

GLADSTONE AREA WATER BOARD

2009



ANNUAL REPORT



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Gladstone Area Water Board

ABN: 88 409 667 181
Service Provider: 200

PO Box 466
GLADSTONE Q 4680

1st Floor
147 Goondoon Street
GLADSTONE Q 4680

Tel: (07) 4976 3000
Fax: (07) 4972 5632

Email:
gawb@gawb.qld.gov.au
Web:
www.gawb.qld.gov.au



29 September 2009

The Honourable Stephen Robertson MP
Minister for Natural Resources Mines and Energy
and Minister for Trade
PO Box 15216
CITY EAST Qld 4002

Dear Minister

The Gladstone Area Water Board (GAWB) is pleased to present its Annual Report for the year ended 30 June 2009 outlining progress against our Performance Plan objectives and other statutory requirements.

For a number of years GAWB has worked hard to develop and enhance the business systems and capability required to underpin its ability to meet the water supply needs of its customers and the community. We believe the benefits of this approach are now being realised through the development of a sustainable water supply system, strong operational control and a culture of safety and compliance.

During the year GAWB continued to deliver on sound operational outcomes and achieved a number of key business initiative milestones that it had been working towards over preceding years. GAWB made significant progress in developing the Gladstone Fitzroy Pipeline Project (GFP) to the "ready to construct" stage, required for it to be a viable timely response to the emergence of a demand or drought trigger. Significant regulatory, commercial and stakeholder support is required to underpin this Project and work to achieve this was well advanced during the year.

GAWB believes that it is now well positioned to meet the water supply needs of customers, both on a day-to-day basis and over the long term.

During the year, GAWB progressed the development of its submission for the 2010 Price Reset investigation by the Queensland Competition Authority. This investigation will determine the prices that GAWB is able to recover from its customers for the period 1 July 2010 to 30 June 2015. This price review process is of critical importance to GAWB. It will ensure appropriate outcomes are achieved, allowing GAWB to operate into the future to deliver the financial return permitted by its regulatory model whilst meeting customer needs in an efficient and sustainable manner.

In January and February 2009 reasonable rainfall in the Awoonga catchment produced inflows that resulted in the dam water levels returning to similar levels of the previous 12 months, thus adding about one years supply. At 30 June 2009 Awoonga Dam storage was at 33.35 metres, being 411,331 megalitres (ML) or 52.95% of full supply capacity.

Under the leadership of our Chief Executive Officer (CEO), Jim Grayson, a dedicated and focused management team worked hard to meet the needs of customers and achieve the outcomes outlined in this report. On behalf of directors, I acknowledge and thank our staff for their ongoing commitment and contribution, and the manner in which they work with and support directors.

I would also like to acknowledge the continuing advice and cooperation of officers of your department and other government departments as well as the contribution and support of my fellow directors.

In 2009/2010 we will build on the sound foundations outlined in this report to ensure we meet the water supply needs of our customers and the wider Gladstone region. We hope you find the report informative.

Yours sincerely

Mary S Boydell
Chairperson

INTRODUCTION



Pursuant to section 1084 of the *Water Act 2000* (the Act), GAWB is taken to be a Category 1 Water Authority from 1 July 2000. GAWB is also a registered Service Provider under the *Water Supply (Safety & Reliability) Act 2008 (Qld)* (WSSRA) and 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 78,000 MI per annum (MI 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)*. Until the Awoonga Dam storage is first filled to its full current capacity of 40 metres, GAWB's licence limits the amount of water which GAWB may take to a notional yield of approximately 70,000 MI p.a. calculated by reference to the highest level filled to date (currently 36.94m or 75.63%).

To improve the security of the water supply system GAWB initiated its Contingent Supply Strategy (CSS). The CSS involves GAWB developing (and retaining) the capability to quickly and efficiently respond to identified “*supply failure scenarios*” which could be caused by either:

- failure of storage arising from (or “as a consequence of”) drought; or
- inability to meet new demand of customers due to the limits of the annual water allocation from Awoonga Dam, currently approximately 70,000MI p.a.

INTRODUCTION

At its core is the development of capacity to respond to the uncertainty of the future, having regard to the consequences of supply failure. The CSS not only involves the identification and investigation of available augmentation options allowing the least-cost (highest benefit) solution to be identified, but also includes undertaking necessary preparatory work and planning on augmentation options to enable GAWB to respond in an efficient and effective manner with the most appropriate delivery augmentation option.

These works include feasibility and preparatory works for the Gladstone Fitzroy Pipeline (GFP) Project, feasibility studies for desalination and other technology driven options and potential commercial responses to achieve demand reduction including options for buy back of excess reservation of customers, curtailment options, contractual by-pass and buy back negotiations with customers.

GAWB's 30,000 MI water allocation from the Lower Fitzroy River under the Central Queensland Regional Water Supply Strategy (CQRWSS) was formalised through the amendment of the Fitzroy Basin Resource Operations Plan 2004 in July 2009. However, to receive this allocation, the storage infrastructure must be in place prior to a successful wet season so that ample storage is contained before the delivery system, the GFP Project (GAWB's current primary response for capacity development), is commissioned. The goal of the GFP is directed to the completion of approvals and works required to access the 30,000 MI entitlement for GAWB within a 24 month time frame of when required to meet demand or mitigate supply shortages from drought. This process includes oversight and reporting by the QCA in response to a referral from the QCA Ministers. "Ready to Implement" status for the GFP is forecast to be achieved by the end of calendar year 2009 with ongoing attention directed to retaining the currency and relevance of this capability.

To support the GFP project and receive the allocation, GAWB has continued involvement as a joint proponent in developing the business case for the Lower Fitzroy River Water Infrastructure Project (LFRWIP). GAWB's focus is to ensure infrastructure on the Fitzroy River is capable of being brought on line within the required complementary timeline and that delivery of the project meets GAWB's criteria of necessary and efficient costs.

At 30 June 2009, GAWB had total assets of \$361.248 million, with equity of \$192.433 million, and employed 49 people (44 full time equivalents). GAWB's revenue in 2008/09 from the sale of treated and untreated water was \$28.719 million.

OUR VISION.....To be an excellent water business.

OUR 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.

OUR VALUES.....Our values guide the way we work to achieve our vision.

- Professionalism
- Accountability
- Communication
- Trust

DURING 2008/09, GAWB OPERATED TO ACHIEVE BUSINESS OBJECTIVES IN FOUR KEY RESULT AREAS

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 Citizenship: To be regarded as a responsible corporate citizen.

Capability: To ensure the organization has the ability to carry out its mission.

OVERVIEW OF THE YEAR



During the 2008/09 financial year GAWB continued to focus on ensuring that the organisation is well placed to efficiently and sustainably meet the water needs of its customers into the future. Continuous improvement in operational and asset management practices and securing resources for the continued development and improvement of business systems and capability underpins GAWB's ability to improve its performance.

GAWB achieved sound operational outcomes and significant progress on the CSS so that it is now well positioned to meet the water supply needs of its customers. In the short term, the costs of achieving this have negatively impacted the operating result and a number of financial KPI's. In the longer term GAWB seeks to redress this by recouping such necessary and efficient costs in prices. To support this, we will submit credible and robust submissions to the QCA for both the CSS review (parts A and B completed and part C underway) and the review for the 1 July 2010 price reset.

Our significant highlights include:

MEETING WATER NEEDS

- Achieved critical milestones in the GFP Project to progress GAWB's ability to enable the delivery and transport of the reserved 30,000 MI from the Lower Fitzroy River to GAWB's existing Gladstone system. These milestones included completion of the preparatory works of the GFP, submission of the Environmental Impact Statement (EIS) and supplementary EIS, release of QCA part (b) final report in December 2008 and preparation of the part (c) submission to the QCA regarding proposed changes to pricing practices.
- Continued involvement as a joint proponent (with Sunwater) in developing the business case for the Lower Fitzroy River Water Infrastructure Project (LFRWIP). GAWB's focus is to ensure infrastructure on the Fitzroy River is capable of being brought on line within the required complementary timeline and that delivery of the project meets GAWB's criteria of necessary and efficient costs.

OVERVIEW OF THE YEAR

- Progressing feasibility studies for both a large and small scale desalination plant with the intent of the investigations to provide GAWB with its preferred site for a desalination plant as well as a scorecard upon which to monitor developments in technology and possible collaboration with industry.
- Increased in-house Water Quality management of sampling and testing.
- Completion of the Telemetry Control Systems Upgrade project to provide greater use of technology to achieve efficient and effective operations of GAWB water distribution network.
- Transition to in-house operations of Gladstone Water Treatment Plant and Yarwun Water Treatment Plant and associated infrastructure to commence from late June/early July 2009 including engagement of suitably qualified resources.
- Commenced implementation of the Water Fluoridation project to meet the requirements of fluoridated water supply by December 2009 under the *Water Fluoridation Act 2008 (Qld)*.

COMMERCIAL RESULTS

- Preparation of detailed submissions for the purpose of the 2010 price reset investigation by the QCA. The price reset investigation will determine the tariffs that GAWB is permitted to recover from customers from 1 July 2010 to 30 June 2015.
- Water sales of \$28.719 million (45,867 MI) compared to target sales of \$25.716 million (52,990 MI).
- Operating expenses of \$16.648 million (includes GFP expenses and LFRWIP) compared to budget expenditure of \$13.234 million).
- Net loss after tax equivalents of \$1.327 million compared to budgeted profit of \$1.186 million.
- Debt/equity ratio of 41% at 30 June 2009, slightly lower than target of 45%.
- GAWB recommended that no dividends be paid for 2008/09

CORPORATE CITIZENSHIP

- Continuous improvement in our focus and commitment to ensuring a safe workplace for employees, contractors and the public. Reporting and monitoring of safety incidents is in accordance with AS4801:2001 and in line with best practice of a water service provider.
- Compliance with environmental obligations and the reporting requirements of the Resource Operations Licence and the Resource Operations Plan

CAPABILITY

- Recruitment of suitable resources and 'capability development' in GAWB operations to continue and improve efficiency.
- Development of electronic data management systems to incorporate GAWB's numerous compliance monitoring and reporting requirements into mainstream work practices.
- Development of the business continuity strategy and framework including business impact assessment and completion of some business continuity plans.
- Employee satisfaction on target at 5.5 out of 7. The survey showed that our staff are very committed to GAWB and achieving outcomes for customers and the community. This was a pleasing result for a small and very busy workplace.

OVERVIEW OF THE YEAR

A snapshot of GAWB's financial position at 30 June 2009 is shown in the table below:

		2009	2008	% change
Profit and Dividend				
Water sales revenue ¹	\$ million	28.7	25.0	15
Total revenue	\$ million	29.2	25.5	14
Earnings before interest and tax	\$ million	5.8	8.0	(28)
Profit/(loss) after tax	\$ million	(1.3)	1.4	(193)
Dividends provided	\$ million	0	0	0
Cash Flow				
Cash flows provided by operating activities	\$ million	3.6	5.2	(30)
Balance Sheet				
Total assets	\$ million	361.2	366.2	(1)
Total equity	\$ million	192.4	191.2	1
Total borrowings	\$ million	135.0	138.8	(3)

¹Includes transfer from unearned income provision

GAWB uses key performance indicators (KPIs) to assist it to monitor the efficiency and effectiveness of its operations. GAWB considers relevant industry benchmarks in the formulation of these KPIs.

GAWB's actual performance in 2008/09 is set out in the table below with comparisons against KPI targets set out in the Performance Plan 2008/09 and results for the 2007/2008 year. The financial results for 2008/2009 have been significantly impacted by the requirement to expense (rather than capitalise) costs associated with investigations into possible desalination sites and detailed investigations for the Lower Fitzroy River infrastructure projects (undertaken jointly with Sunwater). In its forthcoming submissions to the QCA for the 2010/2015 regulatory control period GAWB will submit that these costs be included in its Regulated Asset Base and recouped in prices.

