Limited (TransACT).

The Company has not accounted for the investment in TransACT in accordance with AASB 1016 *Accounting for Investments in Associates* (AASB 1016). As a result, the Company has not recorded its share of TransACT's losses for the year ended 30 June 2003 or in prior financial years.

## INDEPENDENT AUDIT REPORT (CONTINUED)

### Financial Effects of the Departure from AASB 1016 on the 2002 Statement of Financial Performance and Statement of Financial Position

The Company's share of TransACT's net loss after tax and accumulated losses for the year ended 30 June 2002 was \$10,557,000.

If the Company's investment in TransACT had been accounted for in accordance with AASB 1016 then the net profit after tax of the consolidated entity for the year ended 30 June 2002 would have been \$36,271,000 and not the reported net profit after tax of \$46,828,000 and the carrying amount of the investment in TransACT as at 30 June 2002 would have been \$43,335,000 and not the net carrying amount of \$53,892,000 included in the reported investment balance in the Statement of Financial Position as at 30 June 2002.

### Financial Effects of the Departure from AASB 1016 on the 2003 Statement of Financial Performance and Statement of Financial Position

Audited financial results of TransACT for the year ended 30 June 2003 were not available at the time this audit report was prepared. The financial effects of the departure from AASB 1016 on the 2003 Statement of Financial Performance and Statement of Financial Position explained below are therefore based on unaudited management financial statements of TransACT for the year ended 30 June 2003.

Based on TransACT's unaudited management financial statements, the Company's share of TransACT's net loss after tax and accumulated losses for the year ended 30 June 2003 was \$3,077,000.

If the Company's investment in TransACT had been accounted for in accordance with AASB 1016 for the years ended 30 June 2002 and 30 June 2003, then the net profit after tax of the consolidated entity for the year ended 30 June 2003 would have been \$54,196,000 and not the reported net profit after tax of \$43,381,000.

*Note 11: Non Current Assets – Investments* to the financial statements discloses that the Company recognised a provision for diminution of \$13,892,000 against the carrying amount of its investment during the year ended 30 June 2003 resulting in a net carrying amount of the investment of \$40,000,000 at 30 June 2003.

If the investment had been accounted for in accordance with AASB 1016, then the carrying amount of the investment in TransACT as at 30 June 2003 would have been \$40,258,000 and therefore the provision for diminution would not have been made as the equity accounted carrying amount would have approximated the net carrying amount of the investment of \$40,000,000.

## INDEPENDENT AUDIT REPORT (CONTINUED)

### Other Required Disclosures

In addition to the above, the following disclosures required by AASB 1016 have not been made in the financial statements.

| Required Disclosures                                                                                                                                                                                                                                           | Details to be Disclosed<br>2003                                                                                                          | Details to be Disclosed<br>2002                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Share of the associate's operating losses before income tax on the face of the statement of financial performance                                                                                                                                              | \$3,077,000                                                                                                                              | \$10,557,000                                                                                                               |
| Share of the associate's income tax benefit attributable to operating losses                                                                                                                                                                                   | Nil                                                                                                                                      | Nil                                                                                                                        |
| Accumulated losses as at the beginning and end of the financial year which are attributable to the associate                                                                                                                                                   | Beginning of year \$16,214,000<br>End of year \$19,291,000                                                                               | Beginning of year \$5,657,000<br>End of year \$16,214,000                                                                  |
| Principal activities of the associate                                                                                                                                                                                                                          | Development and operation of a high speed full service network capable of delivering a broad array of telephony, data and video services |                                                                                                                            |
| The Company's ownership interest and voting power as at the associate's reporting date                                                                                                                                                                         | Ownership interest 24.9%<br>Voting power 24.9%                                                                                           | Ownership interest 32.8%<br>Voting power 24.9%                                                                             |
| The Company's share of associate's capital commitments contracted for                                                                                                                                                                                          | Unknown                                                                                                                                  | \$10,843,000                                                                                                               |
| The Company's share of associate's other expenditure commitments contracted for, other than for the supply of inventories                                                                                                                                      | Unknown                                                                                                                                  | \$3,000,000                                                                                                                |
| The Company's contingent liabilities that arise because the Company is severally liable for all the liabilities of an associate                                                                                                                                | Unknown                                                                                                                                  | \$49,000                                                                                                                   |
| Schedule setting out the movements in the carrying amount of investments in the associate, separately identifying the carrying amount as at the beginning and end of the financial year, and the amounts of new investments, share of loss and other movements | Beginning of year \$43,335,000<br>Additional inv. Nil<br>Share of loss (\$3,077,000)<br>End of year \$40,258,000                         | Beginning of year \$16,971,000<br>Additional inv. \$36,921,000<br>Share of loss (\$10,557,000)<br>End of year \$43,335,000 |
| Financial effects of events or transactions which have occurred after the reporting date of an associate and which could materially affect the financial position or operating performance of that associate for the next financial year                       | Unknown                                                                                                                                  | Nil                                                                                                                        |
| Disclosure of the share of net profit of associates reported by segment required in the segment information note                                                                                                                                               | Investments segment<br>Share of net profits of joint venture<br>\$39,969,000                                                             | Investments segment<br>Share of net profits of associates and joint venture partnerships<br>\$31,423,000                   |
| Disclosure of share of losses of associates in the note for reconciliation of profit from ordinary activities after income tax to net cash inflow from operating activities                                                                                    | Share of losses of associate not received as dividends<br>\$3,077,000                                                                    | Share of losses of associate not received as dividends<br>\$10,557,000                                                     |

## INDEPENDENT AUDIT REPORT (CONTINUED)

### 2. Recoverable Amount of the Company's Investment in TransACT

As discussed above, included in the Company's Statement of Financial Position is an investment in TransACT and the carrying amount of this investment at 30 June 2003 is \$40,000,000. In accordance with AASB 1016 *Accounting for Investments in Associates*, the carrying amount of the investment must not exceed its recoverable amount.

The Board has undertaken an assessment of the recoverable amount of the investment in TransACT at 30 June 2003 on the basis of forecasted discounted cash flows. *Note 11: Non Current Assets – Investments* to the financial statements indicates that determination of the recoverable amount is a matter of considerable judgment as there is no active or liquid market for this investment which is still in an establishment phase.

I have not been provided with an independent valuation or independent evidence that the cash flow projections and the discount rates used by the Directors in their assessment of the recoverable amount are appropriate. I have not been able to obtain other sufficient appropriate audit evidence to support the recoverable amount of the investment. As a result, I am unable to express an opinion as to the appropriateness of the carrying amount of the investment in TransACT of \$40,000,000 included in the Statement of Financial Position at 30 June 2003.

### 3. Application of UIG 11 Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets

While the financial statements comply with UIG 11 *Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets* (UIG 11), the directors have, in *Note 1: Summary of Significant Accounting Policies* to the financial statements and in the Directors' Declaration, stated that they strongly disagree with recording contributed assets as revenue in accordance with UIG 11.

In my opinion, the accounting treatment, which is in accordance with UIG 11, is required for the financial statements to show a true and fair view of the Company's and the consolidated entity's financial position and performance and is not misleading.

## INDEPENDENT AUDIT REPORT (CONTINUED)

### Qualified Audit Opinion

In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial statements of ACTEW Corporation Limited are in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2003 and of their performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards and the *Corporations Regulations 2001*; and
- (b) other mandatory professional reporting requirements.



Bernie Sheville  
Acting Auditor General  
29 August 2003

## ACTEW Corporation Limited and Controlled Entities

### STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2003

| Notes                                                                                 | Consolidated   |                | ACTEW Corporation Ltd |                |
|---------------------------------------------------------------------------------------|----------------|----------------|-----------------------|----------------|
|                                                                                       | 2003           | 2002           | 2003                  | 2002           |
|                                                                                       | \$'000         | \$'000         | \$'000                | \$'000         |
| Revenue from ordinary activities excluding contributed assets received free of charge | 139,520        | 134,385        | 168,536               | 163,189        |
| Contributed assets received free of charge                                            | 8,353          | 8,341          | 8,353                 | 8,341          |
| <b>3</b>                                                                              | <b>147,873</b> | <b>142,726</b> | <b>176,889</b>        | <b>171,530</b> |

|                                                                                    |                 |               |               |               |        |
|------------------------------------------------------------------------------------|-----------------|---------------|---------------|---------------|--------|
| Cost of sales                                                                      | <b>6,043</b>    | 5,869         | <b>6,043</b>  | 5,869         |        |
| Administration and other costs                                                     | <b>4,436</b>    | 3,648         | <b>4,422</b>  | 2,986         |        |
| Depreciation and amortisation expense                                              | <b>20,328</b>   | 20,108        | <b>20,328</b> | 20,108        |        |
| Borrowing cost expense                                                             | <b>24,946</b>   | 25,996        | <b>24,946</b> | 25,996        |        |
| Project related expenses                                                           | <b>55,263</b>   | 51,514        | <b>55,263</b> | 51,514        |        |
| Provision for diminution of investments                                            | <b>13,892</b>   | 320           | <b>13,892</b> | 300           |        |
| Other expenses arising from ordinary activities                                    | <b>3,069</b>    | 4,389         | <b>3,053</b>  | 4,331         |        |
| Share of net loss/(profit) of joint ventures accounted for using the equity method | <b>(43,046)</b> | (41,980)      | -             | -             |        |
| <b>Profit from ordinary activities before income tax expense</b>                   | <b>62,942</b>   | 72,862        | <b>48,942</b> | 60,426        |        |
| Income tax equivalents relating to ordinary activities                             | <b>5</b>        | <b>19,561</b> | 26,034        | <b>5,950</b>  | 13,539 |
| <b>Net Profit</b>                                                                  | <b>24</b>       | <b>43,381</b> | 46,828        | <b>42,992</b> | 46,887 |

