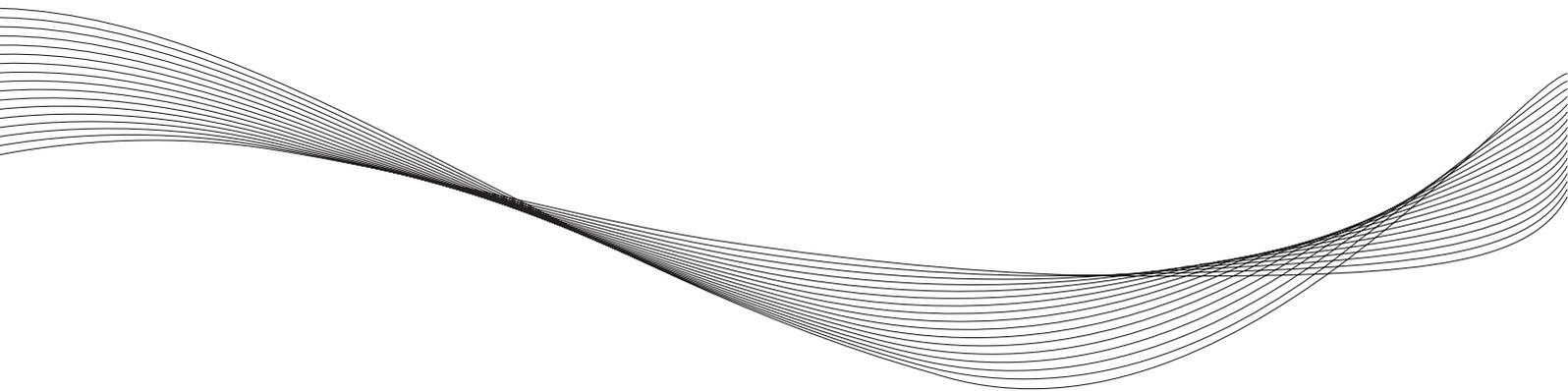
A decorative graphic consisting of multiple thin, overlapping black lines that create a wavy, ribbon-like effect across the middle of the page. The lines flow from the left side towards the right, with some areas where they cross or overlap, creating a sense of movement and depth.

Gladstone Area
Water Board

Annual Report

2012



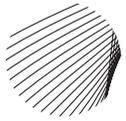
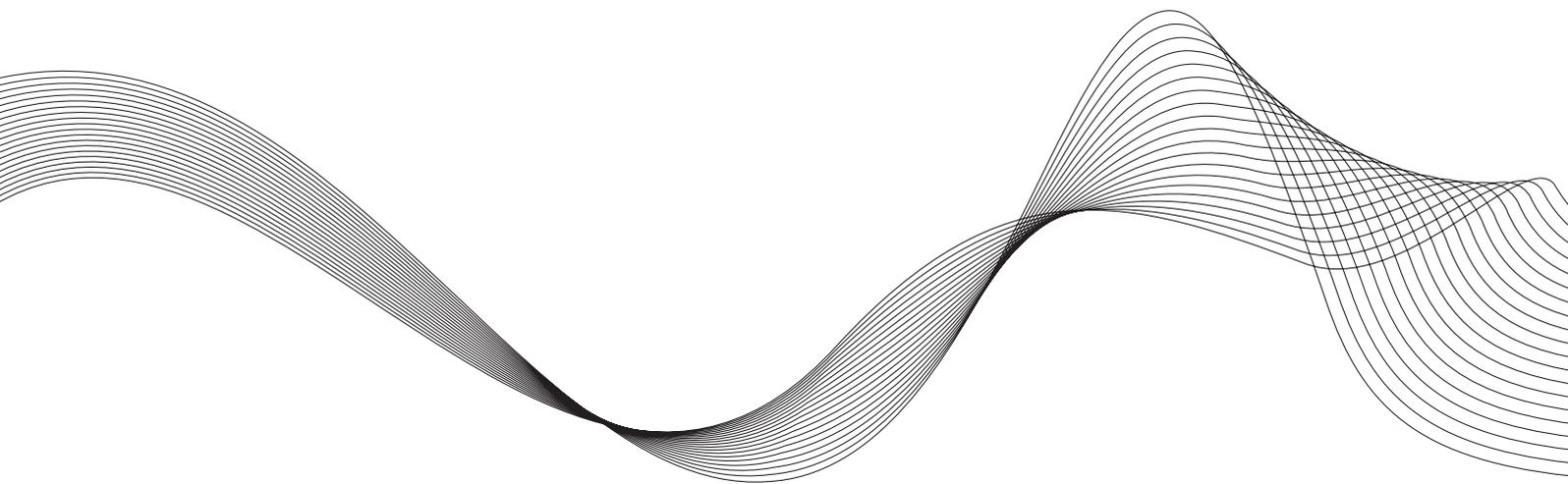


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Gladstone Area Water Board

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Chairperson's letter

Reply please quote ref: 189637

The Honourable Mark McArdle MP
The Minister for Energy and Water Supply
PO Box 15216
City East Brisbane Qld 4002

Dear Minister

I am pleased to present the Annual Report 2011-2012 and financial statements for the Gladstone Area Water Board.

I certify that this Annual Report complies with:

- » the prescribed requirements of the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*; and
- » the detailed requirements set out in the *Annual Report Requirements for Queensland Government Agencies*.

A checklist outlining the annual reporting requirements can be accessed at www.gawb.qld.gov.au.

Yours sincerely

Mary Boydell

Chairperson



Chairperson's review

By virtue of section 1084 of the *Water Act 2000* (the Act), Gladstone Area Water Board (GAWB) is a Category 1 Water Authority. It is also a registered water service provider under the *Water Supply (Safety and Reliability) Act 2008* (WSSRA). GAWB operates as a commercialised statutory authority with the function of carrying out water activities. As a commercialised entity, GAWB has a key objective of ensuring its operations are as efficient as possible, with its prices being cost reflective.

GAWB owns and operates Awoonga Dam on the Boyne River along with a network of delivery pipelines, water treatment plants and other bulk water distribution infrastructure in the Gladstone region in Central Queensland. GAWB holds an allocation of 78,000ML per annum (ML p.a.) from Awoonga Dam on the Boyne River by virtue of a Resource Operations Licence issued pursuant to the *Water Resource (Boyne River Basin) Plan 2000* (WRP).

Cognisant of the criticality of security and reliability of its supply to customers, GAWB's Contingent Supply Strategy (CSS) requires it to hold the capability to efficiently respond to identified 'supply failure scenarios'. These scenarios include events such as failure of storage from (or 'as a consequence of') drought or inability to meet additional demand which may be in excess of its present water allocation.

The CSS has seen GAWB:

- » conclude detailed design for the Gladstone to Fitzroy Pipeline (GFP) as well as obtaining necessary land and other environmental approvals
- » secure an entitlement to 30,000ML p.a. of high reliability water from the lower Fitzroy River, which was formalised through the amendment of the *Fitzroy Basin Resource Operations Plan 2004* in July 2009 and

- » in conjunction with its joint proponent (SunWater), conclude significant preparatory activities towards the ultimate construction of additional water storage on the lower Fitzroy River (as part of the Lower Fitzroy River Infrastructure Project (LFRIP)).

While GAWB recognises that it is essential for it to have a 'shovel ready' solution in case the need for augmentation arises, it equally recognises the need for this to represent the most efficient response to the needs of its current and future customers. For this reason, GAWB continues to monitor alternatives to the GFP/LFRIP (such as desalination) and, via its commercial framework, to support demand reduction initiatives by customers that defer augmentation, where this represents the best investment for all customers.

During 2011/12, water commenced flowing over the Awoonga Dam spillway (at the 40 metre level) on 27 January 2012 and reached a peak of 41.06m (109.54% of capacity) on 30 January 2012. The lake level continued to recede until a period of heavy rainfall in the region during the week ended 23 March. This resulted in the lake level rising to a peak of 41.50m (113.67% of capacity) on 24 March 2012. The spilling continued until early May 2012. The dam level at 30 June 2012 was 39.84m (98.61% of capacity). The spilling events activated GAWB's Emergency Action Plan. GAWB discharged its requirements under these plans.

With water flowing over the spillway, mature barramundi and other fish stocks were able to enter downstream waters. The number of fish observed traversing the spillway was minimal, however. A much greater number of downstream fish species (primarily catfish) moved upstream towards the dam infrastructure during the spilling events. These movements were notified

to the relevant departments and GAWB was advised to let natural events occur with regards to these fish and that no further action was required.

Construction of the Curtis Island Pipeline Project commenced in October 2011 to meet the water needs of the liquid natural gas (LNG) proponents on Curtis Island. A water supply to Curtis Island via pipeline will prevent the unnecessary discharge of brine into Gladstone Harbour associated with the desalination facilities that would otherwise have been necessary to supply these customers. The project has been undertaken jointly with Gladstone Regional Council which is connecting its waste water treatment facilities to Curtis Island, with GAWB acting as its disclosed agent in the day to day management of the project. The project promotes the use of common user infrastructure and provides benefits to GAWB's existing customers through better utilisation of existing infrastructure.

GAWB has continued to implement and finalise a number of operational activities and projects during the financial year and developed capability with improved resources and appropriate systems. All of these activities provide GAWB with a stable platform to move forward and continue efficient and effective operations to meet the water needs of its customers and the region into the future.

At 30 June 2012, GAWB had total assets of \$534.442 million, with equity of \$262.193 million, and employed 79 people (72 full time equivalents). GAWB's revenue in 2011/12 from the supply of water was \$50.946 million. Net profits after tax for the year ended 30 June 2012 totalled \$12.064 million.



Vision

To be an excellent water business



Mission

To ensure the long and short term water needs of current and future customers are met in ways that are environmentally, socially and commercially sustainable



Values

Our values guide the way we work to achieve our vision:

Professionalism

- › individual and collective

Accountability

- › clarity and commitment

Communication

- › clear and concise

Trust

- › earning and conferring



Overview of the year

Significant highlights for the 2011/2012 reporting year

During the year, GAWB continued to meet the water needs of its customers through the achievement of the best possible outcomes against its four interlinked business goals, namely:

- » meeting water needs – to understand, facilitate and satisfy the water requirements of current and future customers
- » commercial results – to ensure GAWB's profitability and build the value of the business
- » corporate responsibility – to be regarded as a responsible corporate citizen and
- » capability – to plan, develop and manage resources to support sustainable outcomes.

Leading into the 2012/13 wet season, Awoonga Dam is primed to spill again, taking into account its current storage level. GAWB has actively considered the Flood Commission of Inquiry (FCI) recommendations and implemented relevant findings that relate to emergency planning and other processes. GAWB is confident that it has procedures in place to deal with any potential issues that may arise from flooding, both upstream and downstream from the dam.

Meeting Water Needs

- » Water quality tests completed were compliant with health standards.
- » Reviewed Emergency Action Plans and where necessary amended to comply with the FCI recommendations.
- » Implemented improvements to Asset Management Systems (AMS) to ensure best practice operating philosophy for critical infrastructure.
- » Participated in the 2012 Asset Management Performance Improvement Project, conducted by Water Services Association of Australia (WSAA), to compare the current framework with best practice expectations.
- » Completed Dam safety maintenance project to meet the regulator's expectations for critical infrastructure.
- » Commenced construction of water infrastructure, as part of the Curtis Island Water and Sewerage Infrastructure Project (CIWSIP) to meet the needs of LNG proponents.
- » Investigated the availability of suitable land tenure and location for development of offline storage requirements, to improve water reliability for Gladstone region.

Commercial Results

- » Finalised and executed commercial arrangements with LNG proponents in a Common Use Infrastructure Agreement, and construction of the CIWSIP.
- » Water revenue of \$50.946 million (58,446ML reserved and supplied) compared to target sales of \$47.193 million (56,644ML reserved and supplied).
- » Operating expenses of \$19.185 million compared to budget expenditure of \$16.032 million.
- » Earnings before interest and tax (EBIT) of \$27.270 million exceeded target (including forecast impact of Curtis Island Pipeline project) of \$21.571 million.
- » Net profit after tax equivalents of \$12.064 million compared to budgeted profit (including forecast impact of Curtis Island Pipeline Project) of \$6.005 million through increased water sales and lower than budget interest expense and amortisation.
- » Return on assets (ROA) of 5.51% exceeded target (including forecast impact of Curtis Island Pipeline project) of 4.40%.
- » Exceeded BBB metrics for interest cover ratios.

Overview of the year continued

Corporate Citizenship

- » GAWB recorded one lost time injury (LTI) in 2011/12.
- » GAWB demonstrated ongoing commitment to safety including implementation of due diligence activities to ensure compliance with national work place law changes effective 1 January 2012.
- » Compliance with environmental obligations and reporting requirements of the Resource Operations Plan, Resource Operations Licence and Department of Environment and Heritage Protection.
- » Management of dam spilling events that occurred in January 2012 and March 2012, including the resultant movement of fish stocks from the dam impoundment, as well as liaison with respective departments regarding upstream migration of downstream species towards the dam infrastructure.
- » GAWB provided relevant contributions and co-operated fully with all investigations undertaken by government in regard to health of fish in Gladstone Harbour.
- » Negotiated an arrangement with an LNG proponent for provision of a turtle triage facility within existing hatchery operations.

Capability

- » Developed capability framework for identifying core, enabling and key competencies considered necessary for GAWB to meet its objectives.
- » Exceeded target staff retention rate (83%) in a regional environment of intense demand.
- » Improved staff satisfaction survey results, with a rise to 5.3/7.
- » Recruited suitable resources and developed capability in GAWB operations, including operational maintenance roles, water quality and treatment.
- » Integrated functions and processes, and improved standard operating procedures for safety, risk and work method requirements.
- » Improved risk management framework and corporate risk profile, including detailed review of existing risk registers and mitigating actions.

GAWB's actual performance in 2011/12 is set out in the Headline Key Performance Indicators (KPIs) table on page 6, with comparisons against KPI targets set out in the Performance Plan 2011/12 and results for the 2010/11 year.

GAWB uses KPIs to assist in monitoring the efficiency and effectiveness of its operations. GAWB considers relevant industry benchmarks in the formulation of these KPIs.

A snapshot of GAWB's financial position¹ at 30 June 2012.

		2012	2011
Profit and Dividend			
Water sales revenue ²	\$ million	50.9	42.4
Total revenue	\$ million	59.0	47.1
Earnings before interest and tax	\$ million	27.3	19.0
Profit/(loss) after tax	\$ million	12.1	5.9
Dividends paid	\$ million	2.3	-
Cash Flow			
Net Cash from operating activities	\$ million	24.9	13.3
Balance Sheet			
Total assets	\$ million	534.4	455.1
Total equity	\$ million	262.2	248.2
Total borrowings	\$ million	206.8	146.2

¹ Includes revaluation and impairment calculations

² Includes transfer from unearned income provision

Overview of the year continued

Headline KPIs

		Year Ended 30 June		
		2012 Actual	Target	2011 Actual
Headline KPIs				
Meeting Water Needs				
<i>Water Demand</i>				
Variation between actual customer reservations & regulatory forecast demand	%	+2.0	+/-10	-0.2
<i>Water Supply</i>				
<i>Sufficiency</i>				
Preparedness for Large Scale Augmentation > 10,000ML p.a.	%	100	100	100
Preparedness for Small Scale Augmentation < 10,000ML p.a.	%	100	100	60-70
<i>Water Quality</i>				
Potable water fitness to drink	%	100	100	100
<i>Cost/Efficiency</i>				
CAPEX Spend on all Projects ¹	\$ million	11.829	20.014	11.102
Commercial Results				
<i>Profitability</i>				
EBIT ²	\$ million	27.270	21.571	19.015
ROA ²	%	5.51	4.40	4.34
Operating expenditure (less depreciation & interest) vs budget	%	112	<100	117
<i>Value</i>				
Cash from operations – excess before interest	\$ million	37.446	30.504	23.077
Corporate Citizenship				
<i>Safety</i>				
Lost time injuries	No.	1	≤2	2
Environmental Responsibility				
Compliance with environmental legislation and standards – no breach notices received	%	100	100	100
Capability				
Percentage of Headline KPIs achieved	%	80	100	82

¹ The total program spend quoted excludes expenditure incurred on the CIWSIP. Out of the 57 projects planned for the year, 15 had reached practical completion. Projects were re-prioritised during the year due to staff changeover for the CIWSIP and the availability of contractors to perform the work.

² The 2012 targets quoted have been adjusted to include the impact of the Curtis Island Pipeline Project.



Board of Directors' profiles



Mary S. Boydell BCom, FCA, of Brisbane Chairperson

Appointed to the Board on 29 June 2001 and appointed Chairperson from 22 February 2002, Ms Boydell is also Chairperson of the Audit & Risk Management Committee. Ms Boydell serves as Acting Commissioner of the Queensland Water Commission, Board member of the Commonwealth Scientific and Industrial Research Organisation (CSIRO), and a Director of Uniquet Limited and UATC Pty Ltd. She served as a Director of Energen Limited for the period to 20 June 2012. Her previous appointments include Chairperson of the Rural Industries Research and Development Corporation, Board Member of the Queensland Bulk Water Supply Authority and Director of South East Queensland Water Corporation Limited, BSES Limited, the Australian Trade Commission (Austrade) and Burnett Water Pty Ltd. She is a Chartered Accountant with significant experience in business, finance and corporate administration. Ms Boydell has also served as a member of the Queensland Regional Council of the Institute of Chartered Accountants in Australia and was the Chairman for 2008.



Craig W. Butler, of Targinnie

Appointed a Director on 17 September 2004, Mr Butler was a member of the Calliope Shire Council from 1997 until the local government amalgamation. He was elected as a Councillor of the Gladstone Regional Council in March 2008 and continued in the role as Councillor until the council elections conducted in April 2012. Mr Butler was appointed as a member of the Board's Audit & Risk Management Committee in August 2008 and was a member of the Capital Works & Technical committee until December 2011. Mr Butler has extensive experience as a surveyor across the mining, engineering and construction, and land development fields. He has been a Director and partner in a local consultant surveying business and has a long record of involvement in various community organisations including executive positions.