	Unit	Twelve Months Ended 30 June		
		2009 Actual	2009 Target	2008 Actual
Financial KPIs	Unit			
Earnings before interest and tax	\$ million	5.789	10.974	8.0
Return on equity	% p.a.	-0.69	-0.61	0.71
Operating expenditure v Budget ¹	%	126%	<100%	85%
Interest cover ratio	Times	1.29	1.79	1.79
Return on Assets	%	1.0%	3.04%	2.2%
Total Equity	\$ 000's	192.433	193.444	191.187
Debt/equity	%	41%	45%	42%
Cash from Operations – excess before interest	\$ million	14.377	13.391	15.68
Current year spending compared to QCA determined efficient operating costs over the regulatory period	\$ million	13.685	<8.689	10.36
Accumulated spending compared to QCA determined operating costs over the regulatory period	\$ million	40.692	<33.307	27.007

OVERVIEW OF THE YEAR

		Twelve Months Ended 30 June		
		2009	2008	
		Actual	Target	Actual
Non Financial KPIs				
Variation Actual and forecast demand	%	-13%	+/- 10%	-12%
Customers under Standardised Contract Arrangements	No.	Nil	All	Nil
Completion of CAPEX program ²	%	36%	>85%	17%
CAPEX Spend of Completed Projects ²	%	141%	90% to 100%	New Measure for 08/09
CAPEX Spend of Total Projects ² (Revised as \$ value measure for 2008/09)	\$/%	\$19.927M	\$19.827M	66%
Compliance with pressure and flow and availability requirements in both contracts and service standards	%	100%	100%	100%
Unplanned Interruptions to water supply	No.	Nil	Nil	3
Utilisation of Storage Assets	%	73%	<91%	76%
Treated water fitness to drink	%	99.6%	100%	100%
Number of non-complying tests:				
- Health related parameters ³		2	Nil	54
- Aesthetic parameters ⁴		22	<30	88
Treated Water Quality Complaints		1	Nil	Nil
Raw Water Quality Complaints		Nil	Nil	Nil
System Water losses (SLMP Targets)	%	3%	8%	0.15%
Lost time injuries	No.	2	Nil	Nil
Environmental breaches ⁵	No.	Nil	Nil	Nil
Community complaints received	No.	5	Nil	5
Percentage of KPI's achieved	%	25%	100%	71%
Percentage of deliverables delivered on or ahead of time ⁶	%	57%	>95%	35%
Employee satisfaction survey score (Max 7)	No.	5.5	5.5	5.4

1 For the purposes of calculating these indicators the effect of one off transactions (Loss on Sale of Fixed Assets, Write Off of Fixed Assets and Impairment Loss) has been excluded. Also note comments above on the impact of costs for investigation works being expensed rather than capitalised.

2 The planned CAPEX program included 50 projects. This includes the gross expenditure incurred on the GFP which has been recorded as an intangible asset – refer Note 9 of Annual Financial Report. 18 of the planned projects were completed (36%), 11 (22%) of the projects were in progress and will be carried over to 2009/10 program, 8 (16%) were deferred to future years and 13 (26%) were cancelled due to improved scoping or other works rectifying the need for capital expenditure. A further 14 projects were brought forward from the prior year and 24 additional minor projects were initiated. Capex on completed projects in 2008/2009 exceeded budget because a number of projects from 2007/2008 were completed in 2008/2009. While individual project budgets were in place, the Capex budget in the 2008/2009 Performance Plan budget had not provided for the works to be completed in that year.

3 In 2008/2009 the 2 non-complying results were mitigated through further testing and investigation. In 2007/2008, 47 of the health related non-compliances were mitigated by downstream agreements to re-treat water prior to its point of supply for consumption and 7 were considered erroneous results due to subsequent retesting showing nil non compliance. No substantiated unmitigated results were received.

4 In 2008/2009 there has been a decrease in the number of non complying tests. In 2007/2008 the aesthetic related non-compliances were due to chlorination requirements for GAWB's delivery infrastructure. These parameters have been reviewed and future reporting will be based on more reasonable parameters that relate to the infrastructure and delivery system utilised by GAWB.

5 Breach is defined as a breach of a licence condition and does not refer to exceeding an environmental licence parameter.

6 Assessed by reference to actions listed for completion in GAWB's Annual Performance Plan.

BOARD OF DIRECTORS PROFILES

MARY S. BOYDELL, B. COM., FCA, OF BRISBANE Chairperson

Appointed to the Board on 29 June 2001, appointed Chairperson from 22 February 2002 and reappointed as Chairperson for a further 3 years from 2 November 2007. During the year she was appointed as Chairperson of the Board's Audit and Risk Management Committee (ARM). Ms Boydell also serves as Commissioner of the Queensland Water Commission. Chairperson of Rural Industries Research and Development Corporation, a Director of Energex Limited, a Board member of the CSIRO and a member of the Queensland Regional Council of the Institute of Chartered Accountants (Chairman for 2008). She is a former Board Member of the Queensland Bulk Water Supply Authority and a former Director of South East Queensland Water Corporation Limited, BSES Limited. Austrade (Australian Trade Commission) and Burnett Water Pty Ltd and has significant experience in business, finance and corporate administration.



CR. CRAIG W. BUTLER, OF TARGINNIE

Appointed a Director on 17 September 2004*¹, Cr Butler was a member of Calliope Shire Council from 1997 up to the Local Government amalgamation and was elected as a Councillor of the Gladstone Regional Council (GRC) in March 2008. Cr Butler was appointed as a member of the Board's ARM committee on 28 August 2008. Cr Butler is vice president of the Central Queensland Local Government Association and a member of the Central Queensland Waste Committee. He is also a management committee member of the Capricorn Pest Management Group. Cr 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.



PETER CORONES, AM, OF GLADSTONE

A Director since 1995 prior to GAWB's commercialisation in 2000, Mr Corones was reappointed for a further 4 years on 17 September 2004*¹. During the year he was the Chairperson of the Board's Nomination and Remuneration Committee (NRM). Mr Corones has over 20 years experience in local government and in 2008 retired after two terms as Councillor and four terms as Mayor of Gladstone. A business proprietor and company Director for some thirty years, he has a long track record of extensive business and community involvement. He is a member of the Gladstone Economic and Industry Development Board, a Director of Gladstone Ports Corporation and a member of the Central Queensland University Gladstone Advisory Committee. Peter was awarded Member, General Division of the Order of Australia (AM) in January 2009.



BOARD OF DIRECTORS PROFILES

WARREN DINTE, FAICD, JP (COMM. DEC.), OF CALLIOPE

A member of the Board since 1997 prior to GAWB's commercialisation in 2000, Mr Dinte was reappointed for a further 4 years on 17 September 2004*¹. He was a member of Calliope Shire Council from 1991 up to the March 2008 Local Government amalgamation. During the year he was appointed as a member of the Capital Works and Technical Committee (CWT). Owner of a small business for 30 years until his retirement, Mr Dinte has extensive experience as secretary or member of Statutory Authorities.



ROWENA MCNALLY, LLB, MAICD, AFAIM, OF BRISBANE

Appointed to the Board on 2 November 2007 for a term up to 16 September 2009, Ms McNally is the Chairperson of Mount Isa Water Board and the Cerebral Palsy League of Queensland. Ms McNally has been a corporate lawyer for over 15 years and is a member of various legal and other committees.



JOHN J MULHERON, B. E. (CIVIL), GRAD. DIP. BUS. ADMIN., OF BRISBANE

Appointed a Director on 15 December 2000 and reappointed from 30 March 2007 up to and including 16 September 2009. During the year he was Chairperson of the Board's ARM Committee and is currently chairperson of the Board's CWT Committee. Mr Mulheron is a water industry consultant and is a former career public servant and Coordinator – General in the Queensland Premier's Department.



CR. GAIL M. SELLERS, B. ED, GRAD DIP. T. LIB., OF GLADSTONE

Appointed to the Board on 17 September 2004*¹ for a four year term up to and including 16 September 2008, she was one of the Gladstone City Council's two nominees appointed to the Board. She was a member of the Gladstone City Council from 1988 and Deputy Mayor of Gladstone from 1997 up to the amalgamation process in March 2008. She was elected as a councillor for the GRC and is Deputy Mayor of the GRC. She was a part-time Teacher Librarian however has taken some extended leave to concentrate on representing the constituents of the GRC.



*¹ - Section 605 (2a) of the Act states that the Director continues holding office after the Director's term ends until the Director's successor is appointed. As at 30 June 2009 the successors of the four (4) GRC nominated directors had not been appointed. On 14 August 2009 Cr Gail Sellers, Cr Craig Butler, Cr Clyde Cameron and Warren Dinte were appointed as directors and Peter Coronos retired. These appointments are for the period 14 August 2009 to 16 September 2010

BOARD OF DIRECTORS PROFILES

The number of meetings of the Board and its standing committees attended by each Director during the 2008/09 financial year is set out below.

Director	Board Meetings	
	No. of Meetings Attended	No. of Meetings Held
Ms M.S. Boydell	18	18
Cr. C. Butler	14	18
Mr P. Corones	13	18
Mr W. Dinte	17	18
Ms R. McNally	13	18
Mr J.J. Mulheron	16	18
Cr. G. Sellers	16	18

Director	Audit & Risk Management Committee Meetings		Remuneration & Nomination Committee Meetings		Capital Works & Technical Committee Meetings	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
Ms M.S. Boydell	7	7	1	1	-	-
Cr. C. Butler	3	3	1	1	5	5
Mr P. Corones	-	-	2	3	-	-
Mr W. Dinte	4	4	-	-	5	5
Ms R. McNally	3	3	-	-	-	-
Mr J.J. Mulheron	4	4	1	2	5	5
Cr. G. Sellers	-	-	1	2	-	-

The Board established a Board sub-committee, the CWT Committee comprising John Mulheron (Chairperson), Cr. Craig Butler and Warren Dinte. The CWT Committee provides a forum for consideration of water quality issues, monitoring of the capital works program, SAMP and other operational matters.

During the year the committee structure was rearranged and for individual members the number recorded under the heading "No. of meetings held" is the number of meetings eligible to attend.

DIRECTORS' REVIEW



MEETING WATER NEEDS

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

WATER PLANNING

Integral to GAWB's planning function is the five-yearly preparation of a *Strategic Water Plan (SWP)*. GAWB has actively pursued the objectives of the SWP released in November 2004 through the deployment of its CSS, its ongoing program of works and its 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.

A review and update of the SWP will be completed by GAWB during 2009/10.

DIRECTORS' REVIEW

GAWB must be well positioned strategically to provide commercial solutions to maintain 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 a 24/7 water supply. The successful management of this demand is dependent on GAWB's sustainable management of its current water source and its capability to maintain supply and strategically augment this capacity when required.

Of fundamental significance to GAWB's SWP was the December 2006 reservation in the Central Queensland Regional Water Supply Strategy (CQRWSS) of 30,000 ML pa from water storages planned to be developed upon the Lower Fitzroy River and development of its CSS and more specifically the GFP Project. This reservation was formalised through the amendment of the Fitzroy Basin Resource Operations Plan 2004 in July 2009.

GAWB has continued the GFP activities during the year to gain access to this reservation from the Lower Fitzroy River (approximately 120km north of Gladstone). In 2006 and 2007 Stage 1 and Stage 2a of GAWB's GFP Project involved scoping and preliminary works and developing a project structure and engaging the resources necessary to facilitate the completion of Stage 2 within the planned deadline. Stage 2B commenced in July 2007 with the objective of this stage being to secure the essential elements of the project such that construction of the pipeline and related infrastructure can be immediately triggered to access the water when required. Stage 2B was finalised during January 2009 and the Transition and Management (TAM) phase of the GFP commenced. The focus of the TAM is ensuring that GAWB's investment in the preparatory stage work is maintained in readiness for when the two year pipeline construction is triggered to meet the Gladstone Region's water needs.