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

## ACTEW Corporation Limited and Controlled Entities

### STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

|                                                   | Notes | Consolidated     |                | ACTEW Corporation Ltd |                |
|---------------------------------------------------|-------|------------------|----------------|-----------------------|----------------|
|                                                   |       | 2003<br>\$'000   | 2002<br>\$'000 | 2003<br>\$'000        | 2002<br>\$'000 |
| <b>CURRENT ASSETS</b>                             |       |                  |                |                       |                |
| Cash Assets                                       | 7     | 558              | 504            | 558                   | 504            |
| Receivables                                       | 8     | 15,557           | 17,144         | 68,355                | 40,835         |
| Investments                                       | 9     | 34,378           | 15,957         | 34,378                | 15,957         |
| Other                                             | 10    | 7,103            | 7,065          | 7,103                 | 7,065          |
| Total Current Assets                              |       | 57,596           | 40,670         | 110,394               | 64,361         |
| <b>NON-CURRENT ASSETS</b>                         |       |                  |                |                       |                |
| Investments                                       | 11    | 51,769           | 59,712         | 53,169                | 61,112         |
| Investments accounted for using the equity method | 12    | 344,857          | 349,787        | -                     | -              |
| Other financial assets                            | 13    | -                | -              | 305,803               | 345,808        |
| Property, Plant and Equipment                     | 14    | 854,717          | 853,869        | 854,717               | 853,869        |
| Other                                             | 15    | 12,585           | 10,061         | 12,585                | 10,061         |
| Deferred tax assets                               | 16    | 12,404           | 11,893         | 8,424                 | 8,461          |
| Total Non-Current Assets                          |       | 1,276,332        | 1,285,322      | 1,234,698             | 1,279,311      |
| <b>TOTAL ASSETS</b>                               |       | <b>1,333,928</b> | 1,325,992      | <b>1,345,092</b>      | 1,343,672      |
| <b>CURRENT LIABILITIES</b>                        |       |                  |                |                       |                |
| Payables                                          | 17    | 19,639           | 13,382         | 13,340                | 13,356         |
| Interest bearing liabilities                      | 18    | 4,092            | 6,138          | 4,092                 | 6,138          |
| Provisions                                        | 19    | 17,261           | 18,471         | 17,261                | 18,471         |
| Other                                             | 20    | 1,141            | 852            | 2,007                 | 1,704          |
| Total Current Liabilities                         |       | 42,133           | 38,843         | 36,700                | 39,669         |
| <b>NON-CURRENT LIABILITIES</b>                    |       |                  |                |                       |                |
| Interest bearing liabilities                      | 21    | 347,229          | 353,884        | 347,229               | 353,884        |
| Provisions                                        | 22    | 152,701          | 137,081        | 133,593               | 117,840        |
| Total Non-Current Liabilities                     |       | 499,930          | 490,965        | 480,822               | 471,724        |
| <b>TOTAL LIABILITIES</b>                          |       | <b>542,063</b>   | 529,808        | <b>517,522</b>        | 511,393        |

|                     |           |                |         |                |         |
|---------------------|-----------|----------------|---------|----------------|---------|
| <b>NET ASSETS</b>   |           | <b>791,865</b> | 796,184 | <b>827,570</b> | 832,279 |
| <b>EQUITY</b>       |           |                |         |                |         |
| Contributed equity  | <b>23</b> | <b>758,871</b> | 758,871 | <b>758,871</b> | 758,871 |
| Reserves            | <b>25</b> | <b>13,372</b>  | 13,372  | <b>13,372</b>  | 13,372  |
| Retained Profits    | <b>24</b> | <b>19,622</b>  | 23,941  | <b>55,327</b>  | 60,036  |
| <b>TOTAL EQUITY</b> |           | <b>791,865</b> | 796,184 | <b>827,570</b> | 832,279 |

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

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ACTEW Corporation Limited and Controlled Entities

**STATEMENT OF CASH FLOWS**

for the year ended 30 June 2003

|                                                            |              | <b>Consolidated</b> |          | <b>ACTEW Corporation Ltd</b> |          |
|------------------------------------------------------------|--------------|---------------------|----------|------------------------------|----------|
|                                                            | <b>Notes</b> | <b>2003</b>         | 2002     | <b>2003</b>                  | 2002     |
|                                                            |              | <b>\$'000</b>       | \$'000   | <b>\$'000</b>                | \$'000   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |              |                     |          |                              |          |
| Receipts from Customers                                    |              | <b>138,369</b>      | 131,305  | <b>138,279</b>               | 130,688  |
| Payments to Suppliers and Employees                        |              | <b>(66,829)</b>     | (66,934) | <b>(66,813)</b>              | (66,071) |
| Income taxes paid                                          |              | -                   | -        | -                            | -        |
| Sub-Total                                                  |              | <b>71,540</b>       | 64,371   | <b>71,466</b>                | 64,617   |
| Interest Received                                          |              | <b>2,290</b>        | 1,387    | <b>2,290</b>                 | 1,387    |
| Dividends received                                         |              | -                   | -        | <b>29,099</b>                | 19,626   |
| Interest paid                                              |              | <b>(30,231)</b>     | (25,541) | <b>(30,231)</b>              | (25,541) |
| <b>Net Cash Inflow from Operating Activities</b>           | <b>36</b>    | <b>43,599</b>       | 40,217   | <b>72,624</b>                | 60,089   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |              |                     |          |                              |          |
| Payments for Property, Plant and Equipment                 |              | <b>(12,665)</b>     | (10,846) | <b>(12,665)</b>              | (10,846) |
| Payments for share purchases                               |              | -                   | (36,921) | -                            | (36,921) |
| Loans to related parties                                   |              | -                   | -        | <b>(29,025)</b>              | (19,872) |
| Distribution received from joint venture partnerships      |              | <b>48,500</b>       | 56,500   | <b>48,500</b>                | 56,500   |
| Proceeds from sale of Property, Plant and Equipment        |              | <b>15</b>           | 2,029    | <b>15</b>                    | 2,029    |
| Net (payments)/proceeds for Investments                    |              | <b>(5,949)</b>      | 4,418    | <b>(5,949)</b>               | 4,418    |
| <b>Net Cash Inflow/(Outflow) from Investing Activities</b> |              | <b>29,901</b>       | 15,180   | <b>876</b>                   | (4,692)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |              |                     |          |                              |          |
| Repayment of Borrowings                                    |              | <b>(6,138)</b>      | (2,046)  | <b>(6,138)</b>               | (2,046)  |
| Dividend paid                                              |              | <b>(48,887)</b>     | (54,624) | <b>(48,887)</b>              | (54,624) |
| <b>Net Cash Outflow from Financing Activities</b>          |              | <b>(55,025)</b>     | (56,670) | <b>(55,025)</b>              | (56,670) |
| <b>NET INCREASE / (DECREASE) IN CASH HELD</b>              |              | <b>18,475</b>       | (1,273)  | <b>18,475</b>                | (1,273)  |
| <b>Cash held at the beginning of the financial year</b>    |              | <b>16,461</b>       | 17,734   | <b>16,461</b>                | 17,734   |
| <b>CASH HELD AT THE END OF THE FINANCIAL YEAR/PERIOD</b>   | <b>36</b>    | <b>34,936</b>       | 16,461   | <b>34,936</b>                | 16,461   |

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

## NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

for the year ended 30 June 2003

### Note 1: Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act.

Although ACTEW has followed these reporting requirements, in particular UIG 11: Accounting for Contributions of, or Contributions for the Acquisition of Non Current Assets, the board of directors strongly disagrees with the requirement that ACTEW's non cash developer contributed assets be treated as income. It is believed by the board of directors that the nature of this receipt is capital, not income, and should be taken directly to reserves.

The financial statements are prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Some amounts have been reclassified to ensure comparability with the current reporting period. The operating cycle of the Group is considered to be 12 months.

#### (a) Principles of Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by ACTEW Corporation Ltd as at 30 June 2003 and the results of all controlled entities for the year then ended. ACTEW Corporation Ltd and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the group are eliminated in full.

Where control of an entity is obtained during the financial year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences.

#### (b) Change in business activity

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

#### (c) Income Tax Equivalents

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

Tax effect accounting procedures are followed whereby the income tax equivalent expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax equivalents benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax equivalents on net cumulative timing differences are set aside to the deferred income tax equivalents and future income tax equivalents benefit accounts at the rates, which are expected to apply when those timing differences reverse.

It is the policy of ACTEW Corporation Ltd and its controlled entities to transfer tax losses from 'loss' companies to 'income' companies within the group for consideration equal to the value of the income tax equivalents that would otherwise have been payable.

#### (d) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the equity instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognized directly in equity. Goodwill is brought to account on the basis described in note 1 (o) (ii).

Contributed assets provided free of charge are valued at the fair value of those assets.

#### (e) Revenue Recognition

Amounts disclosed as revenue from operating activities are recognised when the service is provided.

Revenue from the sale of goods or disposal of assets is only recognised when the control of goods or assets has passed to the buyer and it is probable the consideration will flow to the entity.

Contributed assets are recognised as revenue when the entity gains control of the asset and the amount of the contribution can be measured reliably.

#### (f) Receivables

All trade debtors are recognised at the amount receivable, as they are due. Collectibility of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised where some doubt as to collection exists.



**(g) Recoverable Amount of Non Current assets**

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

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 recognized as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

At 30 June 2003, ACTEW had invested \$59.5 million in TransACT Communications Pty Ltd. As TransACT has not yet completed the rollout of its network in Canberra, the provision for diminution in value of the TransACT investment was increased to \$19.5 million (30 June 2002: \$5.7 million). This provision is reviewed annually. (Refer note 11.)

**(h) Revaluations of Non Current assets**

Subsequent to initial recognition as assets, items of property, plant and equipment comprising a class of non current assets are held at fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction. Revaluations are made with sufficient regularity to ensure that the carrying amount of each item does not materially differ from its fair value at the reporting date. Annual assessments will be made by directors, supplemented by independent assessments at least every three years.

The above policy was adopted with effect from 1 July 2000. The previous policy was to revalue property, plant and equipment at fair value at three yearly intervals. The changed policy has not had a material effect in the current or prior year, nor is it expected to have a material effect in subsequent financial years.

The changed policy was adopted to comply with AASB 1041 Revaluation of Non-current assets, released in December 1999, which applied for the first time to the year ended 30 June 2001.

Revaluation increments are credited directly to the asset revaluation reserve, except that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss.

Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve.

Potential capital gains tax is not taken into account in determining revaluation amounts unless there is an intention to sell the assets concerned.

Revaluations do not result in the carrying value exceeding their recoverable amount.

**(i) Investments**

Long-term securities are included in the balance sheet at cost price. Short-term securities are included at cost price. Interest is recognized in the profit and loss statement as it is earned.