Clyde Cameron, of Calliope

Appointed a Director on 14 August 2009, Mr Cameron was a Councillor of the Gladstone Regional Council from March 2008 to April 2012, previously serving as Councillor with the former Calliope Shire Council from March 2004. He has been Chairperson of the Human Resources & Remuneration Committee (formerly the Nomination & Remuneration Committee) since 14 March 2011. Mr Cameron is a primary producer of cattle and fourth generation owner of a local grazing property. He is also a Director for the Fitzroy Basin Association.



Warren Dinte FAICD, JP (Comm of Dec), of Calliope

Mr Dinte has served as a member of the Board continuously since 1997, prior to GAWB's commercialisation in 2000. At his initial appointment, Mr Dinte was one of the then Calliope Shire Council's two nominees. Following the creation of the Gladstone Regional Council in 2008, Mr Dinte, although not a Councillor, was re-nominated by that Regional Council. Mr Dinte is a member of the Works Committee (formerly the Capital Works & Technical Committee) and the Human Resources & Remuneration Committee (formerly the Nomination & Remuneration Committee). Owner of a small business for 30 years until his retirement, Mr Dinte has extensive experience as Secretary or Member of Statutory Authorities, including 16 years as a Councillor. He is a Fellow of the Australian Institute of Company Directors.



Amelia Hodge LLB, GradCertPropEc, of St. Lucia

Appointed a Director on 16 July 2010, Ms Hodge is a member of the Audit & Risk Management Committee. In addition, Amelia serves as a non-executive Director of Transmax Pty Ltd and chairs its Audit, Risk & Finance Committee. She is also a member of the Great Artesian Basin Advisory Council. During the course of her career, Ms Hodge has undertaken senior management roles across a range of infrastructure projects for state and local government entities, and currently holds the role of Senior Business Advisor Approvals Land and Stakeholder Team at Origin Energy. She has previously had her own private legal practice specialising in the areas of property and commercial law and is a member of several professional associations. Ms Hodge has completed both the Australian Institute of Company Directors and Harvard University Kennedy School of Government Infrastructure and the Market Economy Executive Programs.

Board of directors profiles continued



Malcolm Leinster BTech (MechEng), GradDipAppComp, MIEAust, CPEng, RPEQ, of Gladstone

Mr Leinster was nominated as a Director by Gladstone Regional Council, and appointed on 4 August 2011. He was appointed to the Works Committee in December 2011. Mr Leinster is a mechanical engineer with a background in electrical power generation. He has served in that industry for over 35 years and is an Adjunct Professional Fellow at Central Queensland University (CQU). His experience covers the design, construction, commissioning, operation and maintenance of heavy equipment and complex systems. Mr Leinster has been a Chartered Member of the Institution of Engineers for most of his career and has contributed to running that body's activities in the Gladstone region as a member of the Executive Committee and various organising committees. He continues to be involved in activities to interest school students in science and mathematics, and career paths in engineering.



John J. Mulheron BE (Civil), GradDipBA, of Brisbane

Appointed a Director on 15 December 2000, Mr Mulheron is Chairperson of the Works Committee (formerly the Capital Works & Technical Committee) and a member of the Human Resources & Remuneration Committee (formerly the Nomination & Remuneration Committee). Mr Mulheron is a water industry consultant and is a former career public servant and Coordinator-General in the Queensland Premier's Department.

The number of meetings of the Board and its standing committees attended by each Director during the 2011/12 financial year.

Director	Board Meetings	
	Attended	Held ¹
Ms M.S. Boydell	19	19
Mr C.W. Butler	12	19
Mr C. Cameron	18	19
Mr W. Dinte	19	19
Ms A. Hodge	18	19
Mr M. Leinster	13	16
Mr J.J. Mulheron	14	19

¹ Reflects the number of meetings held during the time the Director held office during the year.

Director	Audit & Risk Management Committee Meetings		Human Resources & Remuneration Committee ¹ Meetings		Works Committee ² Meetings	
	Attended	Held ³	Attended	Held ³	Attended	Held ³
Ms M.S. Boydell	5	5	–	–	–	–
Mr C.W. Butler	4	5	–	–	2	2
Mr C. Cameron	–	–	2	2	–	–
Mr W. Dinte	–	–	2	2	4	4
Ms A. Hodge	5	5	–	–	–	–
Mr M. Leinster	–	–	–	–	2	2
Mr J.J. Mulheron	–	–	2	2	4	4

¹ The former Nomination & Remuneration Committee was renamed as the Human Resources & Remuneration Committee on 23 February 2012.

² The former Capital Works & Technical Committee was renamed as the Works Committee on 13 April 2012.

³ Reflects the number of meetings held during the time the Director was a member of the relevant committee during the year.



Review

Meeting water needs

GOAL: To understand, facilitate and satisfy the water requirements of current and future customers

Water planning

GAWB must be well positioned to provide commercial solutions to maintain supply for existing demand and meet additional demand as it emerges. More than 80% of the water supplied by GAWB is to a small number of large industrial customers who are reliant on an unrestricted water supply. The successful management of this demand is dependent on GAWB's sustainable management of its current water source and its capability to augment this supply when required. This capability is built on a continuous focus on planning to better understand future challenges and opportunities.

Integral to GAWB's planning function is the *Strategic Water Plan* (SWP). GAWB has actively pursued the objectives of the SWP released in November 2004 through the deployment of its CSS, ongoing program of works and a focus on the security and reliability of its water supply network – from source to customers.

These objectives were to:

- » determine whether there is sufficient water to meet the short and long term needs of the Gladstone region
- » establish opportunities to efficiently improve utilisation of the current water supply
- » determine whether the current water supply is sufficiently reliable and secure
- » propose preferred viable options for the short and long-term to provide future water capacity, and
- » articulate possible options to further enhance the security and reliability of the region's water supply.

GAWB is currently reviewing and updating its SWP and expects to finalise this in the 2012/13 year, following customer and other stakeholder consultation. While the previous SWP was focused upon ensuring the security of GAWB's water supply, the updated SWP will also provide an opportunity to better communicate the water security provided by Awoonga and the reliability and risks associated with GAWB's delivery network. It is this lens that will inform GAWB's longer term capital and operating expenditure programs.

The CSS provides GAWB with the strategic mechanism to efficiently respond to either emerging demand (demand trigger) or supply shortages due to a prolonged period of low inflows into Awoonga Dam (drought trigger). The CSS provides GAWB with this capability through investigating alternative supply options and undertaking only that work that is necessary to reach and maintain the desired state of preparedness. The CSS currently incorporates the preparatory works for the GFP, preparatory works for the LFRIP and desalination investigations.

The preparatory activities for the GFP and LFRIP will allow GAWB, through the *Central Queensland Regional Water Supply Strategy* (CQRWSS), to access its reserved entitlement of up to 30,000ML p.a. of high reliability water from the lower Fitzroy River. This entitlement was formalised through the amendment of the *Fitzroy Basin Resource Operations Plan 2004* in July 2009.

The work program for the GFP preparatory works is reviewed and revised annually to ensure that only those tasks necessary to maintain the state of preparedness and retain value in the work are undertaken.

The key achievements for the 2011/12 year included finalisation of the:

- » Commonwealth Government environmental approvals
- » route realignment to a section of the GFP to accommodate the LNG pipelines (funded by the LNG proponents) and
- » study into the endangered 'Yellow Chat' species of bird.

The work program for the LFRIP continued during 2011/12 with the following outcomes achieved:

- » release of the Terms of Reference for the Environmental Impact Statement (EIS)
- » finalisation of EIS support documentation
- » continued business case preparation and
- » execution of the final outstanding Cultural Heritage Management Plan (CHMP) to the satisfaction of the Queensland Government.

The work program for the desalination investigations continued during 2011/12 with the following key outcomes:

- » holding a risk workshop and advancing all of the priority actions identified
- » refresh of the site selection report and
- » finalisation of an approvals timeframe process.

GAWB will continue to review the various work programs for the CSS to ensure the agreed state of preparedness is achieved while retaining value for the work undertaken to date.

Review continued

Water availability

The *Water Resource (Boyne River Basin) Plan 2000* (WRP) sets out the strategies for the sustainable allocation and management of water through the implementation of the *Boyne River Basin Resource Operations Plan 2003* (Boyne River ROP). Under the Boyne River ROP, GAWB was issued with a Resource Operations Licence (ROL), operating rules for Awoonga Dam, an allocation of 78,000ML p.a. and a water and aquatic ecosystem monitoring program.

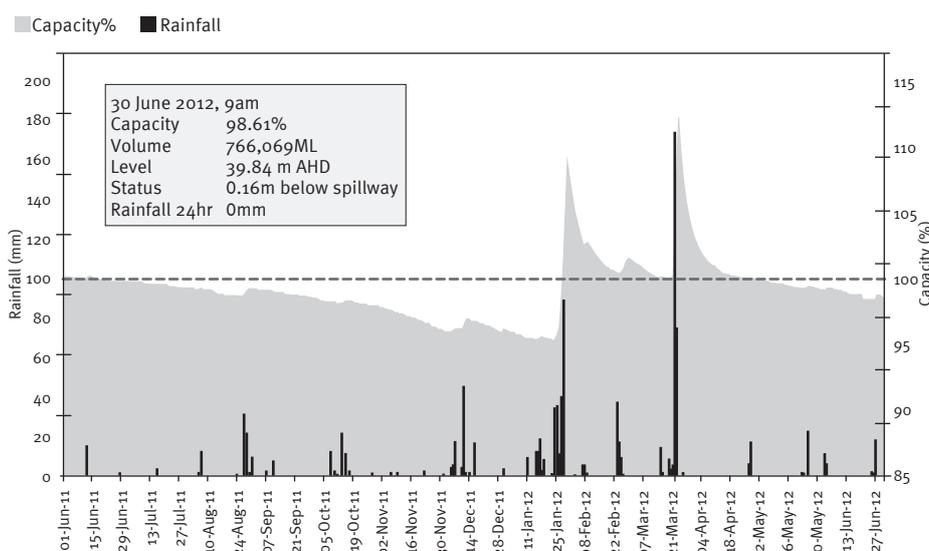
While the WRP was due to expire on 1 September 2011, a regulation under the *Statutory Instruments Act 1992* has extended the life of the Boyne WRP by 12 months. GAWB has provided submissions to the Department of Natural Resources and Mines (previously DERM) in relation to the revision of the WRP, but now understands that the current WRP will be extended for a further 12 months. GAWB will respond to any associated proposed changes to the Boyne River ROP and the ROL as they arise.

Lake Awoonga received approximately 1,117mm of rain over the 12 months to 30 June 2012 (2011: 1,694mm). This is about 300mm more than the mean annual rainfall (approximately 850mm). January 2012 and March 2012 were particularly wet months with 372mm and 289mm rainfall respectively. December 2011 was also a relatively wet month. Inflows into Lake Awoonga for the period 1 July 2011 to 30 June 2012 were approximately 370,000ML (2010/11: 1.6 million ML).

Date of peak inflow	Estimated Daily Inflow (ML)	Peak level in dam	Comment
29 January 2012	24,556	41.06	Peak level one day later
23 March 2012	76,941	41.50	Peak level on same day

During the reporting year, the Awoonga Dam was primarily at its full capacity. The water level on 30 June 2012 was 39.84m. This corresponds to a storage volume of 766,069ML or 98.61% of full supply level (40.0m) capacity. The lowest level during the reporting period was 39.47m (95.45% of capacity). As a result of these inflows, Lake Awoonga flowed over the spillway from January 2012 to May 2012 with a maximum height achieved of 41.50m on 24 March. This corresponds to a storage volume of 883,071ML or 113.67% of full supply level capacity.

Awoonga Dam Level and Rainfall Data - June 2011 - June 2012



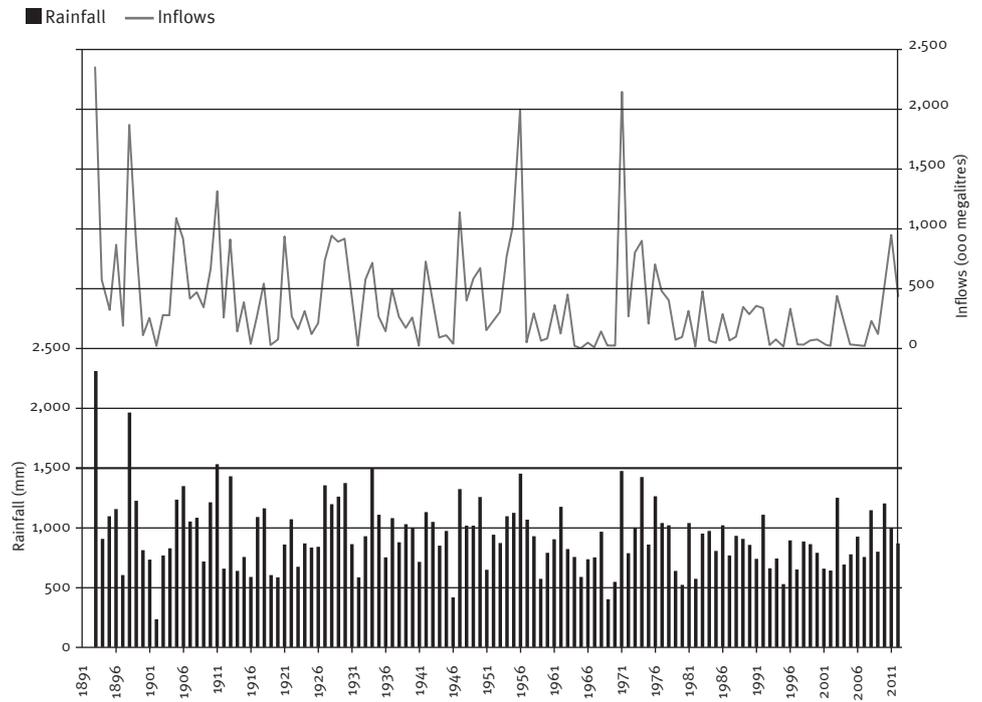
Historic Storage Levels

Storage Level	Date	Level (m AHD)	Volume (ML)	Capacity (%)	Surface Area (ha)
Storage as at	30 June 2012	39.84	766,069	98.61	6,716
Level one year ago	30 June 2011	40.03	778,900	100.26	6,791
Level two years ago	30 June 2010	38.84	700,870	90.22	6,325
Level three years ago	30 June 2009	33.36	411,331	52.95	4,269
Lowest level (before Cyclone Beni)	4 February 2003	20.84	57,803	7.44	1,298
Level after Cyclone Beni	16 March 2003	34.96	484,074	62.31	4,842
Second lowest level	3 February 2008	29.11	253,372	32.62	3,204
FSL and overflow of 40 metre spillway	12 December 2010 & 27 January 2012	40.00	776,854	100.00	6,779
Highest level	28 December 2010	44.09	1,089,510	140.25	8,615

Review continued

The period for which the full dam will be able to supply current and projected demands is dependent on future inflows and actual demand. However, using assumed future inflows consistent with the worst three years in recorded history (2004–2007), (as required by risk management under the Drought Management Plan), GAWB would not be required to impose restrictions on its supply of water from Awoonga Dam within at least the next three years.

Historic Rainfall Data and inflows



Review continued

Water quality

GAWB monitors water quality for a number of different purposes, including environmentally relevant activities (ERAs), its ROL and according to its Drinking Water Quality Management Plan (DWQMP).

GAWB's DWQMP was approved on 29 February 2012. The conditions of the DWQMP include:

- » the first milestone for improvement plan (WQ EAP) to be reported on 31 August 2012, with all other milestones to be reported in annual reports
- » the first review of the plan must be undertaken by 30 March 2014 and every two years thereafter
- » the first audit of the plan must be undertaken by 28 February 2016, and every four years thereafter, and
- » an annual report must be prepared each year, with the first report due 16 December 2013.

Through the development and implementation of its DWQMP, GAWB has seen continued performance improvements throughout the network, particularly in the reliability of online disinfection monitoring systems, the reaction time for operational responses and coordination of the multiple stakeholders involved in planning for and delivering safe, potable water.

GAWB has a comprehensive monitoring program for water quality in its source water, Lake Awoonga, with consistently good water quality observed. GAWB monitors aesthetic and health parameters for potable water against the National Health and Medical Research Council's Australian Drinking Water Guidelines and continues to meet compliance targets.

Operations and asset management

GAWB has continued to implement its Operations & Maintenance Strategy with internal resources and the ongoing roll out of the Work Management Process via the Asset Management System. This critical information capture has allowed the operations and maintenance team to have more effective input into the development of budgets and the capital renewal program.

With the inclusion of a dedicated control and automation resource, there has been significant improvements and stability within the Telemetry System and Supervisory Control and Data Acquisition (SCADA) across the operating network.

GAWB was also invited to participate in the 2012 Asset Management Performance Improvement Project conducted by Water Services Association of Australia. This project highlights the organisation's strengths and weaknesses compared to comparable water utilities. In summary, the initial report portrays a solid reflection of the organisation as we continue forward on the journey of operating and maintaining our assets. A final report is due in September 2012.

Land management

Tenure Management

GAWB owns and manages significant land holdings in the Boyne Valley (about 30,000 hectares) to support its current water supply activities. GAWB is implementing a comprehensive land management approach which includes the disposal of excess land and moving toward a single freehold land parcel for the water storage/lake area.