In order to meet the goals and objectives outlined above the following activities were progressed and achieved during the 2008/09 year:

- Release of the QCA Part (b) report in December 2008.
- Document Acceptance Notice issued to Clough Diversified United Joint Venture (CDUJV) for the design work.
- Negotiations to develop the Risk Adjusted Price and supporting framework for updating.
- Commenced negotiation of construction contract with CDUJV, to be triggered when required.
- Lodgement of the Part (c) submission to the QCA regarding changes to pricing practices on the introduction of a second (and subsequent) source.
- Submission of the Environment Impact Statement (EIS) and supplementary EIS to ensure obligations are detailed relating to environment, corporate citizenship and stakeholders needs.
- Ongoing negotiation of land access requirements for the purpose of the Water Treatment Plant site, pumping stations and extraction points.
- Work progressed on the development of a joint business case to be submitted by Sunwater and GAWB for the Lower Fitzroy River Water Infrastructure Projects.
- Continued investigations for a desalination project.

Regardless of when augmentation is required, possessing the ability to quickly and efficiently respond to drought or demand in a very real way, improves the current reliability of GAWB's water supply to its customers. By the end of calendar year 2009, GAWB expects to have attained the ability to respond to drought or demand triggers when they arise and be able to efficiently construct the GFP within 24 months of such a trigger arising.

DIRECTORS' REVIEW



GAWB aims to balance its commercial objective of generating a commercial rate of return on the assets employed in its business (and achieving an appropriate level of revenue certainty) with the objective of ensuring the responsible use and management of the scarce water resource. GAWB recognises that, as the price for the supply of its water is reflective of the cost of infrastructure that it owns and utilises in its operations, its investment decisions must demonstrate value for money as assessed relative to the requirements of GAWB's present and future customers.

GAWB believes the approach outlined above as part of water planning provides a least cost effective risk mitigation strategy for its customers, the State, the community and GAWB.

Part of this strategy involves negotiations with Government to have a contracted obligation to hold some excess capacity for potential customers that Government is targeting for development in the Gladstone Region. Should the construction of the GFP be triggered, GAWB will make submissions to Government upon the merits of Government providing this commitment.

WATER AVAILABILITY

Despite extensive rainfall in the wider Central Queensland region in November 2008 to February 2009, there were limited inflows into the Awoonga Dam catchment with the water level steadily declining throughout the year. A modest seven day period of rainfall in February 2009 resulted in moderate inflows adding about 4 months supply capacity to GAWB's storage. The water level at Awoonga Dam at 1 July 2008 was 33.48 metres Australian Height Datum (AHD), which corresponds to a storage volume of 416,482 MI (53.6% of capacity). At 30 June 2009 storage height was at 33.35 metres AHD, which corresponds to a

DIRECTORS' REVIEW

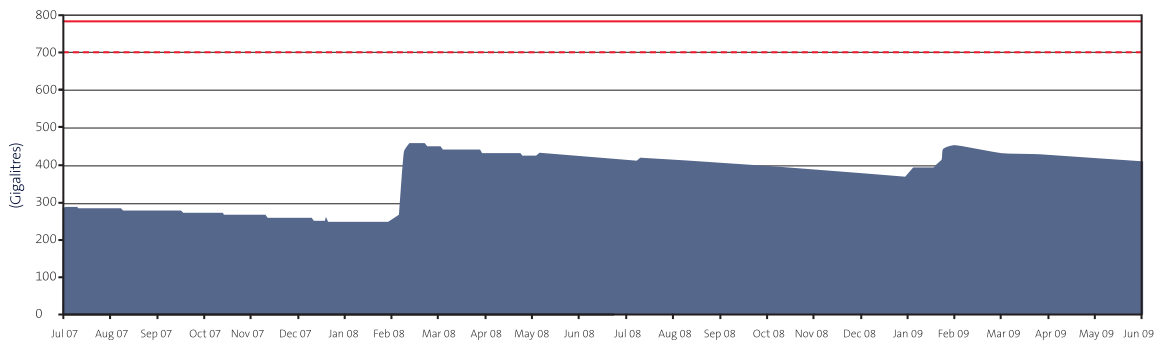
storage volume of 411,331 MI (52.95% of capacity). The lowest the level reached during the year was 32.41 metres AHD, a storage volume of 372,026 MI (47.89%) in January 2009.

Future dam levels and storage capacities can be simulated using GAWB's AWSIM-D water storage model, using various inflow and demand scenarios. This has extended GAWB's capability to determine when water restrictions will need to be implemented, and when major system augmentations are required to supply new demand or respond to drought conditions. This modelling capacity assists GAWB to ensure a secure water source for current and future customers.

Having regard to factors that include the volume of water in storage and using inflow assumptions that accord with the average of the worst 3 year sequence, the modelling undertaken by GAWB indicates the Awoonga storage can meet expected demand (within the current allocation limit of 70,000 MI) for approximately 6 years.

Having regard to the consequences of failure of supply, GAWB continually monitors the assumptions and inputs and reviews the updated outputs from its modelling.

The graph below depicts the Awoonga Dam storage volume movement for the period July 2007 to June 2009. The dotted line represents the current notional yield available to GAWB and the full red line reflects the full allocation available under the WRP and ROL once the storage has filled for the first time, as explained in the introduction.



WATER QUALITY

In 2008/09 GAWB undertook a comprehensive review of its monitoring program to ensure quality extends from the initial preparation of sampling equipment through to the management and reporting of its data. This work has led GAWB to develop additional assurance controls around its water quality testing program and will also result in it in-sourcing some testing activities during 2009/10 to further improve its performance in this critical undertaking. GAWB's key initiative to address current water quality issues and plan for the future is to continue comprehensive investigations of the treatment plants to optimise current practices and develop the capability to effectively respond to emergent water quality issues.

Through operational monitoring GAWB's current program aims to identify changes in water quality early, in order to implement a range of response protocols. In order to do this effectively GAWB ensures that the monitoring program is relevant, meets a high standard of quality assurance and is cost effective. This monitoring has been extended to include the GFP and LFRWIP under the CSS, specifically the Fitzroy River.

DIRECTORS' REVIEW

A water quality program has been designed for monitoring environmental baseline data within the Port Curtis Bay area to assist with assessing the potential location and the development of the design of a desalination plant.

GAWB intends, in early 2009/10, to implement a water quality risk assessment methodology based on the *Australian Drinking Water Guidelines 2004*. The purpose of the assessment is to determine critical control points, establish control limits for measurable parameters at these points and document corrective actions. This assessment will feed significantly into the development of GAWB's *Drinking Water Quality Management Plan*, which will be developed in 2009/10 for approval by 2011 as per regulatory requirements.

The completion of the control systems and telemetry project in 2008/09 has enabled increased monitoring coverage with real time data being available at a number of key treated water sites.

Compliance monitoring is a requirement of GAWB's Environmental Licence and GAWB's Resource Operating Licence (ROL) and is carried out and reported in accordance with these licences and the guidelines administered by the Water Service Regulator.

OPERATIONS AND ASSET MANAGEMENT

GAWB focused upon methods to improve the effectiveness and efficiency of its water treatment and delivery processes to reach best practice. The review of various service delivery options to achieve greater value for the business as well as the greater use of technology to achieve efficient and effective operation of the distribution network resulted in the upgrade of the telemetry and SCADA system. This upgrade has provided GAWB with the capability to deliver an information data highway that links all GAWB's operational infrastructure.

The ongoing review of GAWB's operational maintenance practices led to some alteration of GAWB's operation and maintenance strategy and has resulted in each facility being managed in accordance with an explicit assessment of the risk the facility poses to the achievement of GAWB's business goals and objectives. This has further led to an increased utilisation of programs of condition monitoring for some critical assets and the tighter specification of operating and maintenance practices.

GAWB has continued to improve the definition of its operational requirements to support and manage the delivery of operations and maintenance. The Board considered the most efficient method of service delivery to meet GAWB's requirements was to in-source water treatment plant operations. The in-sourcing commenced 1 July 2009. Further review is to be undertaken in 2009/10 to determine the efficiencies of in house operations of electrical and mechanical requirements including market testing and assessment of appropriate resources.

In preparation for the 2010 Price Reset process, GAWB has engaged a number of consultants for the purpose of benchmarking the service delivery model, GAWB's capability and resource requirements. The outcome of this process is to provide confidence in the current operational model and resource level and assist in the justification of what GAWB considers to be efficient and effective operational expenditure.

DIRECTORS' REVIEW

COMMERCIAL RESULTS

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

FINANCIAL

GAWB incurred an operating loss of \$1.327 million after tax equivalents for the year ended 30 June 2009 (2008 profit \$1.363 million).

Full year sales totalled \$28.719 million (45,867 MI) being 15% higher than the \$24.974 million (46,970 MI) in sales for 2008. The overall level of sales revenue was higher than the target for the year of \$25.716 million (52,990 MI).

Net cash generated by operating activities totalled \$3.626 million, (2008 \$5.173 million). Overall GAWB's cash position was drawn down by \$18.064 to \$10.629 million reflecting decisions to fund Capex from cash holdings rather than borrowings.

Capital expenditure (excluding GFP) for the year was \$7.025 million, principally in relation to upgrades to the Control Systems and the Yarwun Water Treatment Plant, High Voltage Upgrade at Awoonga Dam and Land Rationalisation.

Total equity has increased by 1.0% to \$192.433 million at 30 June 2009 from \$191.187 million at 30 June 2008. No additional borrowings were drawn down during the year and repayments amounted to \$3.8 million. Consequently GAWB's debt/equity ratio has decreased from 42% at 30 June 2008 to 41% at 30 June 2009.

GAWB has recommended that no dividends be paid for the year ended 30 June 2009.

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 water that is supplied to each of them. GAWB has developed its commercial framework to be mindful of these differing views.

GAWB's current pricing practices incorporate recommendations previously made by the QCA as part of the price review process, to the extent the recommendations have been accepted by the QCA Ministers. GAWB is currently preparing its submissions to the QCA for the 2010 price reset and sees this as an opportunity to review, refine and improve current pricing principles and practices.

GAWB has two broad forms of contract, a storage contract detailing the terms and conditions upon which GAWB will provide agreed quantities of water and a delivery contract detailing the terms and conditions upon which GAWB will deliver the water through its pipeline infrastructure to the point of supply to the customer. The delivery contract provides for the option to receive treated water. GAWB is seeking to transition all customers from their existing arrangements to new agreements that are consistent with its standard terms and conditions.

In December 2008, the QCA released its Final Report "Gladstone Area Water Board: Investigation of Contingent Water Supply Strategy Pricing Practices Part (b)" on GAWB's proposed criteria for triggering construction of the appropriate augmentation in the event of drought or unexpected additional demand. In June 2009 GAWB lodged its submission for Part (c) of the investigation that deals with GAWB's proposed changes to pricing practices required to enable GAWB to recover its efficient costs of the system as appropriately augmented.

DIRECTORS' REVIEW

CORPORATE CITIZENSHIP

Goal: To be regarded as a responsible corporate citizen.

GAWB has continued to provide free recreational facilities including lookouts, picnic areas and boat ramps at Lake Awoonga for recreational use and enjoyment by the community. During the year GAWB replaced some of the play equipment to modernise the facilities and make available more challenging equipment. For a nominal fee GAWB leases land to the Scout Association and Gladstone Bowhunters.

GAWB's Fish Hatchery in Gladstone had a productive year with 173,300 Barramundi and 57,900 Mangrove Jack fingerlings released into Lake Awoonga. GAWB acknowledges the ongoing support from the Gladstone Ports Corporation Limited which provides the facilities at Lord Street to GAWB at no cost.