**(j) Depreciation of Property, Plant and Equipment**

Depreciation is calculated on a straight-line basis to write off the net cost or the revalued amount of each item of property, plant and equipment (except land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

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

**(k) Leased Non-current Assets**

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred as this represents the pattern of benefits derived from the leased assets.

**(l) Non-current assets constructed by the consolidated entity**

The cost of non current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overhead.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made. Borrowing costs incurred while active construction is interrupted for extended periods are recognised as expenses.

**(m) Trade and Other Creditors**

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.

**(n) Interest bearing liabilities**

Loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

Annuity Loans are adjusted quarterly and based to the CPI. The adjustment increases the principal of the loan and an expense is recognised in the period of the adjustment depending on the terms of the loan. Refer to note 18.

**(o) Intangible assets and expenditure carried forward***(i) Research and Development*

Significant costs incurred on research and development projects are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable. Deferred costs are amortised over the period of the expected benefit.

*(ii) Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over 20 years, being the period during which the benefits are expected to arise. The costs of acquisition are discounted as described in note 1 (d) where settlement of any part of cash consideration is deferred.

**(p) Maintenance and Repairs**

The costs of maintenance is charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1 (j).

Other routine operating maintenance, repair costs and minor renewals are charged as expenses as incurred.

**(q) Employee Entitlements**

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

(i) Wages, Salaries and Annual Leave Liabilities are recognized and measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

*(ii) Long Service Leave*

A liability for long service leave is recognised and measured at 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, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

**(r) Cash**

For the purposes of the statement of cash flows, cash includes cash on hand, deposits held at call, and current investment securities which are readily convertible to cash and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

**(s) Joint Ventures**

The interest in a joint venture partnership is accounted for using the equity method. Under this method, the share of the profits or losses of the partnership is recognised as revenue in the statement of financial performance, and the share movements in reserves is recognised in reserves in the statement of financial position. 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 relate to an unrealised loss that provides evidence of the impairment of an asset transferred. Details relating to the partnership are set out in note 34.

**(t) Reclassification of Liability for Annual Leave**

The liability for annual leave and related on-costs expected to be settled within 12 months of reporting date has been reclassified from provisions to other creditors in the current year as a result of the adoption of the new accounting standard, AASB 1044 Provision, Contingent Liabilities and Contingent Assets. The directors do not believe there are any significant uncertainties relating to the amount of future payments included in the liability for annual leave, therefore they do not meet the definition of a provision under the new standard. Comparative amounts have also been reclassified to ensure comparability with the current reporting period.

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**Note 2: Segment information****Business segments**

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

**Water and wastewater**

The supply of water and the provision of sewerage services.

**Investments**

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

#### Unallocated

This segment includes corporate activities, activities of the wholly owned subsidiaries.

None of these activities constitutes a separately reportable segment.

#### Secondary Reporting – geographic segments

The Australian Capital Territory is the only predominant geographic segment.

#### Notes to and forming part of the segment information

##### a) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity and consolidated entity as disclosed in note 1 and the revised segment reporting accounting standard, AASB 1005 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to a segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, property, plant and equipment, and other assets, net of related provisions. While most of these assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by segments are allocated based on a reasonable estimate of usage. Segment liabilities consist primarily of trade and other creditors and employee entitlements. Segment assets and liabilities do not include income taxes.

##### b) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arm’s length” basis and are eliminated on aggregation.

##### c) Equity accounted investments

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

|                                                                                                 | Water &<br>Wastewater<br>\$'000 | Investments<br>\$'000 | Inter segment<br>eliminations/unallocated<br>\$'000 | Consolidated<br>\$'000 |
|-------------------------------------------------------------------------------------------------|---------------------------------|-----------------------|-----------------------------------------------------|------------------------|
| <b>Note 2: Segment information (continued)</b>                                                  |                                 |                       |                                                     |                        |
| <b>2003</b>                                                                                     |                                 |                       |                                                     |                        |
| <b>Primary Reporting - business segments</b>                                                    |                                 |                       |                                                     |                        |
| Sales to external customers                                                                     | 131,136                         | -                     | 31                                                  | 131,167                |
| Intersegment Sales                                                                              | -                               | -                     | -                                                   | -                      |
| Total sales revenue                                                                             | 131,136                         | -                     | 31                                                  | 131,167                |
| Share of net profits of joint venture                                                           | -                               | 43,046                | -                                                   | 43,046                 |
| Other revenue                                                                                   | 14,150                          | 2,556                 | -                                                   | 16,706                 |
| Unallocated revenue less unallocated expenses                                                   |                                 |                       |                                                     | -                      |
| Profit from ordinary activities before income tax expense                                       |                                 |                       |                                                     | 62,942                 |
| Income tax expense                                                                              |                                 |                       |                                                     | 19,561                 |
| Net profit                                                                                      |                                 |                       |                                                     | 43,381                 |
| Segment assets                                                                                  | 936,566                         | 396,626               | -                                                   | 1,333,192              |
| Unallocated assets                                                                              |                                 |                       |                                                     | -                      |
| Total assets                                                                                    |                                 |                       |                                                     | 1,333,192              |
| Segment liabilities                                                                             | 487,291                         | 54,036                | -                                                   | 541,327                |
| Unallocated liabilities                                                                         |                                 |                       |                                                     | -                      |
| Total liabilities                                                                               |                                 |                       |                                                     | 541,327                |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 12,665                          | -                     | -                                                   | 12,665                 |
| Depreciation and amortisation expense                                                           | 19,912                          | 416                   | -                                                   | 20,328                 |
| Other non-cash expenses                                                                         | 2,238                           | 14,141                | -                                                   | 16,379                 |

|  | Water &<br>Wastewater<br>\$'000 | Investments<br>\$'000 | Inter segment<br>eliminations/unallocated<br>\$'000 | Consolidated<br>\$'000 |
|--|---------------------------------|-----------------------|-----------------------------------------------------|------------------------|
|--|---------------------------------|-----------------------|-----------------------------------------------------|------------------------|

#### Note 2: Segment information (continued)

##### 2002

##### Primary Reporting - business segments

|                                                                                                 |         |         |     |           |
|-------------------------------------------------------------------------------------------------|---------|---------|-----|-----------|
| Sales to external customers                                                                     | 141,894 | -       | 832 | 142,726   |
| Share of net profits of associates and joint venture partnerships                               | -       | 41,980  | -   | 41,980    |
| Total segment revenue                                                                           | 141,894 | 41,980  | 832 | 184,706   |
| Profit from ordinary activities before income tax expense                                       | 30,770  | 41,955  | 137 | 72,862    |
| Income tax expense                                                                              |         |         |     | 26,034    |
| Net profit                                                                                      |         |         |     | 46,828    |
| Segment assets                                                                                  | 909,993 | 403,679 | -   | 1,313,672 |
| Unallocated assets                                                                              |         |         |     | 12,320    |
| Total assets                                                                                    |         |         |     | 1,325,992 |
| Segment liabilities                                                                             | 406,623 | 19      | -   | 406,642   |
| Unallocated liabilities                                                                         |         |         |     | 123,166   |
| Total liabilities                                                                               |         |         |     | 529,808   |
| Investments in associates and joint venture partnerships                                        | -       | 349,787 | -   | 349,787   |
| Acquisitions of property, plant and equipment, intangibles and other non-current segment assets | 19,188  | 36,921  | -   | 56,109    |
| Depreciation and amortisation expense                                                           | 20,108  | -       | -   | 20,108    |
| Net cash inflow from operating activities                                                       | 40,217  | -       | -   | 40,217    |

|                                                                                                                                                        | Consolidated |         | ACTEW Corporation Ltd |         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------|-----------------------|---------|
| Notes                                                                                                                                                  | 2003         | 2002    | 2003                  | 2002    |
|                                                                                                                                                        | \$'000       | \$'000  | \$'000                | \$'000  |
| <b>Note 3: Revenue</b>                                                                                                                                 |              |         |                       |         |
| Revenue from operating activities                                                                                                                      |              |         |                       |         |
| Electricity Business                                                                                                                                   |              | - 140   | -                     | 140     |
| Water Business                                                                                                                                         |              | 66,462  | 62,790                | 66,462  |
| Sewerage Business                                                                                                                                      |              | 60,502  | 56,775                | 60,502  |
| Contributed assets received free of charge                                                                                                             |              | 8,353   | 8,341                 | 8,353   |
| Commonwealth Subvention                                                                                                                                | a            | 8,649   | 8,352                 | 8,649   |
| Other Operating Revenue                                                                                                                                |              | 128     | 2,457                 | 128     |
|                                                                                                                                                        |              | 144,094 | 138,855               | 144,094 |
| Revenue from outside the operating activities                                                                                                          |              |         |                       |         |
| Interest                                                                                                                                               |              | 2,405   | 1,359                 | 2,405   |
| Gain from disposal of Property, Plant and Equipment                                                                                                    | b            | 15      | 2,029                 | 15      |
| Dividend Revenue                                                                                                                                       |              | -       | -                     | 29,016  |
| Other Non-Operating Revenue                                                                                                                            |              | 1,359   | 483                   | 1,359   |
| <b>Revenue from ordinary activities excluding shares of equity in net profits of joint venture partnerships accounted for using the equity method.</b> |              | 147,873 | 142,726               | 176,889 |

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

|                                                                                                                                    | Consolidated |        | ACTEW Corporation Ltd |        |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|--------|-----------------------|--------|
| Notes                                                                                                                              | 2003         | 2002   | 2003                  | 2002   |
|                                                                                                                                    | \$'000       | \$'000 | \$'000                | \$'000 |
| <b>Note 4: Operating Profit from Ordinary Activities</b>                                                                           |              |        |                       |        |
| Operating profit from ordinary activities includes the revenues disclosed in Note 3 above and the following specific net expenses: |              |        |                       |        |
| <b>Expenses</b>                                                                                                                    |              |        |                       |        |
| Cost of Sales                                                                                                                      | 6,043        | 5,869  | 6,043                 | 5,869  |

|                                                        |               |         |               |         |
|--------------------------------------------------------|---------------|---------|---------------|---------|
| Interest expense                                       | <b>24,946</b> | 25,996  | <b>24,946</b> | 25,996  |
| Depreciation:                                          |               |         |               |         |
| System Assets                                          | <b>19,912</b> | 18,574  | <b>19,912</b> | 18,574  |
| Plant and Equipment                                    | <b>416</b>    | 1,534   | <b>416</b>    | 1,534   |
| Amortisation of Non-Current Assets:                    | <b>20,328</b> | 20,108  | <b>20,328</b> | 20,108  |
| Provisions                                             |               |         |               |         |
| Employee Entitlements (including seconded employees)   | <b>2,487</b>  | 18,447  | <b>2,487</b>  | 18,447  |
| Investments - provision for diminution                 | <b>13,892</b> | 320     | <b>13,892</b> | 300     |
| Provision for diminution of assets                     | -             | 2,899   | -             | 2,899   |
| Net loss (gain) on sale of property, plant & equipment | <b>15</b>     | (2,029) | <b>15</b>     | (2,029) |

|       | Consolidated |        | ACTEW Corporation Ltd |        |
|-------|--------------|--------|-----------------------|--------|
| Notes | 2003         | 2002   | 2003                  | 2002   |
|       | \$'000       | \$'000 | \$'000                | \$'000 |