GAWB's ongoing approach to its land holdings in 2011/12 continued with the identification of:

- » land holdings owned or managed by GAWB, which can prudently be regarded as surplus under GAWB's *Land Management Policy*, will be disposed of whilst fulfilling the requirements of section 580 of the *Water Act 2000* and other undertakings to the Minister and
- » land which may be required to support existing or additional water supply/delivery initiatives, and securing access or title and progressing land tenure acquisition for a suite of other water infrastructure projects external to the Boyne Valley.

GAWB is a provider of recreational facilities in the Boyne Valley which are well utilised by locals and visitors, and are provided free of charge. GAWB has two main recreational agreements in place – a caravan park lease and a licence for the operation of Lake Awoonga Houseboats. Licences are also provided for several fishing charter operators and leases are in place with three community groups. In line with GAWB's regulatory framework, regular monitoring is carried out on the ongoing appropriateness of expenditure levels associated with the provision of recreational facilities.

GAWB also supports the Cluden Wildlife Management Unit with the provision of facilities on GAWB's estate in the Boyne Valley for the rehabilitation of sick, injured or orphaned native animals.

Review continued

Land transactions

Acquisitions and disposals of land identified in the Lake Awoonga Land Rationalisation project as having strategic value to GAWB to fulfil its Land Management Policy and to comply with the *Land Act 1994* (Qld) are being progressed. GAWB is also moving to secure freehold estate from the State for some of the land supporting critical GAWB infrastructure. This will also ensure that GAWB has satisfactory title or control over land required for new infrastructure.

Vegetation regeneration project

GAWB continued with the Vegetation Regeneration Project which is an EIS requirement (from the 2002 Awoonga Dam raising) to regenerate and protect 300 hectares of land classified as supporting endangered ecosystems. Department of Agriculture, Fisheries and Forestry (DAFF) reports show the project has progressed well with excellent survival and growth rates being achieved. Flora and fauna surveys have confirmed the increasing diversity and habitat complexity of the sites over time. GAWB is mid-way through the final three year contract with DAFF by which time the project should have achieved the required goal of remnant status with significant habitat value.

Weed and pest animal management

GAWB has developed a Weed and Pest Animal Management Plan for the land owned and managed in the Boyne Valley supporting Lake Awoonga. GAWB actively participates in the Gladstone Regional Council (GRC) co-ordinated neighbourhood 1080 baiting programs for the control of wild dogs and pigs, however GAWB's involvement with these programs will reduce as surplus GAWB estate is disposed of. GAWB has also achieved good outcomes with the engagement of a wild pig harvesting contractor. GAWB is an active member of the Capricorn Pest Animal Group and the Boyne Valley Working Group.

Catchment management

The focus of GAWB's holdings management is to achieve an appropriate balance in commercial, water quality and environmental outcomes. The main risks for the raw water quality in Lake Awoonga are the land uses and environmental features of the upper Boyne River catchment over which GAWB has limited control. GAWB is an active member of the Fitzroy Basin Association's Boyne-Calliope Sub-region which promotes neighbouring land-holder activities that improve/sustain water quality, riparian fencing and off-stream watering points for cattle.

Fire management

GAWB has in place both a Bush Fire Management Plan and Wildfire Emergency Procedure which contributes to proactively managing and mitigating the risk and impact of fires to the public, staff and GAWB's business. Several GAWB officers are active fire fighters or support members of the Lake Awoonga Rural Fire Brigade. GAWB has a scheduled approach to fuel load reduction through a planned prescribed burning regime. Additionally GAWB has the capacity to respond to wildfires on or threatening GAWB's estate in the Boyne Valley.

Agistment management

GAWB continues to use best land management practice for grazing and works closely with neighbours and agistees. Inspections are regularly performed ensuring adequate ground coverage is maintained.

Fishery management

GAWB owns and operates a fish hatchery in Gladstone City which produces barramundi, sea mullet and mangrove jack to support its extensive fish stocking program and for commercial sales, the latter of which helps offset operating costs. GAWB acknowledges the ongoing support from Gladstone Ports Corporation Limited which provides the facilities at Lord Street at no cost to GAWB.

During 2011/12, GAWB collected new barramundi, sea mullet and mangrove jack broodstock to replace current stock. This was to ensure continuity of hatchery spawning activities, whilst contributing to the genetic diversity of the Lake Awoonga population as a precautionary strategy in the event of fish exiting the lake during a spill event. Furthermore, this collection limits the environmental effects of such an event, with Lake Awoonga fish interacting with wild spawning populations. During 2011/12, GAWB produced 480,000 fingerlings of which 136,000 were sold to restocking groups and aquaculture ventures in the region.

During the year, 344,000 barramundi fingerlings ranging from 70mm to 120mm in length were released into Lake Awoonga, bringing the total stocking to date to 3.824 million. No fingerlings from other prescribed species were released into the lake during the year.

Barramundi captures in the lake by local and visiting recreational fishermen have become more frequent, steadily re-establishing Lake Awoonga as a premier impoundment fishery.

GAWB regularly monitors the ongoing appropriateness of the levels of expenditure associated with the operation of the hatchery and has finalised the Fisheries Management Plan to assess how best to comply with its obligations to stock the lake and to identify the strategy for achieving this. In conjunction with this, GAWB continues to engage CQ University to study the effects of varying lake levels on food supplies for fish within Lake Awoonga.

Review continued

Commercial results

GOAL: To ensure GAWB's profitability and build the value of the business

Financial

GAWB earned a profit of \$12.064 million after tax equivalents for the year ended 30 June 2012 (2011: \$5.859 million).

Full year water revenue totalled \$50.946 million (58,446ML reserved and supplied) (2011: \$42.465 million (53,742ML reserved and supplied)) and higher than the target for the year of \$47.193 million (56,644ML reserved and supplied).

Net cash generated by operating activities totalled \$24.850 (2011: \$13.256 million). Overall, GAWB's cash position increased by \$28.714 million to \$46.302 million at 30 June 2012.

Capital expenditure for the year totalled \$51.474 million (including Curtis Island Pipeline Project expenditure of \$36.697 million).

Total equity has increased to \$262.193 million at 30 June 2012 (\$248.154 million at 30 June 2011). Additional borrowings of \$65.700 million were drawn down during the year and repayments amounted to \$5.040 million. GAWB's debt/equity ratio was 44.1% at 30 June 2012.

Pricing and contractual framework

GAWB's actions and initiatives must achieve and support a viable balance between the needs and differing aspirations of GAWB's customers, efficient use of the water resources managed, community expectations and the commercial interests of GAWB. Each of GAWB's customers places a different value on the product. GAWB has developed its commercial framework to be mindful of these differing views.

GAWB's standard form water supply contract incorporates pricing practices that are consistent with the recommendations by the Queensland Competition Authority (QCA) (over the course of its various investigations) that have been accepted by the QCA Ministers.

Review continued

Corporate citizenship

GOAL: To be regarded as a responsible corporate citizen

Safety

GAWB recorded one lost time injury (LTI) in 2011/12 relating to an insect sting to a staff member. Focussed on the continuous improvement of its safety and assurance systems and on achieving its goal of no LTIs, GAWB actively encourages the reporting of all potential hazards and near misses, investigates all incidents, implements improvements recommended by investigators and provides appropriate support for its employees.

The change to harmonised workplace laws in January 2012 was completed without incident. Prior to the change, all GAWB officers received the required training, relating to due diligence, rights of entry and the new penalty structure.

Environmental responsibility

GAWB has been compliant with environmental legislation and standards with regard to the ROL, relating to monitoring, reporting and release requirements, with no breach notices being received.

GAWB continued its sponsorship of the Port Curtis Integrated Monitoring Program (PCIMP) as coordinated by the CQU Centre for Environmental Management. GAWB has maintained its membership of Gladstone Area Promotion and Development Limited, local pest management groups, rural fire brigade including management of the Lake Awoonga Rural Fire Brigade and representation of the Fitzroy Basin Association.

GAWB recycles paper via the Endeavour Foundation who provide confidential document destruction services to our Goondoon Street office and the Gladstone Water Treatment Plant. GAWB complies with legislative requirements on movement of traceable wastes (Part 4 of the *Environmental Protection (Waste Management) Regulation 2000*).

Community relations

During the year, GAWB received four community complaints in relation to GAWB's service/product. These complaints were investigated expeditiously with actions resulting in a satisfactory outcome for both GAWB and the community.

Expenditure on activities of a 'good corporate citizen' nature during the 2011/2012 financial year totalled \$20,420. These activities focused on presentations for Gladstone region residents to better understand GAWB's obligations and activities, and sponsorships of local community activities. Main expenditures were:

- » preparation of a DVD presentation relating to the environmental fish stocking requirements for Lake Awoonga (\$8,520)
- » sponsorship of the PCIMP Water Quality Monitoring (\$7,042) and
- » Greenhouse Friendly Accreditation (\$2,266).

Review continued

Capability

GOAL: To plan, develop and manage resources to support sustainable outcomes

People and culture

GAWB achieved a staff retention rate for the year of 83% which is calculated as the percentage of permanent staff at 30 June 2012 divided by the same number of permanent staff at the beginning of the year – 1 July 2011. GAWB was able to engage replacement staff for the positions that had been vacated during the year or reshape existing roles to meet the requirements of the business.

GAWB completed an internal staff satisfaction survey assessment during the year and the result showed a satisfaction rating of 5.3/7 compared to a target of 5.6/7. The previous survey result was 5.1/7. The outcome is considered a good result due to the growth in employee numbers and additional activities now undertaken by GAWB employees, such as water treatment operations, maintenance and water quality testing. Some of the findings highlighted areas for improvement, such as internal communication and consideration of improved benefits, which are currently being assessed and actioned where applicable.

The continuing demand for suitable employment resources in the Gladstone region due to industrial growth (most notably the LNG plants under construction on Curtis Island) continues to be an area of focus for GAWB Management to ensure staff retention.

Appropriate resourcing

GAWB is an equal opportunity employer and operates in accordance with a code of conduct and policies in relation to staff performance appraisals, equal employment opportunities, workplace health and safety, and staff remuneration. GAWB promotes the balancing of work and family responsibilities, including flexible work hours and the ability to work from home as necessary.

GAWB is committed to ensuring that applicants for selection or promotion are not discriminated against on any of the grounds of discrimination contained in equal opportunity laws and consistent with GAWB's EEO for Women in the Workplace Policy and the Anti-Discrimination and Equal Employment Opportunity Policy.

Recruitment and selection decisions are based on the principle of merit. This means that persons will be selected on the basis of whether they have the right skills, qualifications and other talents that are required to do the job. Appointment decisions are not based on irrelevant factors, such as a person's sex, race, disability, age or personal biases or favouritism. GAWB has a comprehensive on-line induction training process which automatically re-trains employees depending upon the training topic.

During the year GAWB staff numbers increased from 67 (61FTE) at 30 June 2011 to 79 (72FTE) at 30 June 2012 – an increase of 12 staff. This increase was principally from the in-sourcing of activities that were previously outsourced, as well as project funded resources for the construction of connecting infrastructure to Curtis Island (4 FTEs).

Review continued

Health and well-being

GAWB has implemented work-life balance initiatives to promote a healthy work environment, promote family and quality of life. These were the Employee Assistance Program (EAP) promoting emotional wellbeing and a wellness program promoting physical wellbeing. Activities have involved availability of annual flu injections, medical assessments and a modest subsidy for activities promoting physical fitness for both individuals and groups of GAWB staff.

Employing office

GAWB established an Employing Office on 6 November 2008 as required by amendments to section 625 of the *Water Act 2000*. The Employing Office represents the State and it is intended to consist of an executive officer (expected to be the CEO of GAWB) and staff (current GAWB employees). The establishment of the Employing Office permits the transfer of GAWB's existing staff to the new entity should staff be invited to do so and accept that invitation. There has been no transfer of staff to the Employing Office, nor is there any current intention to invite GAWB staff to transfer and the established Employing Office is dormant.

Systems and knowledge

GAWB has focused on the development of its internal systems and knowledge within the organisation in order to improve its capability to carry out its day to day functions. GAWB maintains accreditation of its Quality Management System (ISO 9001:2008).

To achieve further efficiencies, during 2011/12 GAWB focussed on the better integration of work processes and functions. The strategic importance of this focus is intended to align GAWB's operations with best practice in the industry as is appropriate for GAWB's regional circumstances.

Information and communication technologies

During 2011/12, GAWB's Information Communication and Technologies (ICT) team successfully completed a project to create a multi-site data centre with automated disaster recovery capability. This change in virtual desktop architecture will serve as the platform for desktop serving for several years into the future.

The ICT team's focus for 2012/13 will be for convergence – where appropriate – of business applications into a streamlined delivery model, still utilising commercial off the shelf software. Retained systems will continue to mature in depth of knowledge and information for decision making.

Risk management

GAWB employs a risk management system that is based upon the International Standard for Risk Management (ISO 31000:2009). This is in accordance with the requirements of section 28 of the *Financial and Performance Management Standard 2009* (Qld). The risk management system facilitates the uniform assessment of risks across the different business activities undertaken by GAWB, assessed relative to the organisation's key goals.

Senior management review GAWB's Risk Register and report to the Chief Executive Officer on a monthly basis regarding significant risks, GAWB's risk exposure and the mitigation of any risk that may/will arise. CURA risk management software is used to assist with the compliance for risk management reporting.

Directions, notices and other statutory requirements

During the year ended 30 June 2012, GAWB did not receive any directions or community service obligation notices.



Goals for 2012/2013

GAWB has identified four key interlinked business goals that will assist in achieving its vision: “To be an excellent water business”. As such, the goals and objectives of the business must be focused on achieving the best possible balance of outcomes against these four business goals, namely:



Meeting water needs

- » **to understand, facilitate and satisfy the water requirements of current and future customers**



Commercial results

- » **to ensure GAWB’s profitability and build the value of the business**



Corporate responsibility

- » **to be regarded as a responsible corporate citizen and**



Capability

- » **to plan, develop and manage resources to support sustainable outcomes.**

Each of the four business goals is supported by a number of key performance measures, business improvement projects and initiatives that are set out in GAWB’s 2012/13 Performance Plan.

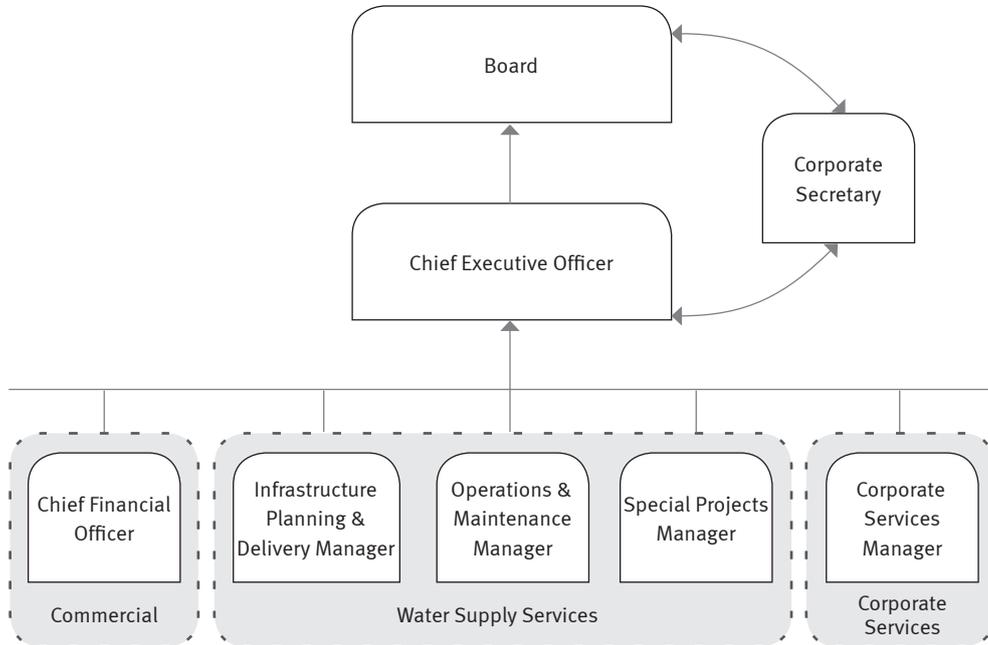
The table below identifies GAWB’s key business improvement processes and initiatives for 2012/13. Progress against each of these projects will be included in GAWB’s quarterly reports to the Minister and will reference milestones articulated in the respective project plans/business cases.

Project	Description
Water Resource Plan (WRP)	Finalisation of WRP review
Capital Expenditure Processes	Building on previous work to further refine and enhance end-to-end capital expenditure planning, delivery and accountability
In-system Storage	Finalise concept design and secure right to preferred site
Dam Safety	Finalise detailed design and commence procurement process for construction in 2013/14 to address dam safety licence requirements
Asset Management System (AMS)	Progress of the AMS project against identified milestones including the overhaul of protocols and processes relating to asset creation and acceptance into operation
Operational Alignment	In conjunction with GRC, the progression of specified opportunities to align water services operations to achieve efficiencies and improve outcomes for GAWB, GRC and the region
2015 Price Review	GAWB will progress implementation of specified actions in readiness for the 2015 price review
Information System	GAWB will progress implementation of specified initiatives that will improve resiliency of the system and support improved knowledge management practices across the business
Accommodation	A review GAWB’s long term accommodation options and develop a shortlist of preferred options for progression



Governance

Organisational structure



Executive management



Jim Grayson LLB, LLM, ACIS, PGradDipComm
Chief Executive Officer

Jim was appointed Chief Executive Officer in early 2006, having joined GAWB in 2003. Jim formerly worked as a solicitor in private legal practice and in senior positions with the Australian Securities and Investments Commission. Jim is a Fellow of the Financial Services Institute of Australia.



Anthony Ottaway CA, BBus (Acct), GradCertForenSt(Acc)
Chief Financial Officer

Anthony joined GAWB in June 2008 and was appointed Chief Financial Officer in April 2011. He has spent a good portion of his working life providing business services advice to small and medium businesses through private sector accounting firms. Anthony entered the commercial sector in August 2006 and was the Finance Manager at Gladstone City Council prior to joining GAWB. Anthony's role encompasses management of strategic projects and all aspects of GAWB's economic regulation.