Expenditure on activities of a "good corporate citizen" nature during the 2008/2009 financial year principally comprised sponsorships of community activities in the Gladstone Region amounting to \$15,991. The major component of monies expended included sponsorship of the Management Excellence Awards (\$2,000) and the Seafood Festival Sponsorship (\$8,000). Other minor commitments included sponsorship for the International Youth Coastal Conference and the GAGAL Awards Night.

GAWB continues to be a member of Gladstone Area Promotion and Development Ltd (GAPDL) and a sponsoring member of the Port Curtis Integrated Monitoring Program (PCIMP) which is co-ordinated by the Central Queensland University Centre for Environmental Management. GAWB is also represented on the Boyne/Calliope sub-committee of the Fitzroy Basin Association (FBA), the Capricorn Pest Management Group and Gladstone Economic Industry and Development Board (GEIDB).

GAWB is committed to ensuring a safe workplace. It relies on both employees and contractors to perform a substantial element of its operational activities, which must be carried out in a manner that ensures all activities are safe and thus it looks to improve the shared understanding of its safety practices and the obligations imposed by Workplace Health and Safety legislation. This understanding extends to the associated responsibilities imposed by the *Workplace Health and Safety -Act 1995 (Qld)*, *Electrical Safety Act 2002 (Qld)* and *Environment Protection Act 1994 (Qld)*. GAWB's reporting and monitoring of safety incidents is in accordance with AS4801:2001 and in line with best practice of a water service provider.

GAWB has a full time Safety Supervisor who is responsible for ensuring compliance with the legislated safety obligations and who regularly engages with management, staff and contractors on safety issues. An annual management review is undertaken for safety issues and targets including incident reporting requirements, work method statements and 'Take 5' safety assessments for work place tasks. Ongoing internal audits of operating procedures are conducted and regular training of all staff in safety procedures is undertaken.

CAPABILITY

Goal: To ensure the organisation has the ability to carry out its mission.

CORPORATE GOVERNANCE, PLANNING AND REPORTING

GAWB's draft Corporate Plan 2009/10 – 2013/14 and Performance Plan 2009/10 were submitted to the Minister at the beginning of May 2009. These plans outline GAWB's priorities including:

- Improving the reliability and quality of the supply of water to customers.
- Gaining access to the 30,000 ML reserved under the CQRWSS from the Fitzroy River with continued involvement in the LFWRIP.

DIRECTORS' REVIEW

- Delivery of appropriate outcomes from the 2010 QCA Price Reset Process.
- Continuing to develop business and information systems that are relied upon to ensure that GAWB operations are undertaken as efficiently and safely as is reasonably possible.

LAND MANAGEMENT

GAWB owns in excess of 26,000 hectares of land in the Boyne Catchment; is trustee for a further 885 hectares of State Reserves and is lessee for over 1,400 hectares of State leasehold land. The total amount of land owned/managed includes inundated land.

GAWB continues to use best land management practice for grazing and the control of weeds and works closely with neighbours, agistees, GRC and Fitzroy Basin Association on matters associated with such.

DIRECTIONS, NOTICES AND OTHER STATUTORY REQUIREMENTS

During the year ended 30 June 2009:

- There were no amendments to GAWB's Performance Plan.
- GAWB did not receive any directions, including any community service obligations.
- There were no changes to GAWB's Performance Plan that affected its financial performance.
- There was no overseas travel undertaken by GAWB's Directors or Officers during the 2008/09 year.

EXPENDITURE ON CONSULTANCIES IN 2008/09 COMPRISED:

Category	Unit	2008/09
Management		
Engineering	\$000's	\$1,070
Legal	\$000's	\$5
Total		\$1,075
Finance/Accounting		
Taxation	\$000's	\$13
Accounting	\$000's	-
Total		\$13
Regulatory Service Fee	\$000's	\$109
Pricing	\$000's	\$343
Information Technology	\$000's	\$35
Total Consultancies Expenditure		\$1,575
Consultancies awarded by Value		No.
Less than \$10,000		6
\$10,001 - \$100,000		12
More than \$100,000		6
Total		24

GOALS FOR 2009 - 2010



In carrying out its functions GAWB has identified four key interlinked business goals which define excellence for GAWB as a water business. GAWB aims to manage its business so as to achieve the best possible balance of these goals.

The four primary business goals are:

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 CITIZENSHIP

To be regarded as a responsible corporate citizen.

CAPABILITY

To ensure the organisation has the ability to carry out its mission.

Each of the four primary business goals are supported by a number of key performance measures and business improvement projects and initiatives that are set out in GAWB's 2009/10 Performance Plan.

A number of the projects were the focus of improvement in the 2008/09 year and progress against these has been provided throughout this annual report. These key business improvements will be finalised in 2009/10. Progress against each of these projects will be contained in GAWB's 2009/10 quarterly reports by reference to milestones articulated in the individual project plans.

ENVIRONMENT



GAWB's principal function is the storage, management and supply of water to local authorities and major industrial customers. Environmentally, this necessitates taking measures to monitor and manage the quality of present and future water supplies.

The price reset review to be undertaken by the Queensland Competition Authority during 2009/10 is of critical long term importance to GAWB. Importantly, it will enable GAWB to make submissions that will incorporate the knowledge that it has developed around its business since the last re-set process (2005) to provide more accurate and sophisticated forecasts of efficient expenditure and demand and continue the evolution of its already advanced commercial framework.

These submissions are planned to provide a solid platform upon which GAWB can operate into the future to deliver the financial return permitted by its regulatory model whilst meeting customer needs in an efficient and sustainable manner. Accordingly, it is of critical importance that appropriate outcomes are achieved through the 2010 price reset review.

QUALITY AND ENVIRONMENTAL AND SAFETY MANAGEMENT SYSTEMS

GAWB has maintained certification of its Quality Management Systems (ISO 9001:2000), Environmental Management Systems (ISO 14001:2004) and Safety Management System (AS4801:2001). All three management systems are fully integrated and allow GAWB to better manage risks associated with its operations.

RESOURCE OPERATING PLAN (ROP)

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 (ROP)*. Under the Boyne River ROP GAWB was issued with a Resource Operations Licence (ROL),

ENVIRONMENT

operating rules for Awoonga Dam, an interim allocation of water of approximately 70,000 ML p.a. and a water and aquatic ecosystem monitoring program. Upon filling for the first time, this allocation is set to increase to 78,000 ML p.a.

In 2009/10 GAWB will finalise its preparations for the review of the WRP by the regulator, the Department of Environment and Resource Management (DERM), which is due in 2011. This process is expected to result in the renewal of the Boyne River ROP and GAWB's ROL, both of which are critical for ensuring that GAWB has certainty for the continuation of its water allocation beyond the current expiry date on 1 September 2011.

As a ROL holder under the ROP, GAWB is required to implement water quantity, aquatic ecosystem and water quality monitoring programs. GAWB undertakes extensive water quantity and quality monitoring programs in the streams leading into Lake Awoonga, in the lake itself, at the intake to the pump stations and throughout the treatment and delivery network. The information obtained through this monitoring regime provides critical data for assessing and understanding the quality and quantity of the water supply available to customers. The data is also used to inform GAWB's water release obligations under the operating rules of the ROP. During the year GAWB released 22,000 ML for the environment downstream of the dam

As required, four quarterly data transfer reports were submitted to DNRW and an annual report in September 2008.

ENVIRONMENTAL ACTIVITIES

GAWB has in place an extensive water quality and aquatic ecosystem monitoring program to assess ecosystem health in relation to GAWB's activities.

During 2008/09 GAWB continued with the Vegetation Regeneration Plan. This plan aims to regenerate and protect 300 hectares of land classified as previously supporting endangered ecosystems. Reports from the Horticulture and Forestry Research section of the Department of Primary Industries and Fisheries show the project has progressed well with excellent survival and growth rates being achieved. Flora and fauna surveys have been conducted to confirm the increasing diversity and habitat complexity of the sites over time.

GAWB is committed to reducing pollutants, protecting the natural environment and reducing its carbon footprint. This includes implementing the *Strategic Energy Efficiency Policy* for Queensland Government Buildings, 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 participates 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. This results in GAWB being carbon neutral with regard to its vehicle and travel requirements. GAWB currently emits an estimated 15 kilo tonnes of carbon primarily through the usage of electricity for water pumping requirements. Although the amount of emission is currently below NGER requirements, GAWB is continuing with its review of energy needs to eventually participate in carbon sink or plantation requirements for the offset of its carbon usage to result in GAWB being carbon neutral by 2012 as foreshadowed in GAWB 2006/07 Performance Plan.

ENVIRONMENT



WATER QUALITY MONITORING PROGRAM

Monitoring water quality in Lake Awoonga and maintaining the appropriate quality standards throughout the distribution system in order to provide water of fit for use quality is one of GAWB's fundamental responsibilities.

GAWB has a comprehensive monitoring program for water quality in Lake Awoonga, which has shown water quality in Awoonga to be very good. GAWB monitors aesthetic and health parameters for potable water against the National Health and Medical Research Council's Australian Drinking Water Guidelines. Water quality results and incidents are reported as per the WSSRA, as well as in accordance with GAWB's Performance Plan. GAWB reported two health-related water quality incidents in 2008-09. These incidents were reported to the Office of the Water Supply Regulator, investigated and acted on appropriately. A number of aesthetic non-compliances were also recorded, the majority of which were a marginal deviation from the target dissolved oxygen guideline.

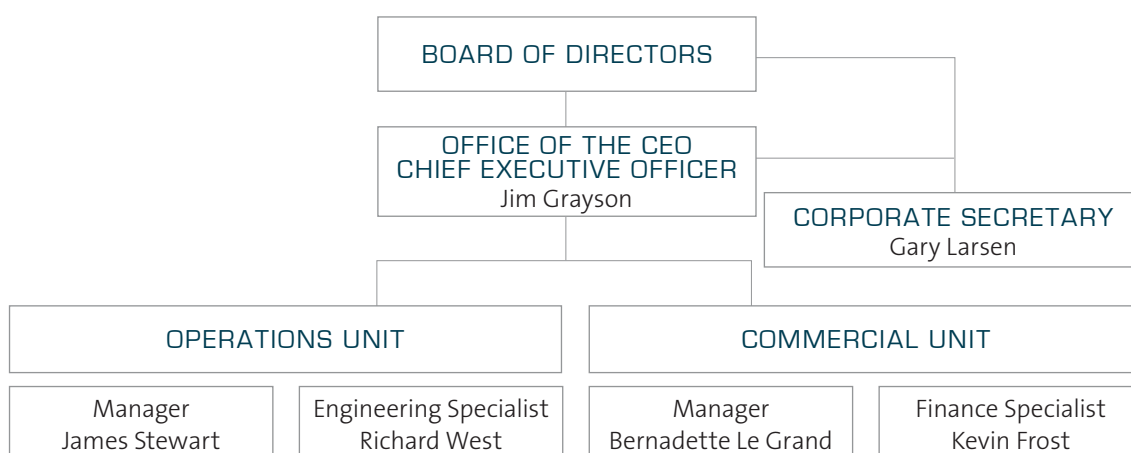
GAWB has undertaken several improvement initiatives during 2008-09, including implementation and upgrading of several chlorination booster stations to ensure that disinfection residual is maintained to customer supply points. GAWB has also developed a project to increase the in-house management of its water sampling and testing oversight of the water quality monitoring program, which was previously contracted out. This is regarded as a key quality initiative to build GAWB's internal capabilities.

GAWB is planning further improvements to its monitoring and treatment program to be undertaken in 2009/10 that are reflective of the high priority that GAWB places upon its provision of safe and reliable water supply. In particular, work will commence on the development of a Drinking Water Quality Management Plan, in accordance with the *Water Supply (Safety & Reliability) Regulations 2008*.

EMPLOYEES

Following the resignation of the Corporate Services Business Unit Manager, GAWB management gave further consideration to the unit structure and reporting hierarchy. The Business Units were re-organised into three units (originally four) and the remaining Office of Chief Executive, Operations and Commercial Business Units assumed various roles previously undertaken through the Corporate Services Unit.