### Note 5: Income Tax Equivalents

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

|                                                                |                |        |                |         |
|----------------------------------------------------------------|----------------|--------|----------------|---------|
| Profit from ordinary activities before income tax equivalents  | <b>62,942</b>  | 72,862 | <b>48,942</b>  | 60,426  |
| Income tax calculated @ 30%                                    | <b>18,882</b>  | 24,548 | <b>14,682</b>  | 18,128  |
| Tax effect of permanent differences:                           |                |        |                |         |
| Adjustment to prior year tax effect balances                   | <b>(4,180)</b> | 2,114  | <b>(4,199)</b> | 1,804   |
| Research & Development concessions                             | <b>(60)</b>    | (58)   | <b>(60)</b>    | (58)    |
| Non-deductible expenses                                        | <b>4,645</b>   | -      | <b>4,419</b>   | -       |
| Other items (net)                                              | <b>274</b>     | (570)  | <b>(48)</b>    | (430)   |
| Dividend Rebate                                                | -              | -      | <b>(8,844)</b> | (5,905) |
| <b>Income Tax Equivalents attributable to operating profit</b> | <b>19,561</b>  | 26,034 | <b>5,950</b>   | 13,539  |
| <b>Income Tax Expense Comprises:</b>                           |                |        |                |         |
| Provision for Income Tax Payable                               | <b>6,545</b>   | 3,118  | <b>563</b>     | -       |
| Future Income Tax Equivalents Benefit                          | <b>(211)</b>   | 2,706  | <b>(37)</b>    | (6,480) |
| Provision for Deferred Income Tax Equivalents                  | <b>13,227</b>  | 18,096 | <b>13,950</b>  | 18,215  |
| Under/(Over) Provision in Prior Year                           | -              | 2,114  | <b>(8,526)</b> | 1,804   |
|                                                                | <b>19,561</b>  | 26,034 | <b>5,950</b>   | 13,539  |

This benefit for tax losses will only be obtained if:

1. The consolidated entity derives future assessable income of a nature and of sufficient amount to enable the benefit from the deductions for the losses to be realised, or
2. The losses are transferred to an eligible entity in the consolidated entity, and
3. The consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
4. No changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

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

Legislation reducing the company tax rate from 36% to 34% in respect to the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year received royal assent on 10 December 1999. As a consequence, deferred tax balances are measured at 30%.

ACTEW has transferred \$27,145,413 (2002: \$45,495,571) of income tax equivalent losses to other companies within the group. These companies will provide consideration equal to the losses transferred of \$8,143,624 (2002: \$13,648,671). This has been reflected in the financial statements.

|       | Consolidated |        | ACTEW Corporation Ltd |        |
|-------|--------------|--------|-----------------------|--------|
| Notes | 2003         | 2002   | 2003                  | 2002   |
|       | \$'000       | \$'000 | \$'000                | \$'000 |

### Note 6: Dividends

|                                                   |                 |          |                 |          |
|---------------------------------------------------|-----------------|----------|-----------------|----------|
| Opening balance                                   | <b>10,887</b>   | 18,624   | <b>10,887</b>   | 18,624   |
| Amount appropriated from operating profit         | <b>43,381</b>   | 46,828   | <b>42,992</b>   | 46,887   |
|                                                   | <b>54,268</b>   | 65,452   | <b>53,879</b>   | 65,511   |
| Amount transferred from/ (to) retained profits    | <b>4,319</b>    | 59       | <b>4,708</b>    | -        |
| Amount paid during the year to the ACT government | <b>(48,887)</b> | (54,624) | <b>(48,887)</b> | (54,624) |
| Closing balance                                   | <b>9,700</b>    | 10,887   | <b>9,700</b>    | 10,887   |

#### Note 7: Current Assets - Cash Assets

|                   |            |     |            |     |
|-------------------|------------|-----|------------|-----|
| Cash at bank      | <b>558</b> | 504 | <b>558</b> | 504 |
| Total Cash Assets | <b>558</b> | 504 | <b>558</b> | 504 |

#### Note 8: Current Assets - Receivables

|                                                      |               |        |               |        |
|------------------------------------------------------|---------------|--------|---------------|--------|
| Water Business                                       | <b>8,105</b>  | 9,605  | <b>8,105</b>  | 9,605  |
| Sewerage business                                    | <b>5,253</b>  | 4,988  | <b>5,253</b>  | 4,988  |
| Other trade debtors                                  | <b>1,271</b>  | 1,360  | <b>1,271</b>  | 1,383  |
| Doubtful debts - trade debtors                       | <b>(19)</b>   | (10)   | <b>(19)</b>   | (10)   |
|                                                      | <b>14,610</b> | 15,943 | <b>14,610</b> | 15,966 |
| Sundry Debtors and Accrued Revenue                   | <b>947</b>    | 1,201  | <b>959</b>    | 1,201  |
| Sundry Debtors and Accrued Revenue - Related Parties | -             | -      | <b>52,786</b> | 23,668 |
|                                                      | <b>947</b>    | 1,201  | <b>53,745</b> | 24,869 |
| Total Receivables                                    | <b>15,557</b> | 17,144 | <b>68,355</b> | 40,835 |

#### Note 9: Current Assets - Investments

|                       |               |        |               |        |
|-----------------------|---------------|--------|---------------|--------|
| Short-Term Securities | <b>34,378</b> | 15,957 | <b>34,378</b> | 15,957 |
| Total Investments     | <b>34,378</b> | 15,957 | <b>34,378</b> | 15,957 |

| Notes                                             | Consolidated    |                | ACTEW Corporation Ltd |                |
|---------------------------------------------------|-----------------|----------------|-----------------------|----------------|
|                                                   | 2003<br>\$'000  | 2002<br>\$'000 | 2003<br>\$'000        | 2002<br>\$'000 |
| <b>Note 10: Current Assets - Other</b>            |                 |                |                       |                |
| Prepayments                                       | <b>36</b>       | 9              | <b>36</b>             | 9              |
| Employee entitlement receivable - related parties | <b>7,067</b>    | 7,056          | <b>7,067</b>          | 7,056          |
| Total Other Assets                                | <b>7,103</b>    | 7,065          | <b>7,103</b>          | 7,065          |
| <b>Note 11: Non-Current Assets - Investments</b>  |                 |                |                       |                |
| Long-Term Securities                              | <b>11,769</b>   | 5,820          | <b>11,769</b>         | 5,820          |
| Investments in Controlled Entities                | -               | -              | <b>1,700</b>          | 1,700          |
| Investment in Other Entities                      | <b>59,989</b>   | 59,989         | <b>59,549</b>         | 59,549         |
| Investment Provision for Diminution               | <b>(19,989)</b> | (6,097)        | <b>(19,849)</b>       | (5,957)        |
| Total Investments                                 | <b>51,769</b>   | 59,712         | <b>53,169</b>         | 61,112         |

The Directors have undertaken an assessment of the recoverable amount of the above investments at 30 June 2003.

In relation to the investment in TransACT Communications Pty Ltd (TransACT), the Directors have raised an additional provision for diminution in the value of this investment of \$13,892,000 at 30 June 2003 giving a carrying value of \$40,000,000 at 30 June 2003.

As there is no active or liquid market for this investment which is still in an establishment phase, the determination of its recoverable amount is a matter of considerable judgement.

#### Note 12: Non-Current Assets - Investments Accounted for using the Equity Method

|                                           |                |         |   |   |
|-------------------------------------------|----------------|---------|---|---|
| Investments in joint venture partnerships | <b>344,857</b> | 349,787 | - | - |
|                                           | <b>344,857</b> | 349,787 | - | - |

#### Note 13: Non-Current Assets - Other Financial Assets

|                                            |   |   |                |         |
|--------------------------------------------|---|---|----------------|---------|
| Non-interest bearing loans to subsidiaries | - | - | <b>305,803</b> | 345,808 |
|                                            | - | - | <b>305,803</b> | 345,808 |

| Notes | Consolidated   |                | ACTEW Corporation Ltd |                |
|-------|----------------|----------------|-----------------------|----------------|
|       | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000        | 2002<br>\$'000 |

#### Note 14: Non-Current Assets - Property, Plant And Equipment



|                                              |         |          |          |          |          |
|----------------------------------------------|---------|----------|----------|----------|----------|
| <b>Water System Assets</b>                   |         |          |          |          |          |
| At directors' valuation                      | a, b, c | 484,377  | 484,377  | 484,377  | 484,377  |
| At Cost                                      |         | 28,974   | 15,998   | 28,974   | 15,998   |
| Accumulated Depreciation                     |         | (77,806) | (67,644) | (77,806) | (67,644) |
| Work in progress                             |         | 2,945    | 5,299    | 2,945    | 5,299    |
| Net Book Value                               |         | 438,490  | 438,030  | 438,490  | 438,030  |
| <b>Sewerage System Assets</b>                |         |          |          |          |          |
| At directors' valuation                      | a       | 443,571  | 443,571  | 443,571  | 443,571  |
| At Cost                                      |         | 33,631   | 20,300   | 33,631   | 20,300   |
| Accumulated Depreciation                     |         | (82,042) | (72,436) | (82,042) | (72,436) |
| Work in progress                             |         | 3,666    | 6,606    | 3,666    | 6,606    |
| Net Book Value                               |         | 398,826  | 398,041  | 398,826  | 398,041  |
| <b>Infrastructure Land and Buildings</b>     |         |          |          |          |          |
| At directors' valuation                      | a, b    | 2,855    | 2,855    | 2,855    | 2,855    |
| At Cost                                      |         | -        | -        | -        | -        |
| Accumulated Depreciation                     |         | (167)    | (144)    | (167)    | (144)    |
| Net Book Value                               |         | 2,688    | 2,711    | 2,688    | 2,711    |
| <b>Non-Infrastructure Land and Buildings</b> |         |          |          |          |          |
| At directors' valuation                      | c       | 16,768   | 16,768   | 16,768   | 16,768   |
| At Cost                                      |         | 120      | 120      | 120      | 120      |
| Accumulated Depreciation                     |         | (2,258)  | (1,897)  | (2,258)  | (1,897)  |
| Work in progress                             |         | 46       | -        | 46       | -        |
| Net Book Value                               |         | 14,676   | 14,991   | 14,676   | 14,991   |
| <b>Plant and Equipment</b>                   |         |          |          |          |          |
| At Cost                                      | a       | 355      | 412      | 355      | 412      |
| Accumulated Depreciation                     |         | (318)    | (316)    | (318)    | (316)    |
|                                              |         | 37       | 96       | 37       | 96       |
| Net Book Value                               |         | 854,717  | 853,869  | 854,717  | 853,869  |