Governance continued



Terry Ward BEng (Civil), GradDipMgt, MEng (Water & Environment), RPEQ, MIE Aust, CPEng Infrastructure Planning & Delivery Manager

Terry joined GAWB in March 2011 and was appointed Infrastructure Planning & Delivery Manager in April 2012. Previously Terry worked for 15 years as a consulting engineer on water-related infrastructure projects for industry, mines, and local government throughout Central Queensland, and for seven years on irrigation projects and water resource management for the Queensland Government.



Dean Tappin Operations and Maintenance Manager

Dean joined GAWB as an Asset Management Officer in October 2005. Dean has over 20 years experience in the water and waste water industry. His experience includes the operation and maintenance of water and waste water treatment plants, reservoirs, major pipelines, pumping stations and allied water infrastructure. Dean currently leads the Operations and Maintenance Team in the distribution, treatment, storage and delivery of bulk raw and potable water. Prior to joining GAWB he worked in local government in a similar capacity.



Richard West BEng (Civil), GradDipEngMaintMgt, RPEQ Special Projects Manager

Richard joined GAWB as an Engineering Specialist in March 2008 and retired in August 2012. Richard has over 25 years experience in the water industry which includes the design, construction, operation and maintenance of dams, weirs, major pipelines and pumping stations and allied water infrastructure. Prior to joining GAWB, he worked with the Department of Natural Resources and Water, and SunWater.



Gary Larsen JP (Qual) Corporate Services Manager

Gary joined GAWB as Corporate Secretary in May 2006 and continued in this role until December 2011. In October 2010 he assumed the role of Corporate Services Manager, responsible for the areas of legal, land, ICT, compliance, governance, risk, procurement, records management and HR oversight.

Previously, Gary worked as a Salaried Partner in a Gladstone chartered accounting practice. Gary has been involved with local private accountancy firms since 1985 and has gained experience in compliance issues and business practices. His roles included management of staff matters, business growth/improvement and policy development.



Mark McKeon BSc (Hons), CA (Australia), ACA (England and Wales), FAICD Corporate Secretary

Mark was reappointed to the position of Corporate Secretary in December 2011, having previously served as Corporate Secretary and Strategic Planning Manager in 2002–2004. In this role, Mark provides support to the Board of Directors while also providing leadership in the area of corporate governance across GAWB. He has held senior executive, governance, audit, accounting, finance and strategic planning positions in the private and public sectors in Australia and the United Kingdom, including 20 years experience as a company secretary, having previously served in this role with Queensland Motorways Limited and the listed QCT Resources Limited Group.



Governance – Board and Committees

Board of Directors and its Committees

The Board has ultimate responsibility for the good governance of GAWB and has adopted corporate governance practices in line with the Australian Stock Exchange (ASX) principles. The Board's principal responsibility is to oversee the performance and operation of GAWB, which includes:

- » setting and approving strategy
- » monitoring and reporting business and financial performance as required by the *Water Act 2000*
- » reviewing performance and remuneration of executive management and
- » reviewing the risk management and internal control framework.

The Chief Executive Officer is responsible for the day to day management of the organisation in accordance with the general policies and specific directions of the Board. To this end the Board has established an overall framework of internal control, business risk management processes, internal audit and other assurance programs and a code of conduct incorporating appropriate ethical standards.

To assist the Board in discharging its functions and allow a more detailed analysis of the specialised areas of finance, risk, audit, employment and remuneration, and capital works it has established three standing committees to provide oversight of these matters on its behalf. Each committee is governed by a charter and reports to the Board following committee meetings.

The Board and each individual Director, subject to informing the Chairperson, has the right to seek independent professional advice, on board related matters, at GAWB's expense.

Composition of the Board

Under the Act, seven Directors may be appointed for terms of up to four years by the Governor in Council, with four of these being nominated by the Gladstone Regional Council, as outlined in section 599 of the Act. The Chief Executive of the Department of Energy and Water Supply nominates the remaining three positions of which one must be the Board's Chairperson.

Section 605 of the Act outlines the term of office for directors of GAWB. Section 605(2A) states that a Director continues to hold office after the Director's term ends until a successor is appointed.

Conflicts of interest

In accordance with section 610 of the Act, Directors must notify the Board, on an ongoing basis, of any interest that could potentially conflict with those of GAWB. The Board has an approved Probity Protocol and Board policy in relation to conflicts of interest and the declaration/disclosure of potential conflicts of interest. The policy provides guidance as to the action that should be taken in circumstances where a Director or Officer may have a possible, perceived or actual conflict of interest arising between his/her role as a Director or Officer of GAWB and any other financial or personal interest or office of responsibility with any other organisation.

Board processes

The Board of Directors of GAWB meets on a monthly basis and more regularly as circumstances require. During 2011/12 the Board met on 19 occasions.

The Corporate Secretary is responsible for providing administrative and corporate governance support to the Board. Agenda setting is approved by the Chairperson in consultation

with the Chief Executive Officer and Corporate Secretary. The Corporate Secretary ensures that the Board receives papers for Board and Committee meetings in advance of each meeting and attends at each meeting to record minutes.

Audit and Risk Management (A&RM) Committee

The Audit & Risk Management Committee operates pursuant to a formal Charter approved by the Board. This Charter is reviewed on an annual basis to ensure appropriateness and compliance with the Queensland Treasury's Audit Committee Guidelines. The Committee conducts a review of its processes and performance against its Charter to ensure that it has carried out its functions in an effective manner.

The role of the A&RM Committee is to assist the Board in discharging its responsibility of oversight and corporate governance. The primary objectives of the committee are to:

- » assist the Board of Directors discharge its responsibility to exercise due care, diligence and skill in relation to GAWB's financial management and business risk
- » improve the credibility and objectivity of the accountability process
- » improve the effectiveness of the internal and external audit functions, and communications between the Board of Directors and external and internal auditors, and
- » facilitate the maintenance of the independence and objectivity of internal auditors under the internal audit program.

Governance – Board and committees continued

During 2011/12, the A&RM Committee comprised Ms Boydell (Chairperson), Ms Hodge and Mr Butler. The Committee meets quarterly and otherwise as required and met on five occasions during the year. The CEO, other senior executives, external auditors and internal auditors are invited to attend A&RM Committee meetings at the discretion of the Committee.

Internal Audit

Internal Audit's responsibilities are influenced by the governance arrangements established by GAWB and the existence of other separate functions with specific responsibility for some of these matters. The role of internal audit is to provide independent, objective assurance and advice designed to add value and assist GAWB in accomplishing its objectives by bringing a systematic, disciplined approach to evaluating and improving the appropriateness and effectiveness of risk management and internal control. Internal audit is a fundamental part of corporate governance that ensures that the organisation operates effectively, efficiently and economically. The A&RM Committee acts as a forum to oversee the planning, performance and reporting of the internal auditor.

The A&RM Committee is responsible for the preparation of Terms of Reference for the engagement of an external/outsourced internal auditor, the evaluation of proposals, and recommendations for appointment of an internal auditor by the Board. The A&RM Committee oversees the preparation of the internal auditor's program and plan, its reporting procedures and budgets with a view to their recommendation to the Board for approval. Internal audit activity during the year included:

- » projects management (Asset Management System) phase 2 – implementation of project requirements
- » tendering and contract management
- » indirect tax management

- » implementation of amended work health and safety legislation effective from 1 January 2012 and
- » IT disaster recovery, business continuity and crisis management planning.

The A&RM Committee reviewed the findings of the internal auditor and actions proposed to be taken by management, including an assessment of the overall cost effectiveness of any action. The internal audit contractor (KPMG) met with the A&RM Committee on five occasions.

Works Committee

The former Capital Works & Technical Committee was renamed as the Works Committee on 13 April 2012. The Works Committee monitors and manages actions arising from external review and internal audit findings on processes related to operational and capital works and technical matters such as the Dam Safety Regulator condition audits, five year Dam Safety review, major capital projects and other operational matters as they arise.

The Committee assists the Board in discharging its responsibilities by:

- » reviewing project and technical issues and providing advice to the Board
- » making informed recommendations to the Board relating to matters concerning water quality issues
- » ensuring appropriate monitoring of the capital works program
- » overseeing major capital projects and the Strategic Asset Management Plan, and
- » considering other operational matters as referred.

The Committee comprises Mr Mulheron (Chairperson), Mr Dinte and Mr Leinster (who was appointed in place of Mr Butler in December 2011). The Committee meets quarterly or as required and met on four occasions during the year.

Human Resources and Remuneration (HR&R) Committee

The former Nomination & Remuneration Committee was renamed as the Human Resources & Remuneration Committee on 23 February 2012. The Board has approved a Charter for the HR&R Committee which details the responsibilities of the Committee in providing recommendations to the Board on matters concerning:

- » the employment of the Chief Executive Officer and other senior managers
- » the remuneration of senior managers
- » GAWB's Remuneration Policy and
- » other associated matters.

The HR&R Committee comprised Mr Cameron (Chairperson), Mr Dinte and Mr Mulheron during 2011/12. The Committee meets quarterly or as required and met on two occasions during the year.



Governance – Human Resources

Remuneration

The GAWB Remuneration Policy has the following aims:

- » to attract suitably experienced and qualified staff to deliver quality services
- » to retain staff over the longer term
- » to contribute to the motivation of staff and to high levels of performance, and
- » to encourage staff to improve their skills and capabilities so as to improve job performance.

As a strategy, to lead and reinforce corporate objectives GAWB assesses the work value of each position in accordance with an established job evaluation methodology, and has adopted a classification structure comprising ten grades. All new positions, re-graded positions and staff re-evaluations are independently reviewed by an external specialist.

Benchmarking employment cost rates is both necessary and appropriate for employment positions that can demand premiums in the Queensland market such as construction and engineering roles. GAWB's remuneration position is aligned with the median market rates and in accordance with advice from employment consultants. This positioning is within the parameters of government policy and is considered appropriate for the business requirements.

In setting pay levels, GAWB has adopted total employment cost (TEC) as the prime comparator for internal communication and external market comparison. GAWB recognises the importance of clear articulation of the pay position in terms of the relevant job reference markets it wishes to compare (and be compared to), in order to ensure that remuneration

levels are (and continue to be) set at levels appropriate to GAWB's goals and circumstances and, for clarity, not in excess of general market median levels in accordance with government directives.

A performance management system is in place that clearly details the link between performance and remuneration. The performance management system is applied for progressing individuals through each grade in the classification structure. Managers are required to effectively manage performance and are provided with appropriate training to enable them to do so.

The Board, on the recommendation of the CEO and the HR&R Committee, endorses the initial appointment and remuneration of direct reports to the CEO and the remuneration of such employees annually.

The remuneration framework remains current by undertaking an annual review of grade remuneration ranges, including a review by the HR&R Committee of the proposed changes to the distribution of pay points in each grade and endorsement by the Board (on the recommendation of the CEO and the HR&R Committee) of the aggregate change in staff remuneration resulting from changes to the grade remuneration ranges and changes to each employee's remuneration following from their performance assessment.

Remuneration movements at other times or which are above the mid-point of a range require the endorsement of the Board on the recommendation of the CEO and HR&R Committee.

GAWB's Senior Management team participates in a Senior Executive Performance Payment Plan (SEPPP). In the first quarter of each financial year, performance payments

applicable for the previous financial year are proposed by the CEO and recommended to the Board by the HR&R Committee. Such performance payments are made subsequent to Board approval.

During the year GAWB progressed the implementation of two new initiatives to assist in the retention and attraction of resources within the Gladstone region, which is currently seen as a 'hot' employment market. These included a staff retention initiative and a staff rental assistance initiative to ameliorate the effects of the increased rental demand and prices driven by increasing industrial development and investment in the region. Both initiatives are specific to current circumstances and subject to strict criteria and processes, with ongoing Board oversight.

GAWB drafted a capability framework and plan during the year to identify core and key competencies necessary for the delivery of its objectives. This capability framework will be refined in 2012/13 to assist in managing internal resources' professional and operational training/development programs to ensure that they have or can obtain the core/key or enabling competencies considered necessary to achieve the goals and objectives identified in the 2012/13 Performance Plan and beyond.

Details of key management personnel compensation and senior executives' remuneration are disclosed at note 28 to the financial statements.

Early retirement, redundancy and retrenchment

During 2011/12 there were no voluntary early retirement packages offered to GAWB's employees and there were no retrenchments or redundancies offered during the year.



Governance – Reporting

The Board of Directors aims to ensure that the Minister for Energy and Water Supply is informed of all major developments affecting GAWB's state of affairs. Information is communicated to the Minister as follows:

- » A Corporate Plan, covering the next five financial years, is provided to the Minister at least two months prior to the end of each financial year. Each Corporate Plan includes the information required by the Act.
- » A more detailed Performance Plan, covering the next financial year, is also provided to the Minister at least two months prior to the end of each financial year. Each Performance Plan includes targets for a number of KPIs relevant to GAWB's forecast operations for the next financial year and other information required by the Act.
- » Quarterly Reports to GAWB's Minister are provided within one month from the end of each quarter. A copy of each Quarterly Report is also provided to the Treasurer for information. Each Quarterly Report includes relevant information about GAWB's operations during the quarter, changes in GAWB's state of affairs, comparisons with targets for KPIs set out in the Performance Plan and details of future developments.
- » The Annual Report is provided to GAWB's Minister within three months of the end of the financial year and is then laid before Parliament by the Minister. The Annual Report includes relevant information about GAWB's operations during the year, changes in GAWB's state of affairs, comparisons with forecasts set out in the Performance Plan and details of future developments, in addition to the other disclosures required by the *Water Act 2000*, *Financial Accountability Act 2009* and *Financial and Performance Management Standard 2009*.



Governance – Other significant issues

Consultancies

Category	2011/12
Management	\$000
Operations	29
Total	29

Consultancies awarded by value:	No.
Less than \$10,000	0
\$10,001–\$100,000	1
More than \$100,000	0
Total	1

Overseas travel

During the year, GAWB's Electrical Engineer attended a cyber security seminar in Idaho, USA after the appropriate departmental and Ministerial approvals were obtained in accordance with the overseas travel policy. The objectives for the travel were to understand and gain improved knowledge for the protection of data and telemetry monitoring systems that are utilised by GAWB in its daily operations on water infrastructure. Since returning from the overseas travel, the GAWB officer has commenced implementing improvements considered necessary to ensure secure assets and data. The amounts incurred for this travel (including travel, accommodation and incidental on-costs such as meals, etc) totalled \$4,836 and were fully funded by the Australian Attorney-General's office.

No other overseas travel was undertaken during the 2011/12 reporting year.

Overseas Travel	
Name of Officer and Position	Tim Stewart Electrical Engineer
Destination	Idaho USA
Reason for Travel	Cyber security seminar
Agency cost	Nil
Contribution from other agencies or sources	Australian Attorney-General

Corporate hospitality and entertainment

The staff annual Christmas function and the Management/Directors annual function occurred in December 2011. These functions were appropriately managed to ensure adherence with the corporate hospitality and entertainment guidelines and thresholds. Each of these events and any other items of hospitality have been reported to the Minister in GAWB's quarterly reporting processes.

Recordkeeping

GAWB has an electronic document management record system that meets its business needs, accountability requirements and stakeholder expectations.

Public Sector Ethics Act 1994

The GAWB Code of Conduct gives a shared vision of the general business ethics and acceptable standards of professional behaviour that is expected of officers and employees. The Code of Conduct is based on five ethical principles and covers general behaviour expectations, fraud and corruption responsibilities, including ethics and conflict of interest. Application of these ethical principles assists to further improve GAWB's business and to project a positive image of professionalism and integrity to the wider community. The Code applies to all GAWB Board members and employees.

Right to information and information privacy

GAWB reports on its Right to Information (RTI) and Information Privacy (IP) activities during the period in a separate annual RTI/IP report provided under the requirements of section 185 of the *Right to Information Act 2009* (Qld) and section 194 of the *Information Privacy Act 2009* (Qld).

Carbon emissions

GAWB is committed to reducing pollutants, protecting the natural environment and reducing its carbon footprint. This includes using E10 fuel in the vehicle fleet, reducing run-off by fencing the riparian area where possible, reforestation in the catchment, investigating the inclusion of the assessment of all aspects of energy consumption associated with projected new water sources and proactive pest management and fire strategies. GAWB continues to monitor its thresholds for the purpose of reporting under various regulations and guidelines such as NGER and SESP and is currently below the limits required.

GAWB participated in the Greenfleet program for the offset of emissions from GAWB vehicle fleet along with contributing to a carbon offset levy with the purchase of any air fares via its travel consulting agency until it was directed to participate in the state government's Ecofund program during 2011/2012. GAWB's involvement in these programs during the 2011/2012 reporting year has resulted in GAWB being carbon neutral with regard to its vehicle and travel requirements.

With the introduction of the Carbon Tax by the Federal Government, GAWB is reviewing its participation in these programs and will ensure that it is not subject to additional costs as a result of the tax and these emission initiatives. Where necessary, GAWB will cease its involvement in the voluntary programs due to the impact of the Carbon Tax.