GAWB's organisational structure as at 30 June 2009 was as follows:



As at 30 June 2009 GAWB employed a total of 49 employees (44 full time equivalents) of which 10 were covered by an award. 48 of the employed staff are now engaged under a current employment contract and one long term employee is still in negotiations regarding the contract arrangements.

Building capabilities and ensuring adequate resources for the business were key issues and a focus for GAWB's Management during the year. This resulted in a number of additional staff resources appointed during the 2008/09 financial year and proposed recruitment for 2009/10 to ensure critical mass and the capabilities to efficiently deliver the objectives of the business.

Each additional appointment follows a selection process and position value assessment to ensure appropriate remuneration levels are set and value for money has been obtained in the recruitment. The growth in staff levels is considered to be representative of both a very busy stage in GAWB's development, but also historical levels of understaffing to deliver the level of service required by the Gladstone region.

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 & 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.

During the 2008/09 year there were no voluntary early retirement packages offered to GAWB's employees and there were no retrenchments or redundancies offered during the year. For clarity, one employee was terminated by mutual agreement due to other circumstances that had arisen but was not considered a voluntary retrenchment or retirement.

GAWB has a Workplace Health & Safety Committee (which meets six weekly) of which the principal focus is the continuous improvement in risk management strategies and mitigation of identified hazards. GAWB's full time employed Safety Supervisor has the role of developing and management of the safety systems for GAWB.

CORPORATE MANAGEMENT

JIM GRAYSON LLB, LLM ACIS, POST GRAD DIP COMM.

CHIEF EXECUTIVE OFFICER

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



GARY LARSEN (JP QUALIFIED)

CORPORATE SECRETARY/HUMAN RESOURCES MANAGER

Gary joined GAWB as Corporate Secretary in May 2006. Prior to coming to GAWB, 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.



JAMES STEWART B. ENG (MECH) DIP. PROJECT MANAGEMENT

Registered Professional Engineer of Queensland

OPERATIONS MANAGER

James joined GAWB as Engineering and Projects Manager in June 2006 and became Operations Manager in December 2008. Prior to joining GAWB, James worked in local process, fabrication and construction industries and consulting engineering services since 1978. His previous involvement with GAWB included the raw water system augmentation and pump station upgrade during 1998 – 2000 and a further upgrade of the pump station in 2001/02.



RICHARD WEST B. ENG (CIVIL) GRAD DIP. ENGINEERING MAINTENANCE MANAGEMENT

Registered Professional Engineer of Queensland

ENGINEERING SPECIALIST

Richard joined GAWB as Engineering Specialist in March 2008. Richard has over 25 years experience in the water industry. His experience 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.



CORPORATE MANAGEMENT

PHIL SURTEES BSC. (HONS.), IWEMDIP

STRATEGIC PLANNING MANAGER

Phil joined GAWB as the Works and Operations Manager in November 2005, moved onto become the Operations Business Unit Manager in September 2006 and since January 2009 has been the Strategic Planning Manager responsible for the Gladstone to Fitzroy pipeline and desalination projects. Prior to his immigration to Australia he spent most of his working life within the water industry in the UK, having worked for Thames Water, Wessex Water and as an independent water management consultant. Thirteen years of this was spent in a variety of operational management roles, varying from change and contract management, through to Engineering and site management.



BERNADETTE LE GRAND LLB

COMMERCIAL UNIT MANAGER

Bernadette joined GAWB as Corporate Counsel in July 2006 after having worked for many years as a solicitor in private practice, predominately in the fields of commercial and property law and litigation. Bernadette was appointed Commercial Unit Manager in September 2006.



KEVIN FROST B.BUS (ACCTG) B.BUS (INFO SYS) CPA

FINANCIAL CONTROLLER

Kevin joined GAWB as Financial Controller in April 2007. His previous business experience includes 6 years as Corporate Accountant for a local major mining and civil construction company. Prior to that Kevin worked for the Gladstone City Council in finance and accounting roles.



CORPORATE GOVERNANCE



Features of GAWB's Corporate Governance are:

BOARD OF DIRECTORS AND ITS COMMITTEES

The Board is responsible for GAWB's overall Corporate Governance including setting its strategic direction, establishing goals for management and monitoring the achievement of those goals. It has established a Nomination and Remuneration Committee (NRM), an Audit & Risk Management Committee (ARM) and Capital Works and Technical Committee (CWT) to assist in the execution of its responsibilities and, where the need arises, constitutes a special purpose committee.

The Board has established a framework for the management of the organisation including an overall framework of internal control, a business risk management process, an assurance program and a code of conduct incorporating appropriate ethical standards.

Each Director has the right to seek independent professional advice at GAWB's expense. The Chairperson's prior consent to the obtaining of such advice is required however consent will not be unreasonably withheld.

COMPOSITION OF THE BOARD

Details of Directors in office during the 2008/09 year are set out on pages 9 and 10 of the Annual Report. The Act provides for seven Directors appointed for terms of up to four years by the Governor in Council. In accordance with section 599 of the Act, four Directors are nominated by the GRC. The Chief Executive of the Department of Natural Resources, Mines and Energy nominates the remaining three positions, one of whom 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 the Director continues holding office after the Director's term ends until the Director's 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. This 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 currently has 11 scheduled meetings and meets at such other times as may be necessary to address any specific matters that may arise.

The agenda for meetings is approved by the Chairperson in consultation with the Chief Executive Officer and the Corporate Secretary. The Chief Executive Officer's Report is a standing item in each agenda. The agenda and board papers are circulated to each board member in advance of each meeting. A variety of representatives of GAWB Management are regularly involved in Board discussions, with Directors also enjoying other opportunities for contact with a wider group of employees.

The Board has a program of site tours to allow it to inspect infrastructure assets, proposed works such as the GFP and any emerging risk issues raised. These tours are held in conjunction with the scheduled meetings with a proposed tour schedule agreed at the beginning of each calendar year. This tour schedule is provided to each Board meeting for the purpose of Board members planning requirements and revision dependent on issues arising during the year.

NOMINATION & REMUNERATION COMMITTEE (NRM)

At the commencement of the 2008/09 financial year the NRM comprised Ms Boydell (Chairperson), Mr Corones and Cr Butler. In August 2008, the composition of the NRM changed to Mr Corones (Chairperson), Mr Mulheron and Cr Sellers. The Board has approved a Charter for the NRM which details the responsibilities of the Committee on matters concerning:

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

The NRM meets as required and met on three occasions during the year.

AUDIT & RISK MANAGEMENT COMMITTEE (ARM)

At the commencement of the 2008/09 financial year the ARM comprised Mr Mulheron (Chairperson), Mr Dinte and Ms Boydell. In August 2008, the Board agreed to a revised Committee comprising of Ms Boydell (Chairperson), Cr Butler and Ms McNally. The Chief Executive Officer, other senior executives, external auditors and internal auditors are invited to attend ARM meetings at the discretion of the Committee.

The role of the ARM is to assist the Board in discharging its responsibility of oversight and corporate governance of the organisation. The responsibilities of the ARM include:

CORPORATE GOVERNANCE

To assist the Board of Directors to discharge its responsibility to exercise due care, diligence and skill in relation to GAWB's:

- Internal control system.
- Monitoring and controlling of business risk.
- Reporting of financial information to users of financial reports.
- Application of accounting policies.
- Financial management.
- Business policies and practice.
- Protection of GAWB's assets.
- Compliance with applicable laws and regulations.
- To improve the creditability and objectivity of the accountability process.
- To improve the effectiveness of the internal and external audit functions, and the communications between the Board of Directors and external and internal auditors.
- To facilitate the maintenance of the independence and objectivity of internal auditors under the internal audit program.

The ARM operates pursuant to a formal Charter approved by the Board. This Charter is reviewed on an annual basis to ensure appropriateness and compliance with 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 ARM adopted a three (3) year rolling internal audit program which is reviewed for appropriateness annually.

GAWB employs a risk management system that is based upon the *Australian/New Zealand Risk Standard on Risk Management (AS/NZS 4360:2004)*. This is in accordance with the requirements of section 84 of the *Financial Management Standard 1997 (Qld)*. The risk management system facilitates the uniform assessment of risks across the different business activities undertaken by GAWB assessed relative to GAWB's key goals. A risk review workshop is conducted annually with GAWB's internal auditor and the Business Unit Managers report on the appropriate risks to the Board on a monthly, quarterly and annual basis. The ARM committee is provided with reports of risk assessment and review of corporate risks in accordance with the Board approved Risk management policy and manual.

The ARM is scheduled to meet quarterly and otherwise as required. It met on eight occasions throughout the year at which the external auditor attended on three occasions and the internal auditor (KPMG) on three occasions.

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 the Board with 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 ARM acts as a forum to oversee the planning, performance and reporting of the Internal Auditor.

CORPORATE GOVERNANCE

The ARM 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 ARM is to oversee 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 a review of payment and purchasing processes, payroll functions, debtor management, IT systems, review of internal governance arrangements for the GFP and a review of the GFP project costs.

The ARM 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.

CAPITAL WORKS AND TECHNICAL COMMITTEE (CWT)

In August 2008 the Board constituted the CWT to operate in accordance with the Charter. The Committee comprises Mr Mulheron (Chairperson), Mr Dinte and Cr Butler.

The objective of the CWT is to assist the Board to discharge its responsibilities to GAWB 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.
- Oversight of major capitals works projects (e.g. GFP Pipeline).
- Overseeing the Strategic Asset Management Plan (SAMP).
- Considering other operations matters as referred from time to time.

The Committee receives monitors and manages actions arising from external reviews and internal audit findings on processes related to capital works and technical matters e.g. Dam Safety Regulator condition audits, 5 year Dam Safety review and other operational audit reports as they arise.

The CWT met on five occasions throughout the year.

REMUNERATION POLICY

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.
- 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 seven 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.

CORPORATE GOVERNANCE

In setting pay levels, GAWB has adopted a 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 NRM, 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 NRM 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 NRM) of the aggregate change in staff remuneration resulting from changes to the grade remuneration ranges and changes to each employees 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 NRM.

GAWB's Senior Management team was invited to participate in the Senior Executive Performance Bonus Plan (SEPBP) effective from 1 July 2008. The SEPBP was noted by the then Minister in correspondence dated 24 July 2008. In the first quarter of 2009/2010, performance bonus amounts applicable for the financial year ended 30 June 2009 will be proposed by the CEO and recommended to the Board by the NRM. Payment will be made after Board approval.

Details of key management personnel compensation and senior executives' remuneration are disclosed at note 30 to the Financial Report.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework whilst recognising that no cost effective internal control system is capable of preventing all errors and irregularities.

GAWB has a hierarchy of policies, procedures and guidelines that the Board relies upon to ensure its effective control of the operations to achieve GAWB's key business goals. These are subject to internal audit and review to ensure compliance.

GAWB's organisational structures are designed to provide an appropriate division of responsibility and accountability supported by the appropriate selection and training of qualified personnel to produce the desired outcomes.

ETHICAL STANDARDS

All Directors, senior executives and other employees are expected to act lawfully, in a professional manner and with the utmost integrity and objectivity in their dealings with customers and consumers, suppliers, advisers and regulators, competitors, the community and each other, striving at all times to enhance GAWB's reputation and performance. GAWB's team values of Professionalism, Accountability, Communication and Trust are aligned to assist in meeting the ethical standard expectation.

CORPORATE GOVERNANCE

OTHER REPORTING REQUIREMENTS

CORPORATE HOSPITALITY AND ENTERTAINMENT EXPENDITURE

During the year the major cost for corporate hospitality and entertainment expenditure was the Gladstone Seafood Festival of which GAWB is the major sponsor. As part of this sponsorship, GAWB invites the key customers and suppliers of the business to a corporate luncheon held during the Seafood Festival. The nature of the function is one of stakeholder relationship development at which GAWB's management team members and the key business contacts for customers and suppliers meet and engage with each other during the luncheon. The costs incurred for this function in September 2008 were \$5,245.