#### Note 14: Non-Current Assets – Property, Plant And Equipment (continued)

- The directors have reviewed the carrying amount of these assets to ensure there is no material difference between their fair value and carrying amount at balance date.
- ACTEW does not hold title to all the assets it controls. Specifically Googong Dam, situated in NSW (book value \$26.7m), and various other ACT sites under reservoirs. Steps are being taken to obtain most of the outstanding leases.
- An independent valuation of non-infrastructure land and buildings was undertaken by McCann and Associates as at 30 June 2003 based on fair market value of existing use. The directors have reviewed the carrying amount of these assets to ensure there is no material difference between their fair value carrying amount at balance date.

#### Asset Movement Reconciliations

##### Consolidated and ACTEW Corporation

Reconciliations of the carrying amounts of each class of property, plant and equipment and construction in progress at the beginning and end of the current financial year are set out below:

|                                            | Water    | Sewerage | Infrastructure Land and Buildings | Non-Infrastructure Land and Buildings | Plant & Equipment | Total    |
|--------------------------------------------|----------|----------|-----------------------------------|---------------------------------------|-------------------|----------|
| Assets at Cost or valuation                | \$'000   | \$'000   | \$'000                            | \$'000                                | \$'000            | \$'000   |
| Opening written down value at 1 July 2002  | 432,731  | 391,435  | 2,711                             | 14,991                                | 96                | 841,964  |
| Construction Capitalised                   | 9,851    | 8,104    | -                                 | -                                     | -                 | 17,955   |
| Gifted Assets                              | 3,184    | 5,169    | -                                 | -                                     | -                 | 8,353    |
| Transfers/adjustments                      | (46)     | 191      | -                                 | -                                     | (29)              | 116      |
| Depreciation expense                       | (10,175) | (9,739)  | (23)                              | (361)                                 | (30)              | (20,328) |
| Closing written down value at 30 June 2003 | 435,545  | 395,160  | 2,688                             | 14,630                                | 37                | 848,060  |
| <b>Construction in Progress</b>            |          |          |                                   |                                       |                   |          |
| Opening Balance at 1 July 2002             | 5,299    | 6,606    | -                                 | -                                     | -                 | 11,905   |

|                                                      |         |         |       |        |    |          |
|------------------------------------------------------|---------|---------|-------|--------|----|----------|
| Additions                                            | 7,497   | 5,164   | -     | 4      | -  | 12,665   |
| Transfers/adjustments                                | -       | -       | -     | 42     | -  | 42       |
| Construction Capitalised                             | (9,851) | (8,104) | -     | -      | -  | (17,955) |
| Closing Balance at 30 June 2003                      | 2,945   | 3,666   | -     | 46     | -  | 6,657    |
| Closing written down value of assets at 30 June 2003 | 438,490 | 398,826 | 2,688 | 14,676 | 37 | 854,717  |

|                                                                                                  | Consolidated |        | ACTEW Corporation Ltd |        |        |
|--------------------------------------------------------------------------------------------------|--------------|--------|-----------------------|--------|--------|
|                                                                                                  | Notes        | 2003   | 2002                  | 2003   | 2002   |
|                                                                                                  |              | \$'000 | \$'000                | \$'000 | \$'000 |
| <b>Note 15: Non-Current Assets - Other</b>                                                       |              |        |                       |        |        |
| Employee entitlement receivable - related parties                                                |              | 12,585 | 10,061                | 12,585 | 10,061 |
| <b>Total Other</b>                                                                               |              | 12,585 | 10,061                | 12,585 | 10,061 |
| <b>Note 16: Non-Current Assets - Deferred Tax Assets</b>                                         |              |        |                       |        |        |
| Future Income Tax Benefit                                                                        |              | 12,404 | 11,893                | 8,424  | 8,461  |
| <b>Total Other</b>                                                                               |              | 12,404 | 11,893                | 8,424  | 8,461  |
| <b>Note 17: Current Liabilities - Payables</b>                                                   |              |        |                       |        |        |
| Trade Creditors                                                                                  |              | 236    | 855                   | 236    | 829    |
| Other Creditors and accruals                                                                     |              | 13,117 | 12,527                | 13,104 | 12,527 |
| Income Tax payable                                                                               |              | 6,286  | -                     | -      | -      |
| <b>Total Payables</b>                                                                            |              | 19,639 | 13,382                | 13,340 | 13,356 |
| <b>Note 18: Current Liabilities - Interest Bearing Liabilities</b>                               |              |        |                       |        |        |
| Loans                                                                                            |              | 4,092  | 6,138                 | 4,092  | 6,138  |
| <b>Total Borrowings</b>                                                                          |              | 4,092  | 6,138                 | 4,092  | 6,138  |
| Financing Arrangements                                                                           |              |        |                       |        |        |
| Unrestricted access to lines of credit approved by the ACT government were available as follows: |              |        |                       |        |        |
| Total Standby facility                                                                           |              | 8,000  | 8,000                 | 8,000  | 8,000  |
| <b>Unused Standby Facility</b>                                                                   |              | 8,000  | 8,000                 | 8,000  | 8,000  |
| <b>Note 19: Current Liabilities - Provisions</b>                                                 |              |        |                       |        |        |
| Employee Entitlements                                                                            | 26           | 175    | 215                   | 175    | 215    |
| Employee Entitlements - seconded employees                                                       | 26           | 7,067  | 7,056                 | 7,067  | 7,056  |
| Dividend                                                                                         |              | 9,700  | 10,887                | 9,700  | 10,887 |
| Workers Compensation (pre 1989)                                                                  |              | 319    | 313                   | 319    | 313    |
| <b>Total Provisions</b>                                                                          |              | 17,261 | 18,471                | 17,261 | 18,471 |

|                                                                        | Consolidated |         | ACTEW Corporation Ltd |         |         |
|------------------------------------------------------------------------|--------------|---------|-----------------------|---------|---------|
|                                                                        | Notes        | 2003    | 2002                  | 2003    | 2002    |
|                                                                        |              | \$'000  | \$'000                | \$'000  | \$'000  |
| <b>Note 20: Current Liabilities - Other</b>                            |              |         |                       |         |         |
| Unearned Revenue                                                       |              | 1,063   | 852                   | 1,063   | 852     |
| Security Deposits Received                                             |              | 78      | -                     | 78      | -       |
| Intercompany loan                                                      |              | -       | -                     | 866     | 852     |
| <b>Total Other</b>                                                     |              | 1,141   | 852                   | 2,007   | 1,704   |
| <b>Note 21: Non-Current Liabilities - Interest Bearing Liabilities</b> |              |         |                       |         |         |
| Loans                                                                  |              | 347,229 | 353,884               | 347,229 | 353,884 |
| <b>Total Borrowings</b>                                                |              | 347,229 | 353,884               | 347,229 | 353,884 |
| None of the borrowings is secured                                      |              |         |                       |         |         |
| <b>Note 22: Non-Current Liabilities - Provisions</b>                   |              |         |                       |         |         |
| Employee Entitlements                                                  | 26           | 225     | 233                   | 225     | 233     |
| Employee Entitlements - seconded employees                             | 26           | 12,585  | 10,061                | 12,585  | 10,061  |
| Insurance losses                                                       |              | 1,000   | 1,500                 | 1,000   | 1,500   |

|                                 |                |         |                |         |
|---------------------------------|----------------|---------|----------------|---------|
| Deferred Income Tax Equivalents | <b>136,942</b> | 123,159 | <b>117,834</b> | 103,918 |
| Workers Compensation (Pre 1989) | <b>1,949</b>   | 2,128   | <b>1,949</b>   | 2,128   |
| <b>Total Provisions</b>         | <b>152,701</b> | 137,081 | <b>133,593</b> | 117,840 |

|                                                                | Consolidated |                 | ACTEW Corporation Ltd |                 |                 |
|----------------------------------------------------------------|--------------|-----------------|-----------------------|-----------------|-----------------|
|                                                                | Notes        | 2003<br>\$'000  | 2002<br>\$'000        | 2003<br>\$'000  | 2002<br>\$'000  |
| <b>Note 23: Contributed Equity</b>                             |              |                 |                       |                 |                 |
| <b>Paid Up Capital</b>                                         |              | <b>Shares</b>   | <b>Shares</b>         |                 |                 |
|                                                                |              | <b>5</b>        | <b>5</b>              | <b>\$2 only</b> | <b>\$2 only</b> |
|                                                                |              | <b>5</b>        | <b>5</b>              | <b>\$2 only</b> | <b>\$2 only</b> |
| <b>Total Capital</b>                                           |              |                 |                       |                 |                 |
| Paid up Capital                                                |              | <b>758,871</b>  | 758,871               | <b>758,871</b>  | 758,871         |
| <b>Total Capital</b>                                           |              | <b>758,871</b>  | 758,871               | <b>758,871</b>  | 758,871         |
| <b>Note 24: Retained Profits</b>                               |              |                 |                       |                 |                 |
| <b>Retained profits at the beginning of the financial year</b> |              | <b>23,941</b>   | 24,000                | <b>60,036</b>   | 60,036          |
| <b>Net profits available for reserves and dividends</b>        |              | <b>43,381</b>   | 46,828                | <b>42,991</b>   | 46,887          |
| <b>Total available for appropriation</b>                       |              | <b>67,322</b>   | 70,828                | <b>103,027</b>  | 106,923         |
| <b>Aggregate amounts transferred from reserves</b>             |              | -               | -                     | -               | -               |
| <b>Dividends provided for or paid</b>                          |              | <b>(47,700)</b> | (46,887)              | <b>(47,700)</b> | (46,887)        |
| <b>Retained profits at the end of the financial year</b>       |              | <b>19,622</b>   | 23,941                | <b>55,327</b>   | 60,036          |
| <b>Note 25: Reserves</b>                                       |              |                 |                       |                 |                 |
| <b>General Insurance Reserve</b>                               |              | <b>9,820</b>    | 9,820                 | <b>9,820</b>    | 9,820           |
| <b>Asset Revaluation Reserve</b>                               |              | <b>3,552</b>    | 3,552                 | <b>3,552</b>    | 3,552           |
| <b>Total available for appropriation</b>                       |              | <b>13,372</b>   | 13,372                | <b>13,372</b>   | 13,372          |