Five year summary

	2008	2009	2010	2011	2012
<i>(megalitres)</i>					
Water sales (volumetric):					
Raw water	37,256	35,872	36,954	31,861	30,994
Potable water	9,714	9,995	10,324	9,217	11,150
Total	46,970	45,867	47,188	41,078	42,144
<i>(thousands of dollars)</i>					
Water sales revenue ¹	25,018	28,719	28,151	42,465	50,946
Total revenue	25,503	29,157	28,635	47,078	58,968
Depreciation and amortisation	(5,642)	(6,720)	(6,744)	(7,291)	(10,565)
Earnings before interest and tax	7,997	5,789	(1,856)	19,015	27,270
Profit/(loss) before tax	1,323	(1,884)	(10,293)	8,767	17,235
Income tax (expense)/benefit	40	557	3,237	(2,908)	(5,171)
Profit/(loss) after tax	1,363	(1,327)	(7,056)	5,859	12,064
Total equity	191,187	192,433	232,823	248,154	262,193
Total assets	366,242	361,248	421,257	455,063	534,442
Borrowings	138,805	134,970	139,659	146,170	206,830
Cash from operations before tax	5,438	6,639	3,200	13,256	27,636
Income tax (paid)/refunded	(265)	(3,013)	241	–	(2,786)
Cash from operations after tax	5,173	3,626	3,441	13,256	24,850
Cash flow capital expenditure	8,826 ²	20,468 ²	10,320 ²	11,417 ²	51,113 ⁴
<i>(percent)</i>					
Return on equity	0.71	(0.69)	(3.32)	2.43	4.73
Debt/equity ratio	42	41	37	37	44
<i>(times)</i>					
Cash flow interest cover ratio	1.79	1.29	1.37	2.16	3.29

¹ Including connection charges.

² Capital expenditure is net of capital subsidies received and includes gross expenditure incurred on CSS (capitalised as an intangible asset – refer Note 3(e) to the Financial Statements).

³ Comparative figures have, where applicable, been adjusted to place them on a comparable basis with current year figures.

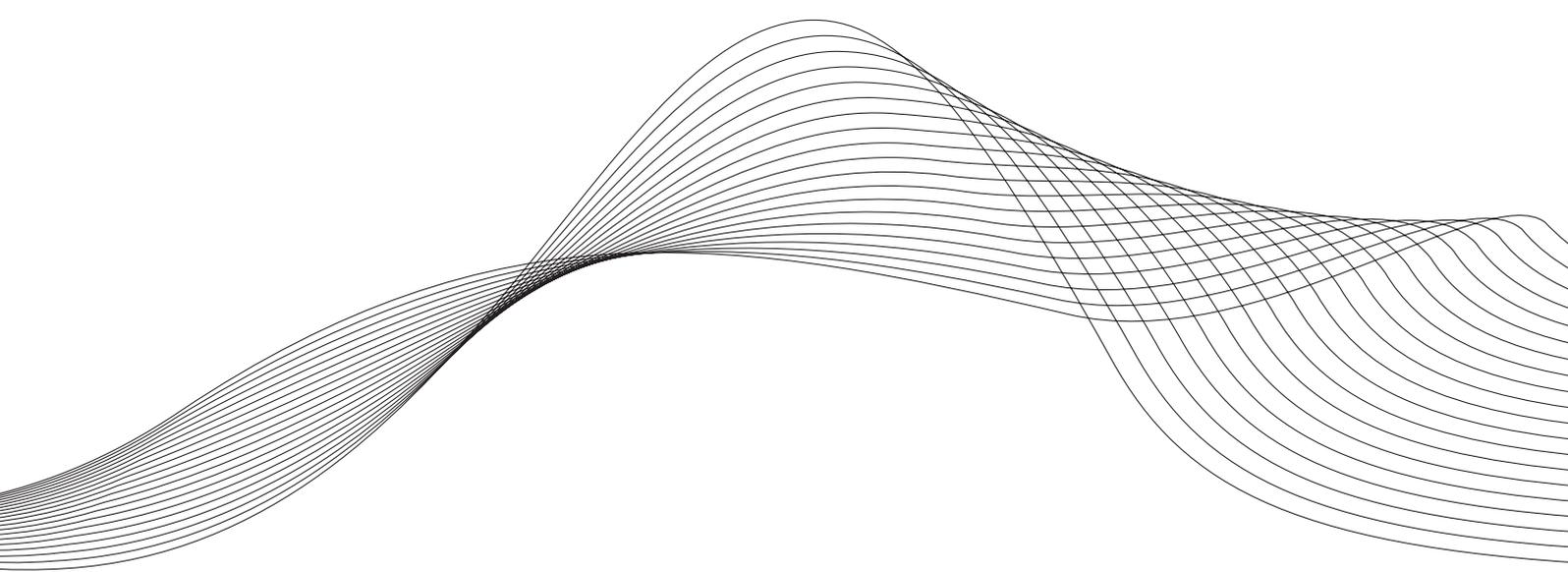
⁴ Excludes capitalised interest.





Financial statements

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Statement of comprehensive income

for the year ended 30 June 2012

	Notes	2012 \$000	2011 \$000
Water revenue		50,946	42,465
Grants and other contributions		1,130	154
Curtis Island Project recoveries		858	3,943
Curtis Island infrastructure charges		2,336	-
Fishermans Landing infrastructure charges		3,083	-
Other income	5	615	516
Total revenue		58,968	47,078
Chemicals		(640)	(554)
Consultants		(29)	(113)
Contracted, professional, technical and other services		(2,235)	(1,850)
Curtis Island Project outlays		(858)	(4,305)
Electricity		(1,671)	(1,422)
Insurance		(701)	(630)
Labour and on costs		(7,501)	(6,487)
Loss on sale of asset		(1,248)	(279)
Maintenance		(2,435)	(1,891)
Minor asset purchases		(515)	(275)
Motor vehicle expenses		(591)	(511)
Rates		(239)	(247)
Special projects expenditure		(233)	(186)
Depreciation	6	(8,320)	(7,291)
Amortisation	7	(2,245)	-
Other expenses		(2,237)	(2,022)
Total expenditure		(31,698)	(28,063)
Results from operating activities		27,270	19,015
Finance income	9	1,663	419
Finance costs	9	(11,698)	(10,667)
Net finance costs		(10,035)	(10,248)
Profit/(loss) before income tax equivalents		17,235	8,767
Income tax equivalents (expense)/benefit	10	(5,171)	(2,908)
Profit/(loss) for the year		12,064	5,859
Other comprehensive income			
Increase in asset revaluation surplus	11	4,866	13,061
Deferred tax on revaluations	11	(1,483)	(3,589)
Total other comprehensive income		3,383	9,472
Total comprehensive income		15,447	15,331

The notes on pages 33 to 58 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2012

	Notes	Contributed Equity	Asset Revaluation Surplus	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 1 July 2010	11	63,711	164,497	4,615	232,823
Total comprehensive income for the period					
Profit or loss		-	-	5,859	5,859
<i>Other comprehensive income</i>					
Increase in asset revaluation surplus	11	-	13,061	-	13,061
Deferred tax on revaluations	11	-	(3,589)	-	(3,589)
Transfer of increments on disposal of assets	11	-	(1,097)	1,097	-
Total comprehensive income for the period		-	8,375	6,956	15,331
Transactions recorded directly in equity					
Equity contributions		-	-	-	-
Total transactions with owners		-	-	-	-
Balance at 30 June 2011		63,711	172,872	11,571	248,154

	Notes	Contributed Equity	Asset Revaluation Surplus	Retained Earnings	Total Equity
		\$000	\$000	\$000	\$000
Balance at 1 July 2011	11	63,711	172,872	11,571	248,154
Total comprehensive income for the period					
Profit or loss		-	-	12,064	12,064
<i>Other comprehensive income</i>					
Increase in asset revaluation surplus		-	4,943	-	4,943
Reversal of asset revaluation increments on leasehold land		-	(77)	-	(77)
Deferred tax on revaluations	11	-	(1,483)	-	(1,483)
Transfer of increments on disposal of assets	11	-	(2,144)	2,144	-
Total comprehensive income for the period		-	1,239	14,208	15,447
Transactions recorded directly in equity					
Equity contributions	11	936	-	-	936
Dividends Paid		-	-	(2,344)	(2,344)
Total transactions with owners		936	-	(2,344)	(1,408)
Balance at 30 June 2012		64,647	174,111	23,435	262,193

The amounts recognised directly in equity are disclosed net of tax equivalents – see Note 10 for tax equivalent effect.

The notes on pages 33 to 58 are an integral part of these financial statements.

Statement of financial position

as at 30 June 2012

	Notes	2012 \$000	2011 \$000
Current assets			
Cash and cash equivalents	12a	46,302	17,588
Trade and other receivables	13	15,194	10,701
Inventory	14	228	172
Assets held for sale	15	1,625	1,158
Total current assets		63,349	29,619
Non-current assets			
Property, plant and equipment	6	442,697	395,963
Intangible assets	7	21,915	23,570
Deferred tax assets	23	6,462	5,891
Biological assets	16	19	20
Total non-current assets		471,093	425,444
Total assets		534,442	455,063
Current liabilities			
Trade and other payables	17	8,450	8,116
Loans and borrowings	18	6,698	4,403
Employee benefits	19	813	572
Provisions	20	128	128
Deferred income	21	1,720	1,378
Current tax liabilities	22	4,793	1,633
Total current liabilities		22,602	16,230
Non-current liabilities			
Loans and borrowings	18	200,132	141,767
Employee benefits	19	298	201
Deferred income	21	9,002	10,354
Deferred tax liabilities	23	39,612	38,335
Provisions	20	593	12
Other non-current liabilities	17	10	10
Total non-current liabilities		249,647	190,679
Total liabilities		272,249	206,909
Net assets		262,193	248,154
Equity			
Issued capital	11	64,647	63,711
Asset revaluation surplus	11	174,111	172,872
Retained earnings	11	23,435	11,571
Total Equity		262,193	248,154

The notes on pages 33 to 58 are an integral part of these financial statements.

Statement of cash flows

for the year ended 30 June 2012

	Notes	2012 \$000	2011 \$000
Cash flows from operating activities			
Receipts from customers		55,887	42,740
Interest received		1,663	419
Payments to employees		(8,302)	(6,639)
Payments to suppliers and services		(10,128)	(13,024)
Borrowing costs paid		(11,395)	(10,104)
Operating subsidies received		120	-
		<u>27,845</u>	<u>13,392</u>
Cash flows from investing activities			
GST paid to suppliers		(9,858)	(2,498)
GST input tax credits from ATO		8,775	2,159
GST collected from customers		3,991	570
GST remitted to ATO		(3,117)	(367)
Total GST		(209)	(136)
Income taxes (paid)/refunded		(2,786)	-
Net cash from operating activities	12b	<u>24,850</u>	<u>13,256</u>
Cash flows from investing activities			
Acquisition of property, plant & equipment		(50,522)	(10,205)
Interest paid on construction of property, plant & equipment		(1,202)	-
Acquisition of intangible assets		(591)	(1,323)
Proceeds from sale of property, plant & equipment		21	18
Costs on disposal of property, plant & equipment		(252)	-
Capital subsidies received		-	111
Security deposits received		3,166	713
Security deposits paid\applied		(2,160)	-
Curtis Island advances on account		(3,848)	-
Net cash from investing activities		<u>(55,388)</u>	<u>(10,686)</u>
Cash flows from financing activities			
Proceeds from equity contributions		936	-
Dividends paid		(2,344)	-
Proceeds from borrowings		65,700	10,433
Repayment of borrowings		(5,040)	(3,923)
Net cash from financing activities		<u>59,252</u>	<u>6,510</u>
Net increase in cash and cash equivalents		<u>28,714</u>	<u>9,080</u>
Cash and cash equivalents at 1 July		17,588	8,508
Cash and cash equivalents at 30 June	12a	<u>46,302</u>	<u>17,588</u>

The notes on pages 33 to 58 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 30 June 2012

1. Reporting entity

Gladstone Area Water Board ('GAWB') is a statutory body constituted under the *Water Act 2000 (Qld)* and is a Category 1 Water Authority and registered water service provider under the *Water Supply (Safety & Reliability) Act 2008 (Qld)*. GAWB is domiciled in Australia. The address of GAWB's principal place of business is 147 Goondoon Street, Gladstone, Queensland. GAWB is a for-profit entity and is primarily involved in the supply of bulk water.

2. Basis of preparation

(a) Statement of compliance

The financial statements are general purpose financial statements, which have been prepared in accordance with the *Financial Accountability Act 2009* and the disclosure requirements of the *Financial and Performance Management Standard 2009*.

The financial statements have been prepared on an accrual basis in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB). By virtue of being prepared in accordance with Australian Accounting Standards, the financial statements comply with International Financial Reporting Standards.

The financial statements were approved for issue by the directors on 30 August 2012.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following:

- biological assets are measured at fair value less point-of-sale costs.
- certain property, plant and equipment, which are measured at fair value.

The methods used to measure fair value are discussed further in Notes 3, 4 and 6.

(c) Functional and presentation currency and rounding

The financial statements are presented in Australian dollars which is GAWB's functional currency.

Amounts of less than \$500 included in the financial statements are rounded to zero. Other amounts included in the financial statements are rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 3(h) – Impairment (of financial and non-financial assets). Note 3(d) and Note 6 – Property, Plant and Equipment (useful lives and revaluation).
- Note 3(e) and Note 7 – Intangible Assets (useful lives).

- Note 3(i) and Note 19 – Employee Benefits.
- Note 3(j) and Note 20 – Provisions.
- Note 4 – Significant accounting judgements, estimates and assumptions.

3. Significant accounting policies

(a) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and loans and borrowings.

Recognition

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if GAWB becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if GAWB's contractual rights to the cash flows from the financial assets expire or if GAWB transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that GAWB commits itself to purchase or sell the asset. Financial liabilities are derecognised if GAWB's obligations specified in the contract expire or are discharged or cancelled.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

Classification

Financial Instruments are classified and measured as follows:

- Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if GAWB manages such investments and makes purchase and sale decisions based on their fair value in accordance with GAWB's documented risk management or investment strategy. For financial instruments at fair value through profit or loss, any changes in fair value are recognised in profit or loss.

- Cash and cash equivalents are held at fair value through profit or loss

Cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

- Investments at amortised cost

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

- Trade and other receivables are held at amortised cost
- Trade and other payables are held at amortised cost
- Loans and borrowings are held at amortised cost

Accounting for finance income and costs is discussed in Note 3(l).

(b) Inventories

Inventories include materials kept on hand to repair or replace components of the water supply network. All inventories are measured at the lower of cost and net realisable value.

(c) Assets held for sale

Some of GAWB's land assets were recategorised from non-current property, plant and equipment assets to assets held for sale in the 30 June 2010 and 30 June 2012 financial years as their carrying amount will be recovered principally through a sale transaction instead of use. These assets are initially measured at the lower of their carrying amount and fair value less costs to sell. Once classified as held for sale, property, plant and equipment are no longer depreciated or amortised. Any asset write-downs are recognised as an impairment loss, with any subsequent gains recognised against the accumulated impairment losses only.

(d) Property, plant and equipment

(i) Recognition and measurement

All assets acquired, including property, plant and equipment, are initially measured at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition, including costs incurred in getting the assets ready for use. The cost of assets constructed by GAWB includes the cost of investigation and design, all materials used in construction, capitalised borrowing costs and direct labour. Assets under construction are measured at cost and are not depreciable until they are commissioned.

The asset recognition thresholds are as follows:

- Land \$1
- Plant and equipment \$5,000
- Buildings \$10,000
- Infrastructure \$10,000

In accordance with the requirements of Section 23 of the *Financial and Performance Management Standard 2009*, land, buildings and improvements and infrastructure assets are measured at fair value. Minor plant and equipment and motor vehicles are measured at cost.

(ii) Revaluations

Classes of assets measured at fair value are re-valued with sufficient regularity to ensure that the carrying value of each asset in the class does not differ materially from fair value at reporting date. The fair value of property, plant and equipment is the amount for which the asset could be exchanged between knowledgeable willing parties in an arm's length transaction. GAWB has adopted an income based approach, where the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, to determine fair value. An allowance against the cost is made for the exhaustion of service potential for the existing item. A comprehensive valuation is conducted at least every five years. In the intervening years where an income based valuation is not determined, directors assess whether the carrying value differs materially from the fair value by using an indexed approach where the carrying value of the asset is indexed by reference to the annual CPI for the year ending 31 March.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

Revaluations are brought to account where the existing carrying value differs materially to the current fair value using this income approach.

In 2010, a comprehensive revaluation was undertaken in conjunction with the 2010 QCA pricing review on the basis outlined in Note 4(b).

For the 2011 and 2012 years, GAWB has determined valuations using the indexed approach. Where adjustments are required, revaluation increments and decrements are accounted for by asset in the following manner:

- A revaluation increment is credited directly to the asset revaluation surplus except that, to the extent that the increment reverses a revaluation decrement previously recognised as an expense in respect of the asset, the increment is recognised as revenue in the statement of comprehensive income.
- A revaluation decrement is recognised as an expense in the statement of comprehensive income except that, to the extent that a credit balance exists in the asset revaluation surplus in respect of the relevant asset, the revaluation decrement is debited directly to the asset revaluation surplus.
- Where a revalued asset is subsequently sold or disposed, the associated revaluation increment recognised in the asset revaluation surplus is transferred to retained earnings.

(iii) Subsequent costs

Subsequent expenditure on an item of property, plant and equipment includes major replacements, overhauls, refurbishment or major inspections and is recognised in the carrying amount of the item if it is probable that

the future economic benefits embodied within the part will flow to GAWB and its cost can be measured reliably. Any remaining carrying value of parts replaced or previous inspections is derecognised on recognition of the subsequent expenditure. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation and impairment

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

	2012	2011
Buildings & improvements	8-60 years	8-60 years
Infrastructure assets:		
Dam structure	40-150 years	40-150 years
Pump stations, reservoirs, pipelines and related plant	10-50 years	10-50 years
Minor plant & equipment	3-20 years	3-20 years
Motor vehicles	4 years	4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Property, plant and equipment are also assessed for any indicators of impairment each year. Further details on impairment calculations are provided in Note 3(h) and Note 4(c).

(v) Derecognition

Items of property, plant and equipment are derecognised upon disposal or when no further future economic benefits are expected from their use or disposal.

(e) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and GAWB intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalised includes the cost of professional services, materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. Other development expenditure is recognised in profit or loss as incurred.