The Board approved Staff Christmas party was held on 7 December 2008. The function included catering (BBQ), some drinks and small gifts for the children. The number of attendees for GAWB staff and family members was approximately 40 adults and 20 children. GAWB's employees attended to the cooking and food preparation to assist in reducing costs of the function. The final costs resulted in expenditure of \$1,150.

The Board and executive management team held a number of briefing and information sessions in Brisbane in the month of July 2008 for the purpose of informing key stakeholders such as QCA, QTC, DERM, Sunwater and major industrial customers such as Rio Tinto, CSE and CPM. During these sessions GAWB presented an overview of the progress of the GFP project, preparation for the QCA price reset process, review of the preparatory expenditure on the GFP and the Lower Fitzroy River Infrastructure joint venture. Four of these briefing sessions included the provision of corporate hospitality and entertainment expenditure as defined under the guidelines. The total costs of the four sessions totaled \$4,441, however this expenditure was considered necessary in the ongoing development of business relationships with customers, Government and other key stakeholders.

INFORMATION SYSTEMS AND RECORDKEEPING

GAWB implemented a new electronic document management record system in 2008/09 to assist with ongoing recordkeeping and information systems requirements.

FREEDOM OF INFORMATION

GAWB reports on its Freedom of Information (FOI) activities during the period in a separate annual FOI report provided under the requirements of the *Freedom of Information Act 1992*.

PUBLIC SECTOR ETHICS

The GAWB Code of Conduct gives a shared vision of how GAWB's officers and employees should act in an ethical manner when involved in the activities performed by GAWB. The Code is based on five ethical principles and provides that extra guidance needed when trying to decide 'the right thing to do'. Application of these ethical principles assists to further improve GAWB's business and to project an even more positive image of professionalism and integrity to the wider community and to each other.

The Code applies to all GAWB Board members and employees.

WHISTLEBLOWERS PROTECTION ACT 1994

During the 2008/09 year, GAWB did not receive or refer any disclosures under Section 28A of the *Whistleblowers Protection Act 1994* and was not required or requested to substantially verify any disclosures.

CORPORATE GOVERNANCE



REPORTING TO THE RESPONSIBLE MINISTER

The Board of Directors aims to ensure that the Minister for Natural Resources, Mines and Energy 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 Key Performance Indicators 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 such 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 Key Performance Indicators set out in the Performance Plan and details of future developments.
- The Annual Report is provided to GAWB's Minister within four 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 Act, *Financial Administration and Audit Act 1977* and *Financial Management Standard 1997*.

FIVE YEAR SUMMARY

	2005 ²	2006 ²	2007 ³	2008	2009
(megalitres)					
Water Sales					
Untreated Water	32,957	37,336	42,528	37,256	35,872
Treated Water	10,808	10,869	10,785	9,714	9,995
Total	43,765	48,204	53,313	46,970	45,867
(dollars per megalitre)					
Average water price					
Untreated water	334.95	349.23	331.35	405.68	
Treated water	703.73	773.31	828.03	960.37	
Reservation & Storage ¹					311.40
Delivery - Untreated water ¹					312.25
Delivery - Treated water ¹					685.47
(thousands of dollars)					
Water sales revenue ²	18,753	21,540	23,124	25,018	28,719
Total revenue	21,181	24,722	25,532	25,503	29,157
Depreciation and amortisation	(5,638)	(6,105)	(6,273)	(5,642)	(6,720)
Earnings before interest and tax	7,135	8,763	5,826	7,997	5,789
Profit/(loss) before tax	(2,782)	1,587	(810)	1,323	(1,884)
Income tax (expenses)/benefit	1,708	(436)	(140)	40	557
Profit/(loss) after tax	(1,074)	1,151	(950)	1,363	(1,327)
Total equity	222,016	223,354	189,843 ⁴	191,187	192,433
Total assets	405,853	407,742	358,990	366,242	361,248
Borrowings	152,010	147,706	142,924	138,805	134,970
Cash flows from operating activities:					
Cash from operations before tax	5,015	9,374	5,885	5,438	6,639
Income tax (paid)/refunded			292	(265)	(3,013)
Cash from operations after tax	5,015	9,374	6,177	5,173	3,626
Capital expenditure	1,125	3,709	1,983	18,826 ⁵	20,448 ⁵
(percent)					
Return on equity	-0.48	0.51	-0.46	0.71	-0.69
Debt: equity ratio	41	40	43	42	41
(times)					
Interest cover ratio	1.29	1.85	1.63	1.79	1.29

¹ New metric from 2008/09 as pricing method changed

² Including connection charges

³ Comparative figures have, where applicable, been adjusted to place them on a comparable basis with current year figures. In particular, 2005 figures have been adjusted to incorporate AEIFRS adjustments in accordance with the statutory financial statements.

⁴ Restated for prior year adjustment

⁵ Capital Expenditure includes the gross expenditure incurred on GFP (capitalised as intangible asset) – refer Note 9 of Notes to Financial Report)

FINANCIAL REPORT



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INCOME STATEMENT

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$000	2008 \$000
Revenue	6	28,719	25,018
Other Income	7	438	485
Labour and on costs		(3,974)	(3,377)
Contracted, professional, technical and other services		(4,043)	(2,747)
Consultants		(1,575)	(988)
Depreciation	8	(6,720)	(5,642)
Electricity		(1,002)	(919)
Insurance		(549)	(555)
Rates		(306)	(211)
Loss on sale of asset		(291)	(190)
Gladstone to Fitzroy Pipeline Project (including CSS)		(488)	(855)
Desalination Feasibility Study		(351)	(478)
Lower Fitzroy Infrastructure		(2,124)	-
Other expenses		(1,945)	(1,544)
Results from operating activities		5,789	7,997
Financial income	11	1,037	2,097
Financial expenses	11	(8,710)	(8,771)
Net financing costs		(7,673)	(6,674)
Profit/(loss) before income tax equivalents		(1,884)	1,323
Income tax equivalents (expense)/benefit	12	557	40
Profit/(loss) for the year		(1,327)	1,363

The notes on pages 40 to 72 are an integral part of these financial statements.

STATEMENT OF RECOGNISED INCOME AND EXPENSE

STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$000	2008 \$000
Profit/ (loss) for the year		(1,327)	1,363
Total recognised income and expense for the year		(1,327)	1,363

The amounts recognised directly in equity are disclosed net of tax equivalents – see Note 12 for tax equivalent effect.

BALANCE SHEET

BALANCE SHEET

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$000	2008 \$000
Current assets			
Cash and cash equivalents	14a	10,629	28,693
Trade and other receivables	15	5,264	3,471
Current tax asset	16	241	-
Total current assets		16,134	32,164
Non-current assets			
Property, plant and equipment	8	315,561	315,533
Intangible assets	9	25,346	14,581
Deferred tax assets	23	4,198	3,946
Biological assets	17	9	18
Total non-current assets		345,114	334,078
Total assets		361,248	366,242
Current liabilities			
Trade and other payables	18	6,004	4,846
Provision for income tax		-	1,465
Loans and borrowings	19	4,024	3,518
Employee benefits	20	418	383
Provisions	21	118	118
Deferred income	22	507	2,343
Total current liabilities		11,071	12,673
Non-current liabilities			
Loans and borrowings	19	130,946	135,287
Employee benefits	20	82	48
Deferred income	22	10,388	10,414
Deferred tax liabilities	23	16,328	16,633
Total non-current liabilities		157,744	162,382
Total liabilities		168,815	175,055
Net assets		192,433	191,187
Equity			
Issued Capital	13	63,711	61,647
Asset Revaluation Reserve	13	117,247	116,916
Retained earnings	13	11,475	12,624
Total Equity		192,433	191,187

The notes on pages 40 to 72 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	2009 \$000	2008 \$000
Cash flows from operating activities			
Cash receipts from customers		32,604	27,176
Interest received		1,037	2,097
Cash payments to suppliers and employees		(18,227)	(11,498)
Borrowing costs paid		(8,775)	(12,337)
		6,639	5,438
Income taxes (paid)/refunded		(3,013)	(265)
Net cash from operating activities	14b	3,626	5,173
Cash flows from investing activities			
Acquisition of property, plant and equipment		(9,683)	(4,245)
Acquisition of intangible assets		(10,785)	(14,581)
Proceeds from sale of property, plant and equipment		40	31
Capital subsidies received		-	10,000
Net cash from investing activities		(20,428)	(8,795)
Cash flows from financing activities			
Proceeds from equity contributions		2,573	-
Repayment of borrowings		(3,835)	(4,119)
Net cash from financing activities		(1,262)	(4,119)
Net increase in cash and cash equivalents		(18,064)	(7,741)
Cash and cash equivalents at 1 July		28,693	36,434
Cash and cash equivalents at 30 June	14a	10,629	28,693

The notes on pages 40 to 72 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

1. REPORTING ENTITY

Gladstone Area Water Board ('GAWB') is a statutory body constituted under the *Water Act 2000* and is a Category 1 Water Authority and registered service provider under the Act. GAWB is domiciled in Australia. The address of GAWB's principal place of business is 147 Goondoon Street, Gladstone, Queensland.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the *Financial Administration and Audit Act 1977* and the disclosure requirements of the *Financial Management Standard 1997*.

The financial report has been prepared 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 27 August 2009.

(b) Basis of measurement

The financial report has 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 stated at fair value.

The methods used to measure fair value are discussed further in Note 8.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars.

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.

In particular, information about significant areas of estimation uncertainty 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(f) – impairment of assets
- Note 8 – useful lives and revaluation of property, plant and equipment
- Note 9 – useful lives of intangible assets
- Note 20 – employee benefits

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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.

For the purposes of the Cash Flow Statement, 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.

Accounting for finance income and expense is discussed in Note 3(k).

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. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes there are recognised in profit or loss.

Other

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

(b) Property, plant and equipment

(i) Recognition and measurement

All assets acquired, including property, plant and equipment, are initially recorded 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, and all materials used in construction and direct labour. Assets under construction are recorded at costs and are not depreciable until they are commissioned. The asset recognition threshold is \$5,000.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

In accordance with the requirements of Section 45 of the *Financial Management Standard 1997*, land, buildings and improvements and infrastructure assets are valued at fair value. Minor plant and equipment and motor vehicles are recorded 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. Independent valuations are obtained at least every five years. In the intervening years where an independent valuation is not obtained, directors assess whether the carrying value differs materially from the fair value by using 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. Revaluations are brought to account where the existing carrying value differs materially to the current fair value using this income approach.

For the 2005 year, GAWB obtained independent valuations from Herron Todd White Valuers and SMEC Australia Limited. Valuer's qualifications are outlined in Note 8. 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 reserve 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 income statement.
- A revaluation decrement is recognised as an expense in the income statement except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the relevant asset, the revaluation decrement is debited directly to the asset revaluation reserve.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment 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. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

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:

	2009	2008
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

*Residual values of varying percentages have been adopted for these assets.

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Estimates in respect of certain items of plant and equipment were revised in 2005 (see Note 8).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

(c) 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.

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

Capitalisation of development expenditure has been determined currently to have expected useful lives of 4 to 10 years but is not yet available for use refer note 9.

(d) 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.

(e) Leased assets

Leased assets in terms of which GAWB 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.

Other leases are operating leases and, except for investment property GAWB leases to 3rd parties, the leased assets are not recognised on GAWB's balance sheet. Investment property held under an operating lease is recognised on GAWB's balance sheet at its fair value.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

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.

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.