There were no transfers to or from reserves during the year

|                                                                    | Consolidated |                | ACTEW Corporation Ltd |                |                |
|--------------------------------------------------------------------|--------------|----------------|-----------------------|----------------|----------------|
|                                                                    | Notes        | 2003<br>\$'000 | 2002<br>\$'000        | 2003<br>\$'000 | 2002<br>\$'000 |
| <b>Note 26: Employee Benefits</b>                                  |              |                |                       |                |                |
| <b>Employee benefit and related on-costs liabilities (a)</b>       |              |                |                       |                |                |
| Other creditors - current                                          |              | <b>507</b>     | 296                   | <b>507</b>     | 296            |
| Current Provisions - ACTEW                                         | <b>19</b>    | <b>175</b>     | 215                   | <b>175</b>     | 215            |
| Current Provisions - seconded employees                            | <b>19</b>    | <b>7,067</b>   | 7,056                 | <b>7,067</b>   | 7,056          |
| Non-current Provisions - ACTEW                                     | <b>22</b>    | <b>225</b>     | 233                   | <b>225</b>     | 233            |
| Non-current Provisions - seconded employees                        | <b>22</b>    | <b>12,585</b>  | 10,061                | <b>12,585</b>  | 10,061         |
| <b>Aggregate employee benefit and related on-costs liabilities</b> |              | <b>20,559</b>  | 17,861                | <b>20,559</b>  | 17,861         |
| <b>Employee Numbers</b>                                            |              |                |                       |                |                |
| Working directly for ACTEW (including the drought taskforce)       |              | <b>17</b>      | 10                    | <b>17</b>      | 10             |
| Seconded to ActewAGL                                               |              | <b>619</b>     | 679                   | <b>619</b>     | 679            |
|                                                                    |              | <b>636</b>     | 689                   | <b>636</b>     | 689            |

(a) Employees at 30 June 2003 were 636 persons, including seconded employees to the ActewAGL Joint Venture. Of these persons, 17 work directly for ACTEW including 7 employed specifically on drought related matters.

Employees of ACTEW may contribute to the Commonwealth Superannuation Scheme or to the Commonwealth Public Sector Superannuation Scheme at various percentages of their wages and salaries. ACTEW Corporation Limited contributes to these schemes at rates related to employee contributions. Both schemes provide benefits to contributors on retirement, disability or death. ACTEW's contributions to the schemes are legally enforceable. ACTEW has no unfunded superannuation liability obligations.

At the formation of the Joint Venture with AGL on 3 October 2000, ACTEW entered into an agreement with the Joint Venture board of management whereby ACTEW Employees would be seconded to the Joint Venture. The Joint Venture reimburses ACTEW for all employee related costs associated with these staff.

## Note 27: Financial Instruments

### A. Off-Balance-Sheet Derivative Instruments

#### Liability Interest Rate Swap Contract

The loan to ACTEW from the ACT Government bears a variable interest rate based upon the 90-day bank bill swap reference rate (BBSW). An interest rate swap was entered into to exactly hedge the underlying exposure to fluctuating interest rates given ongoing volatility prevailing in the financial markets. Accordingly ACTEW has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates each 90 days and to pay interest at a fixed rate of 6.15% on a notional face value equivalent to the loan principal outstanding. The contract is settled on a net basis and the net amount payable at the reporting date is included in Trade Creditors. At 30 June 2003 the notional principal amount is \$70 million (2002 - \$70 million) and the interest rate swap contract will expire within 9 years (2002 - 10 years).

#### CPI indexed Annuity Bond

On 17 April 2000, ACTEW borrowed \$250 million via CPI linked indexed annuity bonds, which mature on 17 April 2020. The bonds are issued paying a base coupon amount, added to which is a CPI component. Principal and interest payments are made quarterly with the interest component directly reflecting the movements in the CPI.

As at 30 June 2003 the principal outstanding was \$251,417,469 (2002 - \$253,979,831).

### B. Credit Risk Exposures

The credit risk on financial assets of the group, which have been recognised on the Statement of Financial Position, is generally the carrying amount net of any provisions for doubtful debts.

### C. Interest Rate Risk Exposures

Exposures to interest rate risk and the effective weighted average interest rate by maturing periods is set out in the following table. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the group intends to hold fixed rate exposures to maturity.

|                                                   | Notes  | Floating Interest Rate<br>\$'000 | Fixed Interest maturing in: 1 year or less<br>\$'000 | Fixed Interest maturing in: 1-5 years<br>\$'000 | Fixed Interest maturing in: More than 5 years<br>\$'000 | Non-interest bearing<br>\$'000 | Total<br>\$'000  |
|---------------------------------------------------|--------|----------------------------------|------------------------------------------------------|-------------------------------------------------|---------------------------------------------------------|--------------------------------|------------------|
| <b>Note 27: Financial Instruments (continued)</b> |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| <b>2003 (Consolidated)</b>                        |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| <b>Financial Assets</b>                           |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| Cash assets                                       | 7      | 558                              | -                                                    | -                                               | -                                                       | -                              | 558              |
| Receivables                                       | 8      | -                                | -                                                    | -                                               | -                                                       | 15,557                         | 15,557           |
| Investments                                       | 9, 11  | 46,147                           | -                                                    | -                                               | -                                                       | -                              | 46,147           |
| Other                                             | 10, 15 | -                                | -                                                    | -                                               | -                                                       | 19,652                         | 19,652           |
|                                                   |        | 46,705                           | -                                                    | -                                               | -                                                       | 35,209                         | 81,914           |
| Weighted average interest rate                    |        | 5.08%                            |                                                      |                                                 |                                                         |                                |                  |
| <b>Financial Liabilities</b>                      |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| Borrowings                                        | 18, 21 | 323,980                          | 4,092                                                | 23,249                                          | -                                                       | -                              | 351,321          |
| Accounts Payable                                  | 17     | -                                | -                                                    | -                                               | -                                                       | 19,639                         | 19,639           |
| Other liabilities                                 | 20     | -                                | -                                                    | -                                               | -                                                       | 78                             | 78               |
|                                                   |        | 323,980                          | 4,092                                                | 23,249                                          | -                                                       | 19,717                         | 371,038          |
| Weighted average interest rate                    |        | 4.79%                            | 11.36%                                               | 11.36%                                          |                                                         |                                |                  |
| <b>Net Financial Assets/ (Liabilities)</b>        |        | <b>(277,275)</b>                 | <b>(4,092)</b>                                       | <b>(23,249)</b>                                 | <b>-</b>                                                | <b>15,492</b>                  | <b>(289,124)</b> |
| <b>2002 (Consolidated)</b>                        |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| <b>Financial Assets</b>                           |        |                                  |                                                      |                                                 |                                                         |                                |                  |
| Cash assets                                       | 7      | 504                              | -                                                    | -                                               | -                                                       | -                              | 504              |
| Receivables                                       | 8      | -                                | -                                                    | -                                               | -                                                       | 17,144                         | 17,144           |
| Investments                                       | 9      | 15,957                           | -                                                    | -                                               | -                                                       | -                              | 15,957           |

|                                            |               |           |         |          |   |        |           |
|--------------------------------------------|---------------|-----------|---------|----------|---|--------|-----------|
| Other                                      | <b>10, 15</b> | -         | -       | -        | - | 17,117 | 17,117    |
|                                            |               | 16,461    | -       | -        | - | 34,261 | 50,722    |
| Weighted average interest rate             |               | 4.74%     |         |          |   |        |           |
| <b>Financial Liabilities</b>               |               |           |         |          |   |        |           |
| Borrowings                                 | <b>18, 21</b> | 323,980   | 6,138   | 29,904   | - | -      | 360,022   |
| Accounts Payable                           | <b>17</b>     | -         | -       | -        | - | 13,382 | 13,382    |
| Other liabilities                          |               | -         | -       | -        | - | -      | -         |
|                                            |               | 323,980   | 6,138   | 29,904   | - | 13,382 | 373,404   |
| Weighted average interest rate             |               | 4.79%     | 11.36%  | 11.36%   |   |        |           |
| <b>Net Financial Assets/ (Liabilities)</b> |               | (307,519) | (6,138) | (29,904) | - | 20,879 | (322,682) |

|                                                                  | Notes         | Consolidated     |                |
|------------------------------------------------------------------|---------------|------------------|----------------|
|                                                                  |               | 2003<br>\$'000   | 2002<br>\$'000 |
| <b>Note 27: Financial Instruments (continued)</b>                |               |                  |                |
| <b>Reconciliation of Net Financial Liabilities to Net Assets</b> |               |                  |                |
| Net financial assets as above                                    |               | <b>(289,124)</b> | (322,682)      |
| Non-financial assets and liabilities                             |               |                  |                |
| Property, Plant and Equipment                                    | <b>14</b>     | <b>854,717</b>   | 853,869        |
| Investments                                                      |               | <b>384,857</b>   | 409,499        |
| Future Income Tax Benefit                                        | <b>16</b>     | <b>12,404</b>    | 11,893         |
| Prepayments                                                      | <b>10</b>     | <b>36</b>        | 9              |
| Unearned Revenue                                                 | <b>20</b>     | <b>(1,063)</b>   | (852)          |
| Provisions                                                       | <b>19, 22</b> | <b>(169,962)</b> | (155,552)      |
| Net Assets per Statement of Financial Position                   |               | <b>791,865</b>   | 796,184        |

#### D. Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, cash equivalents, non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists.