The intangible asset represents development costs associated with the development of GAWB's Contingent Supply Strategy (CSS) incorporating the Gladstone to Fitzroy Pipeline Project and participation in the Lower Fitzroy River Infrastructure Project. The objective of the strategy is to develop and retain the capability to quickly and efficiently respond to reasonably foreseeable risks to the adequacy of current water supplies, either through drought or demand. GAWB considers the development costs of the CSS meet the definition as well as the criteria for recognition as an

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

intangible asset as the costs are identifiable, are able to be measured reliably, the resources are controlled by GAWB and it is probable that the future economic benefits will flow to GAWB.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) Amortisation and impairment

Capitalised development expenditure has currently been determined to have remaining expected useful lives of 2 to 8 years. The intangible asset is amortised once it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

On 4 November 2011, GAWB received the final environmental approval from the Department of Sustainability, Environment, Water, Population and Communities for the Gladstone-Fitzroy Pipeline. On this basis, GAWB commenced recognising amortisation of this intangible asset as the asset is capable of operating in the manner intended by management. At 30 June 2012, the Lower Fitzroy Weirs project has not yet received environmental approvals with the terms of reference for the Environmental Impact Statement being issued by the Queensland Government. On this basis, this intangible asset is considered not yet capable of operating in the manner intended by management and therefore continues to not be amortised.

Intangible assets are also assessed for any indicators of impairment each year. Further details on impairment calculations are provided in Note 3(h) and Note 4(c).

(f) Biological assets

Biological assets are measured at fair value less point-of-sale costs, with any change therein recognised in the profit or loss. Point-of-sale costs include all costs that would be necessary to sell the assets.

(g) Leased assets

Leased assets in terms of which GAWB, as lessee, assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where GAWB, as lessee, does not assume substantially all the risks and rewards of ownership are considered operating leases and not recognised on GAWB's balance sheet. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Any lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over

the remaining term of the lease when the lease adjustment is confirmed.

(h) Impairment

(i) Financial Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined by publicly available information such as quoted market prices or by calculating the net present value of future anticipated cash flows. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

In addition to an allowance account for specific provisions against individually significant financial assets GAWB also makes a collective allowance on portfolios of similar assets that are individually insignificant, for impairment losses that have been incurred but not yet identified. On confirmation that the financial asset will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms and the collective impairment provision is estimated for any such group where credit risk characteristics of the group of financial assets has deteriorated. Factors such as any deterioration in industry performance, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows are taken into consideration and the amount of the provision is based on the historical loss pattern within each group, adjusted to reflect current economic change.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

Impairment losses on assets measured at amortised cost using the effective interest rate method are calculated by comparing the carrying value of the asset with the present value of estimated future cash flows at the original effective interest rate.

The repayment terms for impaired loans can be renegotiated, subject to the discretion of GAWB. Where loans have been renegotiated, these are treated as new loans and are not disclosed as past due unless there are defaults on the revised repayment terms.

(ii) Non-Financial assets

The carrying amounts of GAWB's non-financial assets, other than biological assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss except that, to the extent that a credit balance exists in the asset revaluation surplus in respect of the relevant asset, the impairment loss is debited directly to the asset revaluation surplus. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

(i) Short-term benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that GAWB expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to GAWB as the benefits are taken by the employees.

(ii) Other long-term employee benefits

GAWB's net obligation in respect of long-term employee

benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Commonwealth Government bonds that have maturity dates approximately equivalent to the terms of GAWB's obligations.

(iii) Superannuation contributions

Liabilities in relation to contributions to superannuation funds (including defined contribution superannuation funds) are recognised as an expense in profit or loss when they are due.

(j) Provisions

A provision is recognised if, as the result of a past event, GAWB has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow or economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Indigenous Land Use Agreement ("ILUA") provision

The ILUA provision relates to native title compensation that was agreed for land acquired at the time of raising the Awoonga Dam.

(k) Revenue recognition

(i) Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Water sales and connection charges

Revenue from water sales is recognised upon actual or deemed delivery to the user, as specified in the individual agreements. Revenue from the installation of customer connections and the provision of services is recognised based on work completed at balance date.

Other revenue

Rent and lease income is recognised on a straight-line basis over the lease term.

Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and GAWB will comply with the conditions of the grant, and are then recognised in profit or loss on a systematic basis over the useful life of the asset.

Grants that compensate GAWB for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which expenses are recognised.

(ii) Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(l) Finance income and costs

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that GAWB incurs in connection with the borrowing of funds.

(m) Income tax

GAWB is subject to the National Taxation Equivalents Regime. Income tax equivalents on the profit or loss for the year comprise current and deferred tax. Income tax equivalents expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax equivalent is the expected tax equivalent payable/(refundable) on the taxable equivalent income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax equivalent payable/(refundable) in respect of previous years.

Deferred tax equivalent is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation equivalent purposes. Deferred tax equivalent is not recognised for the following

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable equivalent profit;
- temporary differences related to investment in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future;
- temporary differences arising on the initial recognition of goodwill.

Deferred tax equivalent is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax equivalent asset is recognised to the extent that it is virtually certain that future taxable equivalent profits will be available against which temporary difference can be utilised. Deferred tax equivalent assets are reviewed at each reporting date and are reduced to the extent that it is no longer virtually certain that the related tax equivalent benefit will be realised.

(n) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(o) New standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application.

(i) Changes in accounting policy and disclosures

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from Annual Improvement Project became effective from reporting periods beginning on or after 1 January 2011. Given GAWB's existing financial instruments, there was only minimal impact on the financial instruments note (note 24(b)), in relation to disclosures about credit risk. The note no longer needs to disclose amounts that best represent the maximum exposure to credit risk where the carrying amount of the instruments already reflect this.

AASB 1054 Australian Additional Disclosures became effective from reporting periods beginning on or after 1 July 2011. *AASB 1054* only had minimal impact on the financial statements. One of the footnotes to Note 8, regarding audit fees, has been slightly amended to clarify the nature of the work performed by the auditor.

All other new standards and interpretations issued and effective for the 30 June 2012 financial year have been reviewed and are considered to have no impact on the financial statements.

(ii) New standards and interpretations not yet effective

The following standards, amendments to standards and interpretations have not been applied in preparing this financial report.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards Arising from AASB 13 are applicable for reporting periods commencing on or after 1 January 2013. This standard sets out a new definition of fair value as well as new principles to be applied when determining the fair value of assets and liabilities. GAWB has commenced to review its fair value methodologies to determine whether they comply with *AASB 13*.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 are applicable for reporting periods commencing on or after 1 January 2013. *AASB 9* amends the classification, recognition and measurement of financial assets and liabilities. GAWB is yet to assess the impact of this amending standard. At this stage, assuming there are no changes to the types of transactions GAWB enters into, it is not expected to have a significant impact.

AASB 1053 Application of Tiers to Australian Accounting Standards and amending standard *AASB 2010-2 Amendments to Australian Accounting Standards arising from reduced disclosure*

requirements are applicable for reporting periods commencing on or after 1 July 2013. *AASB 1053* allows entities to adopt Reduced Disclosure Requirements (RDR). Queensland Treasury requires Statutory Bodies captured within whole-of-government financial reporting to apply tier 1 reporting requirements, which do not allow for reduced disclosure requirements. This includes GAWB and therefore it is expected that this standard will have no impact.

AASB 119 Employee Benefits (revised) and amending standard *AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119* is applicable for, reporting periods beginning on or after 1 January 2013. The main change from this standard that will affect GAWB is the change in definition of short-term employee benefits. Any change from short-term to long-term benefits will require those amounts to be discounted allowing for expected salary levels when the benefit is expected to be paid.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets is applicable for reporting periods commencing on or after 1 January 2012. This standard amends *AASB 112 Income Taxes* and formalises the tax effect treatment for the use of investment property and non-depreciable assets e.g. land. GAWB is yet to assess the impact of this amending standard however it is likely to have minimal impact.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements is applicable for reporting periods commencing on or after 1 January 2012.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting policies continued

This standard amends AASB 124 *Related Party Disclosures* to remove the requirement for individual key management personnel (KMP) disclosure requirements. GAWB is yet to assess the full impact of this amending standard.

AASB 2012-2 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* is applicable for reporting periods commencing on or after 1 January 2013. GAWB is yet to assess the increased disclosures required.

AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* is applicable for reporting periods commencing on or after 1 January 2014. GAWB is yet to assess the full impact of offsetting financial assets and financial liabilities.

AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* is applicable for reporting periods commencing on or after 1 January 2013. GAWB is yet to assess the full impact, however it is unlikely to be significant.

All other standards and interpretations issued but not yet effective have been reviewed and are considered to have no impact on the financial statements.

(p) Comparatives

Where necessary, comparatives have been adjusted to conform with changes in presentation and disclosure.

(q) Forward Starting Loans

GAWB has entered into Forward Starting Loan (FSL) agreements with Queensland Treasury Corporation (QTC) as outlined at Note 18. GAWB does not recognise the undrawn loan commitments as financial liabilities on the balance sheet as they are not designated as financial liabilities at fair value through the profit or loss.

4. Significant accounting judgements, estimates and assumptions

On 21 December 2010, the Premier and Treasurer (the QCA Ministers) published their decision in relation to the Queensland Competition Authority (QCA) investigation of GAWB's pricing practices for the 2010 Price Review. The QCA Ministers accepted all of the recommendations made by the QCA without qualification. The QCA review of GAWB's pricing practices underpins the commercial framework under which GAWB operates.

(a) Recognition of water sales and connection charges revenue

Revenue is recognised based on the price determined through application of the approved QCA pricing principles. Some customers requested that price transitioning be available to reduce the short term cash flow impact of the 2010 Price Review. This has led to a lower transitioned price being charged to customers during the initial years of the contract and higher prices being charged to those customers in latter years, with the overall price charged being net present value (NPV) neutral to GAWB.

In relation to customers with price transitioning agreements, the difference between the normal pricing contracts and the price transitioning arrangements is recognised as income with an associated receivable recognised at fair value. A receivable is recognised as GAWB has a contractual right to receive this income over the life of the agreement. In future years, the receivable is to be measured at amortised cost using the effective interest method.

(b) Comprehensive valuation of property, plant and equipment

GAWB undertakes a comprehensive valuation of the asset base, using an income based approach, at least every five years coinciding with the QCA's pricing principles investigation. This approach was applied as at 30 June 2010 using the following key assumptions and approach:

- GAWB's assets are subject to economic regulation in the form of a price cap and it is assumed that they will continue to be subject to regulation in the future.
- Cash flows have been projected based on forecasts of prudent and efficient operating costs and revenue consistent with GAWB's planning projections for the regulatory control period to June 2015 covered by the QCA's 2010 Final Report on GAWB's Pricing Practices. A residual value has been determined at the end of 2015.
- Revenue cash flows for the 2010-15 regulatory period assume a rate of return of 9.35% which represents the application, as at 30 June 2010, of the QCA's recommended post-tax WACC parameters in the 2010 Final Report. The assumed return is applied to a regulatory asset value consistent with the roll forward methodology adopted for the QCA's 2010 Final Report throughout the life of the assets.
- Pre-tax cash flows have been used in the forecasts of prudent and efficient operating costs and revenue. The projected cash flows have been discounted at a pre-tax rate of 9.53%.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting judgements, estimates and assumptions continued

- The residual value of the assets at 30 June 2015 has been determined using the best information available to estimate future cash flows and assumes that throughout the remaining useful life of the assets the regulator will be in alignment with the market view as to both the required rate of return and the costs of operating the assets sufficient to recover the residual value. It is also assumed that any form of future regulation will ensure an owner of these assets will receive a sufficient return on equity after repayment of debt.
- The future cash flows incorporate an allowance for price rebates provided to certain customers, which generally equates to an amount comprising both return on investment and return of investment for those assets funded by those customers.
- The QCA-recommended pricing methodology sets a constant real price over a 20-year period such that the present value of expected revenue over a 20-year period equals the present value of economic costs. However, there will be an under-recovery in the early years and an over recovery in the later years. Included in the residual value at 30 June 2015 is \$90.2M which represents the cumulative under recovery or future value of the difference between the annual target or building block revenue and the smoothed price cap revenue over the regulatory control period. It is assumed that this amount will be recognised for price modelling purposes at the beginning of the next regulatory period consistent with current regulatory practice.

- Any unrealised capital gains from upwards revaluation of non-current assets are excluded from profit when determining dividend payable for a financial year in accordance with s.66o(6)(b) of the *Water Act 2000*.

For the 30 June 2012 revaluation, the movement in March consumer price index (CPI) (Brisbane All groups) of 1.317% (2011: 3.58%) was applied to assets held since 1 July 2011 and on hand as at 30 June 2012, consistent with the increase in customer prices and indexation of the regulated asset base (RAB).

(c) Impairment of property, plant and equipment and intangible assets

GAWB has determined that its assets (incorporating property, plant and equipment and intangibles) form a single cash generating unit (CGU), being the business operation incorporating storage, treatment and delivery of bulk water.

The recoverable amount of the CGU has been determined on a value in use basis. As GAWB is a price regulated monopoly business with oversight by the QCA, the value in use has been determined on a 3 year discounted cash flow model, being the regulatory period remaining until the next QCA pricing investigation. As the useful life of assets exceeds the value in use period, a terminal value is used to represent the future cash flows assuming the continuation of current regulatory practices. Where there is uncertainty at the measurement date that the terminal value for an asset can be supported by estimated future cash flows, a probability factor of the future cash flows has been applied to the terminal value.

Under GAWB's regulatory framework, GAWB is entitled to recover:

- return on investment and return of investment on the RAB;
- return on working capital; and
- recovery of a revenue carry-over from the previous regulatory control period.

The value in use of the CGU for 2011/12 has been calculated after considering the following:

- Revenue cash flows are a result of prices determined in accordance with the pricing practices set out in the QCA 2010 recommendations. Prices used to generate revenue cash flows are based on the prices applicable from 1 July 2012 indexed at the estimated CPI annual increase as used in the current Corporate Plan.
- No terminal value or cash flows have been included in the CGU value for the component of CSS expenditure that is not allowed to be recovered in customer prices from 1 July 2010. These amounts not being currently being recovered in customer prices are being capitalised at WACC for regulatory purposes until a decision is made on whether or not to construct the asset.
- The discount rate is the pre-tax WACC rate consistent with the methodology recommended by the QCA. This rate reflects the level of risk free rate and risk premium in the cash flows. The principles for calculating the WACC rate have been independently verified through the pricing review process. The pre-tax WACC rate used in calculating the net present value is 9.53%.

Notes to the financial statements

for the year ended 30 June 2012

Significant accounting judgements, estimates and assumptions continued

The present value calculation includes the following terminal asset values, which represent future cash flows assuming the continuation of current regulatory practices:

- The notional value of the RAB at 30 June 2015 is calculated as the opening RAB value less depreciation plus capital expenditure for replacement of existing assets plus inflationary gain for the 1 July 2010 to 30 June 2015 regulatory period and results in a notional terminal value of \$447.24M at 30 June 2015. Offset against this value is the notional terminal value of customer rebates at 30 June 2015 of \$39.98M
- A notional terminal value of \$49.81M has been also included representing the notional terminal value of the Curtis Island Assets at 30 June 2015. Revenue and expenditure relating to this infrastructure has been included in the cashflows
- A notional terminal value of \$2.68M has been included for the regulatory working capital allowance.
- A terminal value of \$90.2M has been included representing the cumulative under recovery or future value of the difference between the annual target or building block revenue and the smoothed price cap revenue over the regulatory period.

GAWB has reviewed the cash flows to be incorporated in the value in use model and has assessed that it is possible to segregate cash flows relating to the property, plant & equipment from the cash flows relating to the intangible asset. In this instance, the recoverable amount of the property, plant & equipment can be determined separately from the recoverable amount of the intangible asset.

The outcomes of the impairment assessment for the year ended 30 June 2011 resulted in:

- No further impairment loss being recognised in relation to the carrying value of land, buildings and improvements and infrastructure assets; and
- An immaterial impairment loss for the intangible asset that was not recognised in the Statement of Comprehensive Income.

The outcomes of the impairment assessment for the year ended 30 June 2012 resulted in:

- No further impairment loss being recognised in relation to the carrying value of land, buildings and improvements and infrastructure assets; and
- A possible impairment recoupment of \$0.61M for the intangible asset which was not reversed in the Statement of Comprehensive Income as there was not an associated increase in the estimated service potential of the intangible asset.

Notes to the financial statements

for the year ended 30 June 2012

5. Other income

Notes	2012 \$000	2011 \$000
Lease income, rents and royalties revenue	321	307
Gain on sale of assets	6	12
Restoration recoveries	125	-
Other	163	197
	615	516

6. Property, plant and equipment

	2012 \$000	2011 \$000
Land, buildings & improvements		
Land:		
At directors' valuation	8,774	9,205
Buildings & improvements:		
At directors' valuation	16,252	14,334
Accumulated depreciation	(6,838)	(6,271)
<i>Total land, buildings & improvements</i>	18,188	17,268
<i>Infrastructure assets</i>		
At directors' valuation	465,525	452,884
Accumulated depreciation	(92,516)	(87,562)
<i>Total infrastructure assets</i>	373,009	365,322
<i>Minor plant & equipment</i>		
At cost	6,009	2,735
Accumulated depreciation	(2,476)	(1,573)
<i>Total minor plant & equipment</i>	3,533	1,162
<i>Motor vehicles</i>		
At cost	100	20
Accumulated depreciation	(5)	(6)
<i>Total motor vehicles</i>	95	14
<i>Assets under construction</i>		
At cost	47,872	12,197
	442,697	395,963

Included within land is land held under lease of \$Nil (2011: \$0.001M), land held under reserve \$1.17M (2011: \$1.17M) and state forest land \$Nil (2011: \$0.10M). These parcels of land are restricted in their use. There are no further restrictions on land.