Where there is objective evidence that an available for sale financial asset is impaired (such as a significant or prolonged decline in the fair value of an available for sale financial asset) and the previous decline in the fair value of the asset has been recognised in equity the cumulative loss that has been recognised in equity is transferred to 'Provisions for losses on loans and advances and impairment of investment securities' in the income statement. The cumulative loss transferred is the difference between the cost of acquisition and the current fair value of the asset included in equity. When a subsequent event reduces the impairment of an available for sale debt security the impairment loss is reversed through 'Provisions for losses on loans and advances and impairment of investment securities' in the income statement. When a subsequent event reduces the impairment of an available for sale equity instrument the impairment loss is reversed through equity.

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 reserve in respect of the relevant asset, the impairment loss is debited directly to the asset revaluation reserve. 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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

(g) Employee benefits

(i) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss when they are due.

(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 the terms of GAWB's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in profit or loss in the period in which they arise.

(iii) 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.

(h) 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 land that was acquired during completion of the Awoonga Dam. The land contained native title and the provision is for the amount agreed to in the independent valuation received at the time.

(i) Revenue recognition

(i) Goods sold

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. 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 sales agreements. Revenue from the installation of customer connections and the provision of services is recognised based on work completed at balance date.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

Other revenue

Rent and lease income are recognised when there exists a right to receive.

(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.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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. 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.

(k) Finance income and expense

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, 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. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) 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: the initial recognition of goodwill, 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, and differences relating to investment in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. 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

NOTES TO THE FINANCIAL STATEMENTS

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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.

Additional income tax equivalent that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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.

(n) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report as it is not expected they would have a material effect on the financial report:

AASB 123 Borrowing Costs (revised June 2007) removes the option of recognising borrowing costs immediately as an expense where the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset. AASB 123 Borrowing Costs (revised June 2007) is applicable for annual reporting periods commencing on or after 1 January 2009. The transitional provisions of AASB 123 only require capitalisation of borrowing costs on qualifying assets where commencement date for capitalisation is on or after 1 January 2009. As such, there will be no impact on prior period financial statements when this standard is adopted.

AASB 101 Presentation of Financial Statements (revised September 2007) makes amendments to the presentation and naming of the financial statements. AASB 101 is applicable for annual reporting periods commencing on or after 1 January 2009. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, there will be various changes to the way financial statements are presented and various changes to names of individual financial statements.

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

(o) Comparatives

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

(p) Government Grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and GAWB will comply with all the attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment or the acquisition of intangible assets are deferred and recognised in the income statement systematically over the useful life of the assets.

NOTES TO THE FINANCIAL STATEMENTS

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4. DETERMINATION OF FAIR VALUES

A number of GAWB's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

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. The fair value is based on depreciated optimised replacement cost. The depreciated optimised replacement cost is the cost for which an item of property could be replaced with a modern day equivalent able to provide the same level of service but not enhancing that service unless the modern equivalent automatically includes an enhancement because of technology or material advancement. An allowance against the cost is made for the exhaustion of service potential for the existing item. The carrying value of the Property, plant and equipment is reduced for any impairment recognised in accordance with AASB 136 Impairment of Assets. For periods where no independent valuation is obtained, the fair value of the Property, plant and equipment is estimated by using an income approach and compared to the existing carrying value. The income based approach uses estimated future cash flows and discounts these 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. Revaluations are brought to account where the existing carrying value differs materially to the current fair value using this income approach.

(ii) 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.

5. SEGMENT REPORTING AND ECONOMIC DEPENDENCIES

Individual business segments have been identified on the basis of grouping individual products subject to similar risks and returns. GAWB operates predominantly in one industry segment, being that of bulk water storage and distribution where over 90% of revenue is earned and assets are employed. GAWB operates in one geographic segment being the Gladstone Region.

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
6. REVENUE			
Revenue from operating activities			
Water Sales		28,719	24,974
Connection charges		-	44
Total revenues		28,719	25,018
7. OTHER INCOME			
Lease income, rents and royalties revenue		290	305
Gain on sale of assets		21	21
Other		127	159
		438	485

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
8. PROPERTY, PLANT AND EQUIPMENT			
Land, buildings & improvements			
Land:			
At directors' valuation		8,759	8,329
Buildings & improvements:			
At directors' valuation		12,237	12,107
Accumulated depreciation		(4,802)	(4,446)
Accumulated impairment losses		(1,138)	(1,138)
Total land, buildings & improvements		15,056	14,852
Infrastructure assets			
At directors' valuation		396,682	397,596
Accumulated depreciation		(59,899)	(58,600)
Accumulated impairment losses		(42,667)	(42,675)
Total infrastructure assets		294,116	296,321
Minor plant & equipment			
At cost		1,619	1,580
Accumulated depreciation		(673)	(840)
Total minor plant & equipment		946	740
Motor vehicles			
At cost		63	100
Accumulated depreciation		(46)	(81)
Total motor vehicles		17	19
Assets under construction			
At cost		5,426	3,601
		315,561	315,533

NOTES TO THE FINANCIAL STATEMENTS

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8. Property, Plant and Equipment (continued)

Valuation of land, buildings & improvements and infrastructure assets

Land, buildings & improvements and infrastructure assets are measured on a fair value basis.

For infrastructure assets, associated buildings & improvements, fair value is the amount for which the assets could be replaced having regard to their current condition, required capacity and design lives, less accumulated depreciation calculated to reflect the consumed or expired service potential of the assets.

For land and other buildings & improvements to land, fair value is a market valuation that is the amount for which the assets could be exchanged between knowledgeable and willing parties in an arm's length transaction, having regard to the highest and best use of the asset for which other parties would be willing to pay.

A market valuation was determined through an independent valuation that was effective for 30 June 2005 and provided by;

- Herron Todd White Valuers. The valuation was certified by Mr CL Roffey AAPI Certified Practising Valuer (Reg No 1189); and

A depreciated replacement cost valuation was determined through an independent valuation that was effective for 30 June 2005 and provided by;

- SMEC Australia Limited. The valuation statement was certified by Mr Mark Wright CPA MIIA and Mr Graham Read, Civil Engineer MIEAust RPEQ.

In 2007 an impairment loss of \$43,812,514 was recognised in relation to property, plant and equipment. This impairment was determined using a discount rate of 8.87%, of base cash flow projections that incorporate the impact of price rebates for contributed assets as currently assessed by the economic regulator. The reduced cash flows derived from these assets substantially impact on the value assigned to the cash generating unit. In the current period, an assessment of the fair value was completed using an income approach and comparing this value to the existing carrying value. No adjustment was considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

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8. Property, Plant and Equipment (continued)

Reconciliation 2008	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 2007	15,156	300,327	381	-	1,196	317,060
Additions	83	43	424	20	3,745	4,315
Disposals	(50)	(135)	(15)	-	-	(200)
Transfers	125	1,124	91	-	(1,340)	-
Depreciation	(462)	(5,038)	(141)	(1)	-	(5,642)
Impairment loss	-	-	-	-	-	-
Carrying amount at 30 June 2008	14,852	296,321	740	19	3,601	315,533

Reconciliation 2009	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 2008	14,852	296,321	740	19	3,601	315,533
Additions	561	44	74	-	6,346	7,025
Disposals	(124)	(68)	(93)	-	-	(285)
Transfers	374	3,758	389	-	(4,521)	-
Depreciation	(607)	(5,947)	(164)	(2)	-	(6,720)
Impairment loss	-	8	-	-	-	8
Carrying amount at 30 June 2009	15,056	294,116	946	17	5,426	315,561

Land, Buildings and Infrastructure at Deemed Historical Cost	2009 \$000	2008 \$000
Land	7,267	6,847
Buildings	2,805	2,322
Infrastructure	220,844	217,362
Total Cost	230,916	226,531

Note the above items at Historical Cost represent classes of assets that have been re-valued. These amounts exclude Motor Vehicles and Plant as these classes have never been re-valued.

Included within land is land held under lease of \$815 (2008: \$27,815), land held under reserve \$764,941 (2008: \$878,555) and state forest land \$79,753 (2008: \$79,753). These parcels of land are restricted in their use. There are no further restrictions on land.

NOTES TO THE FINANCIAL STATEMENTS

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9. INTANGIBLE ASSETS

	Development costs \$000	Total \$000
Balance at 1 July 2007	-	-
Acquisitions internally developed	14,581	14,581
Balance at 30 June 2008	14,581	14,581
	Development costs \$000	Total \$000
Balance at 1 July 2008	14,581	14,581
Acquisitions internally developed	10,765	10,765
Balance at 30 June 2009	25,346	25,346

The Intangible asset represents the development costs associated with the development of GAWB's Contingent Supply Strategy (CSS). 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 drought or demand.

The Queensland Competition Authority (QCA), in their Final Report Gladstone Area Water Board: 2007 Investigation of Contingent Water Supply Strategy Pricing Practices Stage A, endorsed the prudence of the CSS and provided guidance in relation to the level and timing of efficient costs that should be included in prices and the means by which such costs should be included in prices.

GAWB considers the development costs of the CSS meet the definition as well as the criteria for recognition as an 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 as the costs represent necessary and efficient expenditure such that they should meet the guidelines set by the QCA and be recovered in prices.

The useful lives of the key components of the intangible asset are expected to be 4 to 10 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. At 30 June 2009 it is considered that the asset is not yet capable of operating in the manner intended by management as final approval of the Environmental Impact Study for the Gladstone Fitzroy Pipeline Project was yet to be received from the Coordinator General.

The intangible asset forms part of GAWB's single cash generating unit, a single business operation incorporating storage, treatment and delivery of bulk water. The carrying value of \$25,346,125 (2008: \$14,580,791) is allocated to the single cash generating unit. The recoverable amount of the cash-generating unit has been determined on a value in use basis. GAWB is a price regulated monopoly business with oversight by the Queensland Competition Authority. Customer prices are determined on a 5 yearly review using a 20 year price smoothing model which allows recovery of efficient operating costs and a return on and of the value of efficient assets. The value in use of the cash-generating unit has been calculated using the parameters and assumptions for the current regulatory control period (2005 to 2010), cash flow projections for the 2009/10 budget and those over the final 15 years of the 2005 model. Prices are increased by an inflation factor each year which in the model is 2.51% (2008: 2.51%). Forward demand rates are as advised by customers in 2005. Cash outflow projections are increased by the same inflation factor. The

NOTES TO THE FINANCIAL STATEMENTS

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9. Intangible Assets (continued)

discount factor used is 8.87% (2008: 8.87%) which is the pre tax rate of the post tax WACC rate used to determine the return on assets. As GAWB is regulated, it is management's approach to use the key assumptions from the price model. It is management's opinion that there are no changes in key assumptions that are reasonably possible. No impairment has been recognised for the year ended 30 June 2009 (2008: Nil). There has been no reversal of prior period impairment losses recognised in the prior period (2008: Nil).

The above estimates are particularly sensitive to GAWB's ability to recover the costs through its regulated prices. The authority's conclusions in the Part A Report endorsed the prudence of the CSS and provided guidance in relation to the level and timing of efficient costs that should be included in prices and the means by which those costs should be included in prices. Accordingly, GAWB expects future economic benefits to flow as a result of this expenditure.

The QCA is undertaking the review to establish prices for the regulatory control period to commence 1 July 2010. It is at this time that the recovery of preparatory expenditure on the Contingent Supply Strategy will be reviewed in its entirety, including costs capitalised as intangible assets. At this point in time, these costs will also be reviewed to determine their efficiency and appropriateness for inclusion in any regulated asset base used to determine future pricing.

Should the review by the Queensland Competition Authority exclude costs such that allowable revenues are reduced or insufficient to generate a return to support the carrying value of the intangible assets, an impairment may arise which could have a significant effect on the carrying value of the intangible assets in future periods.

Without additional information on what the pricing arrangements for these intangible assets will be, there is inherent uncertainty as to whether the cash flows used in the impairment assessment will be consistent with the regulatory outcome. The financial statements have not been adjusted for the effect of any future impairment that may eventuate due to this uncertainty.