The method adopted in determining net fair value was to consider the costs that would be incurred in exchanging or settling the financial instrument.

Significant assumptions in determining net fair value are that the consolidated ACTEW Group is a going concern, and that the instruments would be traded in an active and liquid market.

|                       | Notes | Consolidated   |                | ACTEW Corporation Ltd |                |
|-----------------------|-------|----------------|----------------|-----------------------|----------------|
|                       |       | 2003<br>\$'000 | 2002<br>\$'000 | 2003<br>\$'000        | 2002<br>\$'000 |
|                       |       | <b>565</b>     | 490            | <b>565</b>            | 490            |
| Income band:          |       | <b>Number</b>  | Number         | <b>Number</b>         | Number         |
| \$0 - \$9,999         |       | <b>1</b>       | -              | <b>1</b>              | -              |
| \$10,000 - \$19,999   |       | <b>2</b>       | -              | <b>2</b>              | -              |
| \$20,000 - \$29,999   |       | <b>2</b>       | 1              | <b>2</b>              | 1              |
| \$30,000 - \$39,999   |       | -              | 1              | -                     | 1              |
| \$40,000 - \$49,999   |       | -              | 2              | -                     | 2              |
| \$50,000 - \$59,999   |       | <b>1</b>       | -              | <b>1</b>              | -              |
| \$60,000 - \$69,999   |       | -              | 1              | -                     | 1              |
| \$80,000 - \$89,999   |       | -              | 1              | -                     | 1              |
| \$90,000 - \$99,999   |       | <b>1</b>       | -              | <b>1</b>              | -              |
| \$280,000 - \$289,999 |       | -              | 1              | -                     | 1              |

#### Note 28: Remuneration of Directors

Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities:

\$340,000 - \$349,999

1 - 1 -

|  | Consolidated |                | ACTEW Corporation Ltd |                |
|--|--------------|----------------|-----------------------|----------------|
|  | Notes        | 2003<br>\$'000 | 2002<br>\$'000        | 2003<br>\$'000 |

#### Note 29: Remuneration of Auditors

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

Auditors of ACTEW Corporation Ltd

Audit or review of financial reports of the Parent Entity

Audit or review of financial reports of controlled entities

Other financial services to group entities

|  |     |     |     |     |
|--|-----|-----|-----|-----|
|  | 79  | 53  | 79  | 53  |
|  | 18  | 27  | 18  | 27  |
|  | 18  | 38  | 18  | 38  |
|  | 115 | 118 | 115 | 118 |

There were no other services provided by the auditor of the parent entity

#### Note 30: Commitments For Expenditure

##### A Capital & Other Expenditure Commitments:

Total capital and other expenditure contracted for at balance date, but not provided for in accounts payable:

Within 1 year

Later than 1 year but not later than 5 years

|   |        |         |        |         |
|---|--------|---------|--------|---------|
| a | 64,649 | 61,132  | 64,649 | 61,132  |
| a | 13,351 | 66,301  | 13,351 | 66,301  |
|   | 78,000 | 127,433 | 78,000 | 127,433 |

##### B Lease Commitments:

Commitments in relation to leases contracted for at balance date, but not recognised as liabilities payable:

Within 1 year

Later than 1 year but not later than 5 years

|  |     |     |     |     |
|--|-----|-----|-----|-----|
|  | 59  | 61  | 59  | 61  |
|  | 152 | 136 | 152 | 136 |
|  | 211 | 197 | 211 | 197 |

|  | Consolidated |                | ACTEW Corporation Ltd |                |
|--|--------------|----------------|-----------------------|----------------|
|  | Notes        | 2003<br>\$'000 | 2002<br>\$'000        | 2003<br>\$'000 |

#### Note 30: Commitments For Expenditure (continued)

##### C. Remuneration Commitments:

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at reporting date, but not recognised as liabilities payable:

Within 1 year

Later than 1 year but not later than 5 years

|  |       |        |       |        |
|--|-------|--------|-------|--------|
|  | 4,658 | 6,064  | 4,658 | 6,064  |
|  | 3,230 | 8,190  | 3,230 | 8,190  |
|  | 7,888 | 14,254 | 7,888 | 14,254 |

##### D. Remuneration Commitment receivable:

Commitments receivable for salaries and other remuneration under long-term employment contracts of employees seconded to the joint venture partnerships:

Within 1 year

Later than 1 year but not later than 5 years

|  |       |        |       |        |
|--|-------|--------|-------|--------|
|  | 3,481 | 4,718  | 3,481 | 4,718  |
|  | 2,241 | 5,435  | 2,241 | 5,435  |
|  | 5,722 | 10,153 | 5,722 | 10,153 |

#### Note 31: Contingent Liabilities

There are a number of public liability claims pending which cannot be measured reliably. Should these claims be successful the Corporation estimates the liability will not be significant.

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

ACTEW Corporation Ltd has underwritten a \$25 million (2002 - \$25 million) standby debt facility for TransACT Communications.

#### Note 32: Related Parties

##### Directors and Director-Related Entities



The following persons were directors of ACTEW Corporation Ltd during the financial year and up to the date of the report: J G Service, M B Easson, P M Phillips, M J Costello, E W Mathews, K L Neil and P J Perkins.

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

#### Remuneration Benefits

Information on remuneration benefits of directors is disclosed in Note 28.

#### Retirement Benefits

There were no retirement benefits paid to directors as at 30 June 2003 or 30 June 2002.

#### Loans to Board Members

There were no loans to any directors as at 30 June 2003.

#### Shares, Units, Options and other Equity Instruments of Directors

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

#### Other

A number of directors and executives of ACTEW are also directors of various subsidiaries who deal with ACTEW and each other. A subsidiary company, ACTEW China Pty Ltd had a contractual arrangement for the provision of specialist services with Endeavour Consulting Group Pty Ltd, in respect of a project in China. A director of ACTEW Corporation Ltd, Mr Peter Phillips, is a director of Endeavour. Fees totalling \$25,956 (2002- \$170,360) were paid to Endeavour under normal terms and conditions. The contract concluded in October 2002.

Some operational arrangements exist between ACTEW Corporation Limited and the ActewAGL partnerships. These include an arrangement for the management of the water and sewerage assets owned by ACTEW Corporation and an agreement relating to the secondment of ACTEW Corporation staff to partnerships. These services are billed between the parties on a monthly cost basis.

#### Wholly-Owned Group

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

Leased office machines, computers and telecommunications equipment (at market rates); Leased motor vehicles (at market rates); Assigned staff (at cost); Apprentices (at cost); Bank services (at cost); Legal Services (at market rates) and Other (at cost).

| <b>ACTEW<br/>Corporation Ltd</b> |        |
|----------------------------------|--------|
| <b>2003</b>                      | 2002   |
| <b>\$'000</b>                    | \$'000 |

#### Note 32: Related Parties (continued)

Aggregate amounts included in the determination of operating profit that resulted from transactions with related parties in the wholly-owned group were as follows were as follows:

|                                                                                                                      |                |         |
|----------------------------------------------------------------------------------------------------------------------|----------------|---------|
| Dividend Revenue                                                                                                     | <b>29,129</b>  | 29,496  |
| Aggregate amounts receivable from and payable to entities in the wholly-owned group at balance date were as follows: |                |         |
| Current Receivables                                                                                                  | <b>61,721</b>  | 23,668  |
| Current Payables and Other                                                                                           | <b>9,700</b>   | 23,668  |
| Current Liabilities (other)                                                                                          | -              | 852     |
| Non Interest bearing loans                                                                                           | <b>305,803</b> | 345,808 |

#### Controlling Entity

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

The ultimate parent entity is the ACT Government, which owns 100% (2002 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 33.

|                                                                                                                                                               | <b>ACTEW Corporation Ltd</b> |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------|
|                                                                                                                                                               | <b>2003</b>                  | 2002   |
|                                                                                                                                                               | <b>\$'000</b>                | \$'000 |
| <b>Note 32: Related Parties (continued)</b>                                                                                                                   |                              |        |
| Other related parties                                                                                                                                         |                              |        |
| Aggregate amounts included in the determination of operating profit before income tax equivalents that resulted from transactions with other related parties: |                              |        |
| Joint Venture Partnership                                                                                                                                     |                              |        |
| Operating expenses                                                                                                                                            | <b>55,263</b>                | 50,852 |
| Aggregate amounts receivable from and payable to joint venture partnerships at balance date:                                                                  |                              |        |
| Current Receivables                                                                                                                                           | <b>7,067</b>                 | 7,056  |
| Current Accounts Payables and Other                                                                                                                           | <b>7,067</b>                 | 7,056  |
| Non-current Receivables                                                                                                                                       | <b>12,585</b>                | 10,061 |
| Non-current Accounts Payables and Other                                                                                                                       | <b>12,585</b>                | 10,061 |

**Note 33: Investment in Controlled Entities**

| Name of Entity                                                | Country of Incorporation | Class of Shares | Equity Holding | Equity Holding | Cost of Investment | Cost of Investment |
|---------------------------------------------------------------|--------------------------|-----------------|----------------|----------------|--------------------|--------------------|
|                                                               |                          |                 | 2003           | 2002           | 2003               | 2002               |
|                                                               |                          |                 | %              | %              | \$'000             | \$'000             |
| ACTEW Distribution Ltd                                        | Australia                | Ordinary        | <b>100</b>     | 100            | <b>400</b>         | 400                |
| ACTEW Retail Ltd                                              | Australia                | Ordinary        | <b>100</b>     | 100            | <b>1,000</b>       | 1,000              |
| ACTEW China Pty Ltd                                           | Australia                | Ordinary        | <b>100</b>     | 100            | <b>300</b>         | 300                |
| Provision for diminution of investment in ACTEW China Pty Ltd |                          |                 |                |                | <b>(300)</b>       | (300)              |
|                                                               |                          |                 |                |                | <b>1,400</b>       | 1,400              |