Reconciliation 2011	Land, buildings & improvements \$000	Infra- structure assets \$000	Minor plant & equipment \$000	Motor vehicles \$000	Assets under construction \$000	Total \$000
Carrying amount at 1 July 2010	16,355	354,836	1,021	15	8,606	380,833
Additions	8	22	16	-	9,596	9,642
Disposals	-	(272)	(10)	-	-	(282)
Transfers	754	4,346	905	-	(6,005)	-
Revaluation increment/ (decrement)	574	12,487	-	-	-	13,061
Depreciation	(423)	(6,097)	(770)	(1)	-	(7,291)
Impairment (loss)/reversal	-	-	-	-	-	-
Carrying amount at 30 June 2011	17,268	365,322	1,162	14	12,197	395,963

Notes to the financial statements

for the year ended 30 June 2012

6. Property, Plant and Equipment *continued*

Reconciliation 2012	Land, buildings & improvements \$000	Infra- structure assets \$000	Minor plant & equipment \$000	Motor vehicles \$000	Assets under construction \$000	Total \$000
Carrying amount at 1 July 2011	17,268	365,322	1,162	14	12,197	395,963
Additions	-	59	137	-	51,473	51,669
Disposals	(747)	(775)	(24)	(12)	-	(1,558)
Transfers	1,898	10,632	3,168	100	(15,798)	-
Revaluation increment/ (decrement)	222	4,721	-	-	-	4,943
Depreciation	(453)	(6,950)	(910)	(7)	-	(8,320)
Impairment (loss)/reversal	-	-	-	-	-	-
Carrying amount at 30 June 2012	18,188	373,009	3,533	95	47,872	442,697

Assets under construction

During the year, GAWB commenced construction of the water infrastructure necessary to supply water to proponents on Curtis Island; costs incurred up to reporting date totalled \$36.697M (2011: Nil).

Capitalised borrowing costs related to the construction of the Curtis Island Water Infrastructure amounted to \$1.202M (2011: Nil).

Deemed historical cost

Assets that are revalued include land, buildings and infrastructure. The deemed historical cost for these items are as follows (excluding Motor Vehicles and Minor Plant & Equipment as these classes have never been re-valued).

Notes	2012 \$000	2011 \$000
Land, Buildings and Infrastructure at Deemed Historical Cost		
Land	5,940	6,570
Buildings	5,264	3,586
Infrastructure	238,809	226,882
Total Cost	250,013	237,038

7. Intangible assets

	Development costs \$000	Total \$000
Balance at 1 July 2010	22,174	22,174
Acquisitions internally developed	1,396	1,396
Balance at 30 June 2011	23,570	23,570
	Development costs \$000	Total \$000
Balance at 1 July 2011	23,570	23,570
Acquisitions internally developed	590	590
Amortisation	(2,245)	(2,245)
Balance at 30 June 2012	21,915	21,915

Notes to the financial statements

for the year ended 30 June 2012

8. Auditors' remuneration

	Notes	2012 \$000	2011 \$000
Audit services			
Queensland Audit Office			
Audit and review of financial reports		50	47

For the 30 June 2012 audit, the amount quoted for the audit fee was \$0.050M. There are no non-audit services included in these amounts.

9. Finance income and costs

	Notes	2012 \$000	2011 \$000
Interest income		1,663	419
Finance income		1,663	419
Interest expense		(11,698)	(10,667)
Finance costs		(11,698)	(10,667)
Net finance (income) and expense		(10,035)	(10,248)

10. Income tax equivalents

	Notes	2012 \$000	2011 \$000
Recognised in the statement of comprehensive income			
<i>Current tax equivalents expense / (benefit)</i>			
Current year		(5,885)	(1,633)
		(5,885)	(1,633)
<i>Deferred tax equivalents (expense) / benefit</i>			
Origination and reversal of temporary differences		714	(1,275)
		714	(1,275)
Total income tax (expense) / benefit		(5,171)	(2,908)
<i>Numerical reconciliation between tax expense and pre-tax net profit</i>			
Profit / (loss) for the year		12,064	5,859
Total income tax (expense) / benefit		(5,171)	(2,908)
Profit / (loss) excluding income tax equivalents expense		17,235	8,767
Income tax equivalents (expense) / benefit calculated at 30%		(5,171)	(2,630)
Income tax equivalents (expense) / benefit (under) / over provided in prior years		3	-
Prior period correction to retained earnings		-	(329)
Deductible investment allowance		-	53
Non-deductible entertainment		(3)	(2)
		5,171	(2,908)

Notes to the financial statements

for the year ended 30 June 2012

11. Capital and reserves

	Notes	2012 \$000	2011 \$000
Contributed equity			
Balance at 1 July		63,711	63,711
Equity contributions		936	-
Balance at 30 June		64,647	63,711
Asset revaluation surplus			
Balance at 1 July		172,872	164,497
Revaluation increments / (decrements)		4,866	13,061
Deferred tax on revaluations		(1,483)	(3,589)
Transfer of Increments on disposal of assets – net of tax		(2,144)	(1,097)
Balance at 30 June		174,111	172,872

Asset revaluation surplus

The asset revaluation surplus relates to property, plant and equipment measured at fair value in accordance with applicable Australian Accounting Standards.

Retained earnings			
Retained earnings at 1 July		11,571	4,615
Transfer of increments on disposal of assets		2,144	1,097
Dividends paid		(2,344)	-
Profit/(loss) for the year		12,064	5,859
Retained earnings at 30 June		23,435	11,571

12. (a) Cash and cash equivalents

	Notes	2012 \$000	2011 \$000
Cash at bank		2,616	1,280
Deposits at Queensland Treasury Corporation, at call		43,686	16,308
		46,302	17,588

(b) Reconciliation of cash flows from operating activities

Operating profit/(loss) after income tax equivalents		12,064	5,859
Adjustment for:			
Depreciation		8,320	7,291
Amortisation		2,245	-
(Gain)/loss on sale of property, plant and equipment		1,242	266
		23,871	13,416
Change in assets and liabilities:			
(Increase)/decrease in trade receivables		(505)	(1,884)
(Increase)/decrease in capital projects receivables		(4,637)	-
(Increase)/decrease in other receivables & prepayments		3,038	(4,182)
(Increase)/decrease in deferred tax assets		(570)	(756)
Increase/(decrease) in trade and other payables		1,175	297
(Increase)/decrease in accruals		(387)	2,576
Increase/(decrease) in deferred tax liabilities		1,278	5,621
Increase/(decrease) in employee benefits		338	154
Increase/(decrease) in tax liabilities		3,161	1,633
Increase/(decrease) in provisions		581	12
(Increase)/decrease in deferred income		(1,010)	(42)
Increase/(decrease) in tax re Asset revaluation surplus		(1,483)	(3,589)
Net cash from operating activities		24,850	13,256

Notes to the financial statements

for the year ended 30 June 2012

13. Trade and other receivables

	2012 \$000	2011 \$000
Current		
Trade receivables	5,398	4,893
Other receivables and prepayments	1,310	4,348
Capital project receivables	4,637	-
Capital project payments on account	3,849	-
Security deposits	-	1,460
	15,194	10,701

Age analysis of trade receivables that are past due but not impaired at the reporting date

	2012			2011		
	Total \$000	Amount Impaired \$000	Amount not Impaired \$000	Total \$000	Amount Impaired \$000	Amount not Impaired \$000
Not past due	4,548	-	4,548	3,651	-	3,651
Past due 30 days	585	-	586	765	-	765
Past due 31 – 60 days	153	-	153	474	-	474
Past due >60 days	112	-	112	3	-	3
Total	5,398	-	5,398	4,893	-	4,893

As at 30 June 2012 GAWB had current trade receivables of \$Nil (2010: \$Nil) that were impaired.

All the current net trade receivables that are past due are with long standing customers who have a good payment history.

14. Inventories

	2012 \$000	2011 \$000
Balance at 1 July	172	110
Net increase /(decrease)	56	62
Balance at 30 June	228	172

15. Assets held for sale

	2012 \$000	2011 \$000
Balance at 1 July	1,158	1,158
Additional land classified as held for sale	563	-
Derecognition of leasehold land	(96)	-
Carrying amount at 30 June	1,625	1,158

16. Biological assets

	2012 \$000	2011 \$000
Balance at 1 July	20	17
Net increase due to births/(deaths)	(1)	3
Balance at 30 June	19	20

Notes to the financial statements

for the year ended 30 June 2012

17. Trade and other payables

	2012 \$000	2011 \$000
Current		
Trade creditors	2,961	1,786
Accrued audit fees	31	30
Security deposits	1,716	2,170
Other accruals	3,742	4,130
	<u>8,450</u>	<u>8,116</u>
Non-current		
Security deposits	10	10

18. Loans and borrowings

	2012 \$000	2011 \$000
Current liabilities		
Queensland Treasury Corporation loans – unsecured	6,698	4,403
Non-current liabilities		
Queensland Treasury Corporation loans – unsecured	200,132	141,767

GAWB has a working capital facility of \$5,000,000 available through Queensland Treasury Corporation (QTC) to assist in managing short term cash requirements.

Finance facilities

Available at reporting date	211,830	151,170
Utilised at reporting date	(206,830)	(146,170)
	<u>5,000</u>	<u>5,000</u>

Forward Starting Loans

GAWB has entered into FSL agreements with QTC where it agrees to borrow specified amounts in the future at a pre-determined interest rate. The FSL agreements minimise the risk of interest rate movements as the cost of debt being recovered in prices was fixed at 1 July 2010 for the regulatory period. Over the 5 year regulatory period to 30 June 2015, GAWB will draw down a total of \$85.1 million in FSL's.

Total value of FSL's entered into	85,100	42,600
FSL's drawn down at reporting date	73,400	7,700
FSL's still to be drawn down at reporting date	<u>11,700</u>	<u>34,900</u>

Finance lease liabilities

GAWB has no finance lease liabilities.

Notes to the financial statements

for the year ended 30 June 2012

19. Employee benefits

	2012 \$000	2011 \$000
Current		
Liability for long service leave	148	106
Liability for annual and other leave	665	466
	<u>813</u>	<u>572</u>
Non-current		
Liability for long service leave	<u>298</u>	<u>201</u>

Superannuation fund contributions

GAWB makes contributions to superannuation funds (including defined contribution superannuation funds). The amount recognised as expense was \$617,450 for the financial year ended 30 June 2012 (2011: \$494,266).

Workers' compensation insurance premium

The amount recognised as an expense for workers' compensation insurance was \$47,995 for the financial year ended 30 June 2012 (2011: \$26,880).

20. Provisions

	2012 \$000	2011 \$000
Current		
ILUA liability		
Balance at 1 July	128	128
Increase of provision	-	-
Balance at 30 June	<u>128</u>	<u>128</u>
Non Current		
Price Differentiation Surcharge	468	12
Restoration Provision	125	-
	<u>593</u>	<u>12</u>

21. Deferred income

	2012 \$000	2011 \$000
Current		
Revenue received in advance	<u>1,720</u>	<u>1,378</u>
Non-Current		
Revenue received in advance	<u>9,002</u>	<u>10,354</u>

22. Tax Liabilities

	2012 \$000	2011 \$000
Current		
Current tax liabilities	<u>4,793</u>	<u>1,633</u>

Notes to the financial statements

for the year ended 30 June 2012

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Other assets	-	-	(37)	-	(37)	-
Property, plant & equipment	268	302	(39,575)	(38,335)	(39,307)	(38,032)
Intangible assets	2,513	1,837	-	-	2,513	1,837
Trade & other payables	13	-	-	-	13	-
Employee benefits	333	232	-	-	333	232
Provisions	9	-	-	-	9	-
Unearned income	141	-	-	-	141	-
Revenue received in advance	3,185	3,520	-	-	3,185	3,520
Tax assets / (liabilities)	6,462	5,891	(39,612)	(38,335)	(33,150)	(32,443)

Movement in temporary differences during the year:

	Balance 1 July 2010 \$000	Recognised in income \$000	Recognised in equity \$000	Balance 30 June 2011 \$000
Property, plant and equipment	(34,562)	119	(3,589)	(38,032)
Intangibles	1,848	(11)	-	1,837
Trade & other payables	-	-	-	-
Employee benefits	186	46	-	232
Provisions	-	-	-	-
Revenue received in advance	3,532	(12)	-	3,520
Tax value of loss carry-forwards	1,417	(1,417)	-	-
	(27,579)	(1,275)	(3,589)	(32,443)

	Balance 1 July 2011 \$000	Recognised in income \$000	Under/over prior year \$000	Recognised in equity \$000	Balance 30 June 2012 \$000
Other Assets	-	(34)	(3)	-	(37)
Property, plant and equipment	(38,032)	208	-	(1,483)	(39,307)
Intangibles	1,837	666	10	-	2,513
Trade & other payables	-	13	-	-	13
Employee benefits	232	101	-	-	333
Provisions	-	(42)	51	-	9
Unearned income	-	137	4	-	141
Revenue received in advance	3,520	(335)	-	-	3,185
	(32,443)	714	62	(1,483)	(33,150)

Notes to the financial statements

for the year ended 30 June 2012

24. Financial Risk Management

(a) General objectives, policies and processes

The Board has overall responsibility for the determination of GAWB's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Chief Executive Officer.

GAWB's risk management policies and objectives are established to identify and analyse the risks faced by GAWB, to set appropriate risk limits and controls; and monitor the risks and adherence to limits. The Board receives monthly reports from the Chief Executive Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. GAWB's internal auditors also review the risk management policies and processes and report their findings to the Audit & Risk Management Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the entity's competitiveness and flexibility. There have been no substantive changes in GAWB's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note. Further details regarding these policies and the risks that affect GAWB are set out below.

The net fair value of GAWB's financial assets and liabilities are equivalent to the total carrying amounts as per the Statement of Financial Position except for the net fair value of Queensland Treasury Corporation borrowings, which is based on market prices. The carrying amounts of trade and other receivables and trade and other payables are a reasonable approximation of their net fair values.

Financial Instruments	Total Carrying Amount		Net Fair Value	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Financial Assets				
Cash and cash equivalents:				
Cash at bank and on hand	2,616	1,280	2,616	1,280
Deposits at QTC	43,686	16,308	43,686	16,308
	46,302	17,588	46,302	17,588
Financial Liabilities				
Interest-bearing liabilities	206,830	146,170	217,947	147,405

(b) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in GAWB incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to GAWB.

There is concentration of credit risk with respect to current and non-current receivables as GAWB has a small number of customers. GAWB policy is that water sales are only made to eligible customers.

The carrying amount of receivables represents the maximum exposure to credit risk. GAWB's most significant customer accounts for \$1.274M of trade receivables at 30 June 2012 (2011: \$1.214M). Further analysis of the credit quality of trade receivables (including an aging analysis and details of impairment (if any) is included in note 13).

Cash and cash equivalents

GAWB held cash and cash equivalents of \$46.302M at 30 June 2012 (2011:\$17.589M) which represents its maximum credit exposure on these accounts. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated -AA to AA+ based on rating agency Standard & Poors ratings.

Notes to the financial statements

for the year ended 30 June 2012

24. Financial Risk Management *continued*

(c) Liquidity Risk

Liquidity risk is the risk that GAWB may encounter difficulties raising funds to meet commitments associated with financial liabilities, e.g. borrowing repayments. Water sales are on a contracted basis to customers with payments monitored for compliance with contract terms. It is GAWB's policy to maintain cash balances sufficient to cover current operating requirements. This is achieved through cash flow planning using one year and five year forward budgets for operating and capital expenditure. The Board also monitors liquidity risk through monthly reports on GAWB's financial and operating results.

The following financing facilities were available at balance date:

	2012 \$000	2011 \$000
Credit stand-by arrangements		
Total Facilities	5,000	5,000
Overdraft	5,000	5,000
Unused at balance date	5,000	5,000
Overdraft	5,000	5,000
Loans		
Total facilities (including Forward Starting Loans)	218,530	181,070
Used at balance date	206,830	146,170
Unused at balance date (comprising Forward Starting Loans)	11,700	34,900

The Overdraft facility may be drawn down at any time but may be terminated by the financier without notice. Of the loan facilities, \$206.83M is fully drawn and has a maturity of 20 years. \$11.7M of the FSL's are yet to be drawn down as at 30 June 2012. The FSL's have a maturity date of 30 June 2015.

Maturity Analysis

2012	Fixed interest maturing in:			Floating interest rate \$000	Non interest bearing \$000	Total \$000
	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000			
Financial Liabilities						
Trade and other payables	-	-	-	-	8,450	8,450
Interest-bearing liabilities	21,227	84,806	300,620	-	-	406,653
Total	21,227	84,806	300,620	-	8,450	415,103
2011						
Financial Liabilities						
Trade and other payables	-	-	-	-	8,116	8,116
Interest-bearing liabilities	12,552	50,192	196,896	-	-	259,640
Total	12,552	50,192	196,896	-	8,116	267,756

Interest-bearing liabilities disclosed in the maturity analysis are the contractual undiscounted cash flows of the liabilities in accordance with the requirements of AASB 7 *Financial Instruments: Disclosures* as they represent the amount GAWB is contractually required to pay at maturity of the liabilities. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows.

Notes to the financial statements

for the year ended 30 June 2012

24. Financial Risk Management *continued*

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows for financial instruments will fluctuate because of changes in market interest rates. This applies specifically to cash and cash equivalents and loans and borrowings held by GAWB.

Interest on the QTC cash fund deposits is received at variable interest rates. However, these balances are subject to an insignificant risk of changes in value.