**Note 34: Interests in Joint Ventures**

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

|                                                                                                       | <b>Consolidated</b> |          | <b>ACTEW Corporation Ltd</b> |        |
|-------------------------------------------------------------------------------------------------------|---------------------|----------|------------------------------|--------|
|                                                                                                       | <b>2003</b>         | 2002     | <b>2003</b>                  | 2002   |
|                                                                                                       | <b>\$'000</b>       | \$'000   | <b>\$'000</b>                | \$'000 |
| <b>Retained profits attributable to the partnership</b>                                               |                     |          |                              |        |
| At the beginning of the financial year                                                                | <b>66,217</b>       | 24,912   | -                            | -      |
| At the end of the financial year                                                                      | <b>109,263</b>      | 66,217   | -                            | -      |
| <b>Asset revaluation reserve attributable to the partnership</b>                                      |                     |          |                              |        |
| At the beginning of the financial year                                                                | -                   | -        | -                            | -      |
| At the end of the financial year                                                                      | -                   | -        | -                            | -      |
| <b>Movement in carrying amount of investment in partnership</b>                                       |                     |          |                              |        |
| Carrying amount reflected in the net assets of the partnership at the beginning of the financial year | <b>375,596</b>      | 390,791  | -                            | -      |
| New Capital invested                                                                                  | -                   | -        | -                            | -      |
| Share of operating profits before tax                                                                 | <b>43,046</b>       | 41,305   | -                            | -      |
| Distributions received                                                                                | <b>(48,500)</b>     | (56,500) | -                            | -      |
| Carrying amount reflected in the net assets of the                                                    |                     |          |                              |        |

|                                                  |                 |          |   |   |
|--------------------------------------------------|-----------------|----------|---|---|
| partnership                                      | <b>370,142</b>  | 375,596  | - | - |
| Stamp duty capitalised                           | <b>479</b>      | 479      | - | - |
| Unrealised profit on transfer of asset           | <b>(27,475)</b> | (27,475) | - | - |
| Less amortisation of unrealised profit           | <b>1,711</b>    | 1,187    | - | - |
| Carrying amount at the end of the financial year | <b>344,857</b>  | 349,787  | - | - |

|                                                              | Notes | Consolidated   |         | ACTEW Corporation Ltd |        |
|--------------------------------------------------------------|-------|----------------|---------|-----------------------|--------|
|                                                              |       | 2003           | 2002    | 2003                  | 2002   |
|                                                              |       | \$'000         | \$'000  | \$'000                | \$'000 |
| <b>Note 34: Interests in Joint Ventures (continued)</b>      |       |                |         |                       |        |
| <b>Share of partnership assets and liabilities</b>           |       |                |         |                       |        |
| Current assets                                               |       | <b>54,639</b>  | 64,964  | -                     | -      |
| Non-current assets                                           |       | <b>372,504</b> | 367,237 | -                     | -      |
| Total assets                                                 |       | <b>427,143</b> | 432,201 | -                     | -      |
| Current liabilities                                          |       | <b>49,326</b>  | 50,281  | -                     | -      |
| Non-current liabilities                                      |       | <b>7,675</b>   | 6,324   | -                     | -      |
| Total liabilities                                            |       | <b>57,001</b>  | 56,605  | -                     | -      |
| Net assets                                                   |       | <b>370,142</b> | 375,596 | -                     | -      |
| <b>Share of partnership's revenues, expenses and results</b> |       |                |         |                       |        |
| Revenues                                                     |       | <b>243,504</b> | 244,077 | -                     | -      |
| Expenses                                                     |       | <b>200,458</b> | 202,772 | -                     | -      |
| Operating profit before tax                                  |       | <b>43,046</b>  | 41,305  | -                     | -      |
| <b>Share of partnership's commitments</b>                    |       |                |         |                       |        |
| Lease commitments                                            |       | <b>5,449</b>   | 7,666   | -                     | -      |
| Remuneration commitments                                     |       | <b>18,271</b>  | 20,490  | -                     | -      |
| Total expenditure commitments                                |       | <b>23,720</b>  | 28,156  | -                     | -      |
| Capital and other commitments                                |       | <b>31,137</b>  | 22,232  | -                     | -      |
|                                                              |       | <b>54,857</b>  | 50,388  | -                     | -      |

#### Contingent liabilities relating to joint ventures

Each of the partners in the ActewAGL partnership is jointly and severally liable for the debts of the partnership. The assets of the partnership exceed its debts. The partnerships have a number of public liability claims pending. Should these claims be successful the liability of the partners is not considered to exceed \$100,000.

A bank guarantee has been provided by ActewAGL Distribution partnership in relation to a contract between ECOWISE Environmental Pty Ltd and another party for consulting services.

#### Note 35: Non-cash contributed assets received free of charge

An amount of \$8.4 million in non-cash developer assets were received free of charge by ACTEW Corporation Ltd during 2002-2003 (2001-2002: \$8.3 million). This amount was brought to account as an addition to revenue, in accordance with Australian Accounting Standards and other reporting requirements (Urgent Issues Group Consensus Views). Although ACTEW has followed these reporting requirements, the directors of the company strongly disagree that these non-cash developer assets be treated as revenue. It is believed that the nature of the receipt is capital, not revenue, and should be taken directly to reserves.

#### Note 36: Reconciliation of Operating Profit to Net Cash Inflows from Operating Activities

|                                                                                                          | Notes | Consolidated    |          | ACTEW Corporation Ltd |         |
|----------------------------------------------------------------------------------------------------------|-------|-----------------|----------|-----------------------|---------|
|                                                                                                          |       | 2003            | 2002     | 2003                  | 2002    |
|                                                                                                          |       | \$'000          | \$'000   | \$'000                | \$'000  |
| <b>A. Reconciliation of operating profit after income tax expense to net cash flows from operations:</b> |       |                 |          |                       |         |
| Operating profit                                                                                         |       | <b>43,381</b>   | 46,828   | <b>42,992</b>         | 46,887  |
| Depreciation and amortisation                                                                            |       | <b>20,328</b>   | 20,108   | <b>20,328</b>         | 20,108  |
| Loss/ (gain) on disposal of property, plant and equipment                                                |       | <b>(15)</b>     | (2,029)  | <b>(15)</b>           | (2,029) |
| Contributed assets received free of charge                                                               |       | <b>(8,353)</b>  | (8,341)  | <b>(8,353)</b>        | (8,341) |
| Profit from Joint Venture Partnership                                                                    |       | <b>(43,046)</b> | (41,980) | -                     | -       |

|                                                     |                |         |                 |          |
|-----------------------------------------------------|----------------|---------|-----------------|----------|
| Investment writedown                                | <b>13,892</b>  | 320     | <b>13,892</b>   | 300      |
| Asset writedown                                     | <b>(145)</b>   | 2,899   | <b>(145)</b>    | 2,899    |
| Provision for doubtful debts                        | <b>9</b>       | (12)    | <b>9</b>        | (12)     |
| Capital Contributions                               | <b>(14)</b>    | (19)    | <b>(14)</b>     | (19)     |
| CPI adjustment to debt                              | <b>(2,563)</b> | (1,593) | <b>(2,563)</b>  | (1,593)  |
| <b>Changes in Operating Assets and Liabilities:</b> |                |         |                 |          |
| (Increase)/Decrease in Receivables                  | <b>1,587</b>   | 330     | <b>1,589</b>    | (2,435)  |
| (Increase)/Decrease in Future Income                |                |         |                 |          |
| Tax Benefit                                         | <b>(511)</b>   | 6,646   | <b>37</b>       | 7,678    |
| (Increase)/Decrease in Other Current Assets         | <b>(38)</b>    | 525     | <b>(38)</b>     | 507      |
| (Increase)/Decrease in Other Non Current Assets     | <b>(2,524)</b> | -       | <b>(11,112)</b> | (21,411) |
| Increase/(Decrease) in Payables                     | <b>6,257</b>   | (1,592) | <b>(16)</b>     | (2,005)  |
| Increase/(Decrease) in Provisions                   | <b>1,814</b>   | (973)   | <b>1,814</b>    | (969)    |
| Increase/(Decrease) in Provision for                |                |         |                 |          |
| Deferred Income Tax equivalents                     | <b>13,783</b>  | 19,874  | <b>13,916</b>   | 19,993   |
| Increase/(Decrease) in Other Liabilities            | <b>(243)</b>   | (774)   | <b>303</b>      | 531      |
| <b>Net Cash Inflows from Operating Activities</b>   | <b>43,599</b>  | 40,217  | <b>72,624</b>   | 60,089   |

|  |                     |               |                    |               |
|--|---------------------|---------------|--------------------|---------------|
|  |                     |               | <b>ACTEW</b>       |               |
|  | <b>Consolidated</b> |               | <b>Corporation</b> |               |
|  |                     |               | <b>Ltd</b>         |               |
|  | <b>Notes</b>        | <b>2003</b>   | <b>2002</b>        | <b>2003</b>   |
|  |                     | <b>\$'000</b> | <b>\$'000</b>      | <b>\$'000</b> |
|  |                     |               | <b>2002</b>        | <b>\$'000</b> |

### Note 36: Reconciliation of Operating Profit to Net Cash Inflows from Operating Activities (continued)

#### B. Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the year, as shown in the Statement of Cash Flows, is reconciled to the related items in the Statement of Financial Performance as follows:

|             |   |               |        |               |        |
|-------------|---|---------------|--------|---------------|--------|
| Cash Assets | 7 | <b>558</b>    | 504    | <b>558</b>    | 504    |
| Investments | 9 | <b>34,378</b> | 15,957 | <b>34,378</b> | 15,957 |
|             |   | <b>34,936</b> | 16,461 | <b>34,936</b> | 16,461 |

### Note 37 Events subsequent to Balance date

ACTEW has called tenders for an upgrade of the Googong water treatment plant and the building of a water treatment plant at Mt Stromlo. Estimated expenditure is around \$50m at this stage.

ACTEW expects to introduce Stage 3 restrictions during October 2003. These restrictions will have a significant effect on water revenue.

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# GLOSSARY OF TERMS

kL **kilolitre** = one thousand litres

ML **megalitre** = one million litres

GL **gigalitre** = one thousand million litres

kW **kilowatt** = one thousand watts

GWh **gigawatt hour** = one million kilowatt hours

km **kilometre**

p/a **per annum**

mm **millimetre**

m **million**

b **billion**

# ACRONYMS

ACT Australian Capital Territory

ACTPLA ACT Planning and Land Authority

AGL The Australian Gas Light Company

ICRC Independent Competition and Regulatory Commission

LMWQCC Lower Molonglo Water Quality Control Centre

EPA Environment Protection Authority

PPP public-private partnership