GAWB is exposed to the risk of interest rate movements within and between each five-year regulatory period on differences between the cost of debt being recovered in customer prices and the cost of debt for any borrowings made. To minimise the uncertainty of this risk, GAWB employs the following debt management strategies:

- For borrowings existing at the commencement of the regulatory period, the resetting of the debt is aligned with the regulatory pricing period.
- For forecast borrowings within the regulatory period, GAWB considers the likelihood and timing of the forecast borrowings and where appropriate, enters into FSL arrangements with QTC which lock in the interest rate for these forward borrowings.

The effect of changes in interest rate risk of more or less than 100 basis points is shown in the sensitivity analysis below.

		Interest Rate Risk			
		-100 bpts		+100 bpts	
	Carrying amount	Profit	Equity	Profit	Equity
	\$000	\$000	\$000	\$000	\$000
30/6/2012					
Cash at bank	2,616	-	-	-	-
QTC Cash Fund	43,686	(436)	(436)	436	436
30/6/2011					
Cash at bank	1,280	-	-	-	-
QTC Cash Fund	16,308	(163)	(163)	163	163

(e) Capital Risk Management

GAWB considers its capital to comprise its contributed equity, asset revaluation surplus and accumulated retained earnings.

In managing its capital, GAWB's primary objective is to ensure its continued ability to provide a consistent return on equity through a combination of capital growth and distributions. In order to achieve this objective, GAWB seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable GAWB to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, or the reduction of debt, GAWB considers not only its short-term position but also its long-term operational and strategic objectives.

It is GAWB's target to maintain its gearing ratio within the range of 35 - 45%. GAWB's gearing ratio at the balance sheet date is shown below:

	2012	2011
	\$000	\$000
Gearing ratios		
Total Debt	206,830	146,170
Total equity	262,193	248,154
Total equity and net debt	469,023	394,324
Gearing ratio	44%	37%

There have been no significant changes to GAWB's capital management objectives, policies and processes in the year nor has there been any change in what GAWB considers to be its capital.

Notes to the financial statements

for the year ended 30 June 2012

25. Operating leases

	2012	2011
	\$000	\$000
Leases as lessee		
Commitments under operating leases at reporting date are inclusive of anticipated GST and are payable as follows:		
Not later than 1 year	630	567
Later than one year not later than five years	423	490
Later than five years	-	-
	1,053	1,057

During the year ended 30 June 2012, \$0.59M was recognised as an expense in the statement of comprehensive income in respect of operating leases (2011: \$0.54M).

26. Capital and other commitments

Expenditure commitments (including GST) contracted for but not provided for and payable:

	2012	2011
	\$000	\$000
Amounts to be expensed:		
Not later than one year	157	266
Later than one year, but less than five years	134	313
More than five years	-	-
	291	579
Amounts to be capitalised:		
Not later than one year	34,989	3,771
Later than one year, but less than five years	-	-
More than five years	-	-
Infrastructure projects	34,989	3,771

27. Contingencies

- a. GAWB is currently engaged in a dispute resolution process relating to a terminated construction contract. Further information on this matter cannot be disclosed due to the confidential nature of the arrangements.
- b. The Commonwealth Bank of Australia has issued on GAWB's behalf three bank guarantees for a total of \$0.275M as security for:
 - a lease on premises at 38 Hope Street, South Brisbane;
 - construction of a pipeline within land held by Queensland Rail; and
 - construction, operation and maintenance of a pipeline and reservoirs on Curtis Island.
- c. Otherwise there are no other known contingent assets or liabilities.

Notes to the financial statements

for the year ended 30 June 2012

28. Director, Key Executive Management Personnel and Related Party Disclosures

The directors of GAWB and the key executive management personnel (KMP) that had authority and responsibility for planning, directing and controlling the activities of the agency during the 2011/12 financial year and during the 2010/11 financial year (for comparative purposes) were:

Position	Responsibilities	Appointment authority	Date initially appointed to position (Date resigned from position)
Board of directors			
Chairperson – Ms Mary Boydell	Responsible for leading and directing the board, presiding at all meetings attended, for governing the operations of GAWB and reporting and continuous disclosure to the Minister under the <i>Water Act 2000</i> .	<i>Water Act 2000</i> section 599, 600 and 605	29 June 2001
Director - Mr Craig Butler ¹	Responsible for governing the operations of GAWB and reporting and continuous disclosure to the Minister under the <i>Water Act 2000</i> .	<i>Water Act 2000</i> section 599, 600 and 605	17 September 2004
Director - Mr Clyde Cameron ¹			14 August 2009
Director - Mr Warren Dinte			1 October 2000
Director - Mr John Mulheron			15 December 2000
Director - Ms Amelia Hodge			16 July 2010
Director - Mr Malcolm Leinster			05 August 2011
Director - Cr Gail Sellers			17 September 2004 (17 December 2010)

¹ Councillors with Gladstone Regional Council until 10 May 2012.

A restructure of GAWB's organisational units took effect from 1 April 2011. On this basis, other than cessations during the 2010/11 and 2011/12 financial years, the position titles and responsibilities listed represent those that apply to GAWB's KMP as at 30 June 2012.

Position	Responsibilities	Contract classification and appointment authority	Date initially appointed to position (Date resigned from position)
KMP			
Chief Executive Officer	Responsible for achievement of GAWB's Performance Plan outcomes by providing leadership, support and direction to management and staff.	Common law term contract	31 March 2006
Corporate Services Manager	Governance, procurement, risk, compliance, information technology, land management, disaster management co-ordination and safety systems. Incorporated HR Specialist from 4 November 2011. Included corporate secretarial functions until 28 November 2011.	Common law contract	22 October 2010
Corporate Secretary	Corporate secretarial functions and processes.	Common law contract	28 November 2011
Chief Financial Officer (formerly Manager of Strategic Planning & Economic Regulation)	Strategic projects, economic regulation from 8 March 2010. Incorporated financial management, reporting and compliance from 29 April 2011.	Common law contract	29 April 2011
Infrastructure Planning & Delivery Manager	Managing the planning, implementation and delivery of capital works projects, environmental compliance, drought management planning, and catchment modelling. Incorporates network modelling and planning functions from 24 April 2012.	Common law contract	1 April 2011
Operations & Maintenance Manager	Water quality, treatment plant operations and asset maintenance activities.	Common law contract	1 April 2011
Special Projects Manager	Oversight and delivery of special projects assigned by the Chief Executive Officer.	Common law contract	25 March 2008

Notes to the financial statements

for the year ended 30 June 2012

28. Director, Key Executive Management Personnel and Related Party Disclosures *continued*

Position	Responsibilities	Contract classification and appointment authority	Date initially appointed to position (Date resigned from position)
Restructured positions			
Infrastructure Planning Manager	Project definition and development, and water network modelling and planning. Incorporated into the role of the Infrastructure Planning & Delivery Manager.	Common law contract	1 April 2011 (24 April 2012)
Commercial Unit Manager	Information technology and land management incorporated into the role of Corporate Services Manager.	Common law contract	17 July 2006 (22 October 2010)
Financial Controller	Financial management, reporting and compliance. Incorporated into the role of the Chief Financial Officer.	Common law contract	16 April 2007 (29 April 2011)
HR Specialist	Management of human resource systems, community relationship business requirements and knowledge management systems. Incorporated into the role of the Corporate Services Manager.	Common law contract	24 January 2011 (4 November 2011)

The compensation for each director is set by the Minister in line with the *Water Act 2000* section 624.

Compensation for the Chief Executive Officer is approved by Board with compensation for the other KMP endorsed by the Board annually on the recommendation of the CEO and the Human Resources & Remuneration Committee (formerly the Nomination & Remuneration Committee), having regard to the document *State Water Entities – Remuneration Principles for Governance Arrangements for Chief and Senior Executives*. It includes:

- Short term employee benefits including:
 - Salary, allowances and leave entitlements paid and provided to the KMP during the year while they were a KMP that were recognised as expenses in the Statement of Comprehensive Income;
 - Non-monetary benefits in the form of salary packaging for KMP is also provided, including the provision of a motor vehicle (including the associated fringe benefits tax), less any business use cost.
- Long term employee benefits, consisting of long service leave accrued.
- Post employment benefits, consisting of superannuation contributions to accumulation funds and defined contribution plans.
- Redundancy payments are not provided for within individual contracts of employment. Contracts of employment provide for notice periods and payments on termination only.
- Performance bonuses are paid to senior executives for the achievement of balanced organisational performance outcomes (water supply, commercial results, corporate responsibility and capability), with bonuses capped at 15% of the senior executive's remuneration. Performance bonuses are managed in accordance with the *Remuneration Guideline for Chief and Senior Executives in Government Owned Corporations*.

Notes to the financial statements

for the year ended 30 June 2012

28. Director, Key Executive Management Personnel and Related Party Disclosures *continued*

Sitting Councillors are not remunerated. Director compensation included the following (Directors not receiving compensation have been excluded):

Position	Year	Short Term Employee Benefits		Long Term Employee Benefits \$000	Post Employment Benefits \$000	Termination Benefits \$000	Total Remuneration \$000
		Monetary Benefits \$000	Non-monetary Benefits \$000				
Board of directors compensation							
Chairperson – Ms Mary Boydell	2012	43			4		47
	2011	44			4		48
Director – Mr Craig Butler	2012	1			-		1
	2011	-			-		-
Director – Mr Clyde Cameron	2012	1			-		1
	2011	-			-		-
Director - Mr Warren Dinte	2012	12			1		13
	2011	14			-		14
Director - Mr John Mulheron	2012	14			-		14
	2011	11			-		11
Director - Ms Amelia Hodge	2012	9			1		10
	2011	5			-		5
Director - Mr Malcolm Leinster	2012	6			1		7
	2011	-			-		-
Total remuneration	2012	86			7		93
	2011	74			4		78

KMP compensation included the following:

Position	Year	Short Term Employee Benefits		Long Term Employee Benefits \$000	Post Employment Benefits \$000	Termination Benefits \$000	Total Remuneration \$000
		Monetary Benefits \$000	Non-monetary Benefits \$000				
KMP compensation							
Chief Executive Officer	2012	271	35	19	24		349
	2011	246	27	13	24		310
Corporate Services Manager	2012	163	3	6	16		188
	2011	161	8	5	15		189
Corporate Secretary	2012	92	-	-	13		105
	2011	-	-	-	-		-
Chief Financial Officer	2012	169	-	3	16		188
	2011	82	63	2	13		160
Infrastructure Planning & Delivery Manager	2012	158	1	1	13		173
	2011	50	-	-	4		54
Operations & Maintenance Manager	2012	153	6	9	18		186
	2011	30	4	4	4		42
Special Projects Manager	2012	157	1	4	51		213
	2011	114	5	2	46		167
Restructured positions							
Infrastructure Planning Manager	2012	85	-	(14)	48		119
	2011	149	-	7	51		207
Commercial Unit Manager	2012	-	-	-	-		-
	2011	105	-	(6)	5		104

Notes to the financial statements

for the year ended 30 June 2012

28. Director, Key Executive Management Personnel and Related Party Disclosures *continued*

Position	Year	Short Term Employee Benefits		Long Term Employee Benefits \$000	Post Employment Benefits \$000	Termination Benefits \$000	Total Remuneration \$000
		Monetary Benefits \$000	Non-monetary Benefits \$000				
Financial Controller	2012	-	-	-	-	-	-
	2011	117	-	(3)	29	-	143
HR Specialist	2012	41	-	-	4	-	45
	2011	58	-	-	5	-	63
Total remuneration	2012	1,289	46	28	203	-	1,566
	2011	1,112	107	24	196	-	1,439

Details of performance bonuses paid or payable to KMP is set out below:

A performance bonus was paid on 6 October 2011 to the Chief Executive Officer, Chief Financial Officer, Infrastructure Planning Manager, Corporate Services Manager and Special Projects Manager. In the prior year, a performance bonus was paid on 7 October 2010 to the Chief Executive Officer, Infrastructure Planning Manager, Commercial Unit Manager, Financial Controller, Corporate Services Unit Manager/Corporate Secretary and Special Projects Manager.

	2012 Number	2011 Number
\$30,000 to \$39,999	1	-
\$20,000 to \$29,999	1	1
\$10,000 to \$19,999	3	5
Total	5	6

Transactions with directors and director related entities

In the ordinary course of business and under normal terms and conditions, during the financial year GAWB has dealt with:

- Gladstone Regional Council of which Mr C Butler and Mr C Cameron were councillors until 10 May 2012

Transactions are on commercial terms that are no more favourable than those offered to or by other parties.

Transactions with KMP and KMP related entities

The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

From time to time, key management personnel of GAWB or their related entities, may purchase goods from GAWB. These purchases are on the same terms and conditions as those entered into by other employees of GAWB or customers and are trivial or domestic in nature.

29. Subsequent event

Between the end of the financial year and the date of this report, there has not been any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of GAWB, to affect significantly the operations of GAWB, the results of those operations, or the state of affairs of GAWB, in future financial years.

30. Creation of Gladstone Area Water Board Employing Office

GAWB established an Employing Office on 6 November 2008 as required by amendments to section 625 of the Water Act. The Employing Office represents the State and it is intended to consist of an executive officer (expected to be the CEO of GAWB) and staff (current GAWB employees). The establishment of the Employing Office permits the transfer of GAWB's existing staff to the new entity should staff be invited to do so and accept that invitation. There has been no transfer of staff to the Employing Office, nor is there any current intention to invite GAWB staff to transfer, and the established Employing Office is dormant. Accordingly, a separate financial report for the 2011-12 financial year has not been prepared by the Gladstone Area Water Board Employing Office.

Management certification of the financial statements

These general purpose financial statements have been prepared pursuant to section 62(1) of the *Financial Accountability Act 2009* (the Act), relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. In accordance with Section 62(1)(b) of the Act we certify that in our opinion:

- (a) The prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- (b) The financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Gladstone Area Water Board for the financial year ended 30 June 2012 and of the financial position of the Gladstone Area Water Board at the end of that year.

M.S. Boydell
Chairperson

J. Grayson
Chief Executive Officer

Gladstone Area Water Board

30 August 2012

Independent Auditor's report

To the Board of Gladstone Area Water Board

Report on the Financial Report

I have audited the accompanying financial report of Gladstone Area Water Board which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and certificates given by the Chairperson and Chief Executive Officer.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation of the financial report that gives a true and fair view in accordance with prescribed accounting requirements identified in the *Financial Accountability Act 2009* and the *Financial and Performance Management Standard 2009*, including compliance with Australian Accounting Standards. The Board's responsibility also includes such internal control as the Board determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2 (a), the Board also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

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

Independence

The *Auditor-General Act 2009* promotes the independence of the Auditor General and all authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can be removed only by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Auditor's Opinion

In accordance with s.40 of the *Auditor-General Act 2009* –

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion –
 - (i) the prescribed requirements in relation to the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report presents a true and fair view, in accordance with the prescribed accounting standards, of the transactions of the Gladstone Area Water Board for the financial year 1 July 2011 to 30 June 2012 and of the financial position as at the end of that year; and
 - (iii) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (a).

Independent Auditor's report continued

Other Matters – Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Gladstone Area Water Board for the year ended 30 June 2012. Where the financial report is included on Gladstone Area Water Board's website the Board is responsible for the integrity of Gladstone Area Water Board's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or otherwise included with the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Derek Campbell
(as Delegate of the Auditor-General of Queensland)

Townsville

Dated: 31 August 2012



Glossary

Act	<i>Water Act 2000</i> (Qld)
A&RM Committee	Audit and Risk Management Committee
ASX	Australian Stock Exchange
Board	GAWB's Board of Directors
Boyne River ROP	Boyne River Basin Resource Operations Plan 2003
CAPEX	Capital expenditure
CEO	Chief Executive Officer
CHMP	Cultural Heritage Management Plan
CIWSIP	Curtis Island Water & Sewage Infrastructure Project
CNF	Competitive Neutrality Fee
CQRWSS	Central Queensland Regional Water Supply Strategy
CQU	Central Queensland University
CSS	Contingent Supply Strategy
DAFF	Department of Agriculture, Fisheries and Forestry
DERM	Department of Environment and Resource Management
DEWS	Department of Energy and Water Supply
DWQMP	Drinking Water Quality Management Plan
EAP	Employee Assistance Program
EIS	Environmental Impact Statement
ERA	Environmentally Relevant Activities
FSL	Forward Starting Loan
GAWB	Gladstone Area Water Board
GFP	Gladstone Fitzroy Pipeline Project
GRC	Gladstone Regional Council
HRR	Human Resources & Remuneration Committee
IP	Information Privacy
KPI	Key Performance Indicator
LFRIP	Lower Fitzroy River Infrastructure Project
LNG	Liquefied Natural Gas
LTI	Lost Time Injury
Minister	Minister for Energy and Water Supply
ML	Megalitres
ML p.a.	Megalitres per annum
NGER	National Greenhouse and Energy Reporting
OHS	Occupational Health and Safety
PCIMP	Port Curtis Integrated Monitoring Program
PTT	Permit to Trial
QCA	Queensland Competition Authority
QTC	Queensland Treasury Corporation
ROI	Return on Investment
ROL	Resource Operations Licence
RRC	Rockhampton Regional Council
RTI	Right to Information
SAMP	Strategic Asset Management Plan
SCADA	Supervisory Control and Data Acquisition
SEPPP	Senior Executive Performance Payment Plan
SESP	Smart Energy Savings Program
SGIC/GSDA	Stanwell Gladstone Infrastructure Corridor/Gladstone State Development Area
SLMP	System Leakage Management Plan
SWP	Strategic Water Plan
TAM	Transition and Maintenance Phase of GFP
TEC	Total Employment Cost
WRP	Water Resource (Boyne River Basin) Plan 2000
WQ EAP	Water Quality Emergency Action Plan
WSSRA	<i>Water Supply (Safety & Reliability) Act 2008</i> (Qld)



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Corporate Secretary

Mark McKeon

Copies of this Annual Report may be obtained on request from the Corporate Secretary at the above address. Copies of the current Annual Report are also available to download from our website.

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