(a) Government Grants

A grant of \$10 million was received from the Commonwealth Government as the conditions of payment, being establishment of the CDU joint venture and implementation of a Project Delivery Proposal Agreement, had been met. The grant will be recognised in the income statement over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

In addition, a further \$10 million will be payable on meeting further conditions. This has been disclosed as a contingent asset in Note 28.

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
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10. AUDITORS' REMUNERATION			
Audit services			
QAO		57	41
Audit and review of financial reports			
		<hr/>	<hr/>
11. FINANCE INCOME AND EXPENSE			
Interest income		1,037	2,097
Financial income		1,037	2,097
		<hr/>	<hr/>
Interest expense		(8,710)	(8,771)
Financial expense		(8,710)	(8,771)
		<hr/>	<hr/>
Net finance (income) and expense		(7,673)	(6,674)

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
12. INCOME TAX EQUIVALENTS			
Recognised in the income statement			
Current tax equivalents expense / (benefit)			
Current year		(791)	2,064
Adjustments for prior years		-	8
		(791)	2,072
Deferred tax equivalents expense / (benefit)			
Origination and reversal of temporary differences		234	(1,715)
Adjustments for prior years		-	(397)
		234	(2,112)
Total income tax expense / (benefit)		(557)	(40)
Numerical reconciliation between tax expense and pre-tax net profit			
Profit / (loss) for the year		(1,327)	1,363
Total income tax expense / (benefit)		(557)	(40)
Profit / (loss) excluding income tax equivalents expense		(1,884)	1,323
Income tax equivalents expense / (benefit) calculated at 30% (2007: 30%)		(565)	396
Income tax equivalents expense / (benefit) under / (over) provided in prior years		-	(437)
Non-deductible accounting loss on land disposal		35	-
Deductible investment allowance		(28)	-
Non-deductible entertainment		1	1
		(557)	(40)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

	Notes	2009 \$000	2008 \$000
13. CAPITAL AND RESERVES			
Issued Capital			
Balance at 1 July		61,647	61,647
Equity contributions		2,064	-
Balance at 30 June		63,711	61,647
Asset revaluation reserve			
Balance at 1 July		116,916	117,303
Transfer of Increments on disposal of assets – net of tax		331	(387)
Balance at 30 June		117,247	116,916
Asset revaluation reserve			
The asset revaluation reserve relates to property, plant and equipment measured at fair value in accordance with applicable Australian Accounting Standards.			
Retained Profits			
Retained profits at 1 July		12,624	10,893
Transfer of Increments on disposal of assets		178	368
Net profit / (loss) for the year		(1,327)	1,363
Retained profits at 30 June		11,475	12,624

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

	Notes	2009 \$000	2008 \$000
14. (A) CASH AND CASH EQUIVALENTS			
Cash on hand*		-	-
Cash at bank		896	9,459
Cash at bank – Trust/Security Deposit		25	-
Deposits at Queensland Treasury Corporation, at call		9,708	19,234
		10,629	28,693
<i>*Amounts less than \$500</i>			
14. (B) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit/(loss) after income tax equivalents		(1,327)	1,363
Adjustment for:			
Depreciation		6,720	5,642
(Gain)/loss on sale of property, plant and equipment		270	169
		5,663	7,174
Change in assets and liabilities:			
(Increase)/decrease in trade and other receivables		(1,793)	(770)
(Increase)/decrease in current tax asset		(241)	47
(Increase)/decrease in deferred tax assets		(252)	(1,165)
Increase/(decrease) in trade and other payables		3,812	2,626
Increase/(decrease) in deferred tax liabilities		(305)	(549)
Increase/(decrease) in employee benefits		69	115
Increase/(decrease) in tax liabilities		(1,465)	1,362
Increase/(decrease) in provisions		-	(3,472)
Increase/(decrease) in other liabilities		(1,862)	(195)
Net cash from operating activities		3,626	5,173

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

	Notes	2009 \$000	2008 \$000
15. TRADE AND OTHER RECEIVABLES			
Current			
Trade receivables		4,866	2,782
Other receivables and prepayments		398	689
		5,264	3,471

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

	2009			2008		
	Total	Amount Impaired	Amount not Impaired	Total	Amount Impaired	Amount not Impaired
	\$000	\$000	\$000	\$000	\$000	\$000
Not past due	4,335	-	4,335	2,080	-	2,080
Past due 30 days	519	-	519	440	-	440
Past due 31 – 60 days	11	-	11	260	-	260
Past due >60 days	1	-	1	2	-	2
Total	4,866	-	4,866	2,782	-	2,782

As at 30 June 2009 GAWB had current trade receivables of \$Nil (2008: \$Nil) that was impaired.

All the current net trade receivables that are neither past due or impaired are with long standing clients who have good track record.

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
16. CURRENT TAX ASSETS			
Income tax equivalents recoverable			
Movements during the year were as follows:			
Balance at 1 July		-	47
Income tax equivalents paid/(refunded)		241	(47)
Balance at 30 June		241	-
17. BIOLOGICAL ASSETS			
Balance at 1 July		18	18
Net increase due to births (deaths)		(9)	-
Balance at 30 June		9	18
18. TRADE AND OTHER PAYABLES			
Current			
Trade creditors		2,450	1,913
Accrued audit fees		33	24
Accrued capital works		100	610
Other accruals		3,421	2,299
		6,004	4,846
Non-current			
		-	-

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
19. LOANS AND BORROWINGS			
Current liabilities			
Queensland Treasury Corporation loans – unsecured		4,024	3,518
Non-current liabilities			
Queensland Treasury Corporation loans – unsecured		130,946	135,287
Finance Facilities			
GAWB has a working capital facility available through Queensland Treasury Corporation to assist in managing short term cash requirements.			
Available at reporting date		135,470	139,305
Utilised at reporting date		(134,970)	(138,805)
		500	500
Finance lease liabilities			
GAWB has no finance lease liabilities.			
20. EMPLOYEE BENEFITS			
Current			
PAYG Payable		69	60
Liability for long service leave		107	113
Liability for annual leave		242	210
Total employee benefits – current		418	383
Non-current			
Liability for long service leave		82	48
Employee benefits		82	48
Defined contribution superannuation funds			
GAWB makes contributions to defined contribution superannuation funds. The amount recognised as expense was \$275,352 for the financial year ended 30 June 2009 (2008: \$257,583).			

NOTES TO THE FINANCIAL STATEMENTS

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	Notes	2009 \$000	2008 \$000
21. PROVISIONS			
Current			
Debt neutrality fees			
Balance at 1 July		-	3,502
Utilisation of provision		-	(3,502)
Balance at 30 June		-	-
ILUA liability			
Balance at 1 July		118	119
Utilisation of provision		-	(1)
Balance at 30 June		118	118
Total current provisions		118	118
ILUA liability			
The provision relates to land that was acquired during completion of the Awoonga Dam. The land contained native title and provision is for the amount agreed in the independent valuation taken at the time.			
22. DEFERRED INCOME			
Current			
Unearned income		481	2,317
Revenue received in advance		26	26
		507	2,343
Non-Current			
Revenue received in advance		10,388	10,414

NOTES TO THE FINANCIAL STATEMENTS

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23. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Property, plant & equipment	-	-	(16,192)	(16,581)	(16,192)	(16,581)
Intangible assets	-	-	(136)	(52)	(136)	(52)
Trade & Other Payables	10	8	-	-	10	8
Employee benefits	129	111	-	-	129	111
Provisions	-	695	-	-	-	695
Revenue received in advance	3,268	3,132	-	-	3,268	3,132
Tax value of loss carry-forwards	791	-	-	-	791	-
Tax assets / (liabilities)	4,198	3,946	(16,328)	(16,633)	(12,130)	(12,687)

Movement in temporary differences during the year:

	Balance 1 July 2007 \$000	Recognised in income \$000	Recognised in equity \$000	Balance 30 June 2008 \$000
Property, plant and equipment	(16,447)	(134)	-	(16,581)
Intangibles		(52)	-	(52)
Trade & Other Payables	31	(23)	-	8
Employee benefits	80	31	-	111
Provisions	1,796	(1,101)	-	695
Revenue received in advance	140	2,992	-	3,132
Tax value of loss carry-forwards	-	-	-	-
	(14,400)	1,713	-	(12,687)

	Balance 1 July 2008 \$000	Recognised in income \$000	Recognised in equity \$000	Balance 30 June 2009 \$000
Property, plant and equipment	(16,581)	389	-	(16,192)
Intangibles	(52)	(84)	-	(136)
Trade & Other Payables	8	2	-	10
Employee benefits	111	18	-	129
Provisions	695	(695)	-	-
Revenue received in advance	3,132	136	-	3,268
Tax value of loss carry-forwards	-	791	-	791
	(12,687)	557	-	(12,130)

NOTES TO THE FINANCIAL STATEMENTS

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24. FINANCIAL RISK MANAGEMENT

(a) General objectives, policies and processes

In common with all other businesses, GAWB is exposed to risks that arise from its use of financial instruments. This note describes GAWB's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

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.

The Board has overall responsibility for the determination of the entity'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 entity's finance function. The entity's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the entity where such impacts may be material. The Board receives monthly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The entity's internal auditors also review the risk management policies and processes and report their findings to the Audit 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. Further details regarding these policies are set out below:

(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 maximum exposure to credit risk at balance date is as follows

	2009 \$000	2008 \$000
Trade Receivables	4,866	2,782
	<hr/> 4,866	<hr/> 2,782

GAWB's most significant customer accounts for \$675,266 of trade receivables at 30 June 2009.

(c) Liquidity Risk

Liquidity risk is the risk that the entity may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments. Water sales are on a contracted basis to major industrial customers and the local council with payments monitored for compliance with contract terms. It is the Board'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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financing arrangements

The following financing facilities were available at balance date:

	2009	2008
	\$000	\$000
Credit stand-by arrangements		
Total Facilities:	500	500
Overdraft	500	500
Used at balance date		
Overdraft	-	-
Unused at balance date		
Overdraft	500	500
Loans		
Total facilities:	134,970	138,805
Used at balance date	134,970	138,805
Unused at balance date	-	-

The Overdraft facility may be drawn down at any time but may be terminated by the financier without notice. The loans are fully drawn and have a maturity of 22 years.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

2009	Fixed interest maturing in:			Floating interest rate \$000	Non interest bearing \$000	Total \$000	Weighted average interest rate
	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000				
Financial Assets							
Cash and cash equivalents:							
Cash at bank and on hand	-	-	-	921	-	921	Nil
Deposits at QTC	-	-	-	9,708	-	9,708	3.41%
Trade and other receivables:							
Other	-	-	-	-	5,264	5,264	N/A
Total				10,629	5,264	15,893	
Financial Liabilities							
Trade and other payables	-	-	-	-	6,004	6,004	N/A
Interest-bearing liabilities	11,742	46,969	194,443	-	-	253,154	5.80%
Employee benefits	-	-	-	-	500	500	N/A
Provisions	-	-	-	-	118	118	N/A
Total	11,742	46,969	194,443	-	6,622	259,776	
2008							
2008	Fixed interest maturing in:			Floating interest rate \$000	Non interest bearing \$000	Total \$000	Weighted average interest rate
	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000				
Financial Assets							
Cash and cash equivalents:							
Cash at bank and on hand	-	-	-	9,459	-	9,459	Nil
Deposits at QTC	-	-	-	19,234	-	19,234	8.16%
Trade and other receivables:							
Other	-	-	-	-	3,406	3,406	N/A
Total	-	-	-	28,693	3,406	32,099	
Financial Liabilities							
Trade and other payables	-	-	-	-	4,846	4,846	N/A
Interest-bearing liabilities	12,168	48,567	239,518	-	-	300,253	6.357%
Employee benefits	-	-	-	-	431	431	N/A
Provisions	-	-	-	-	118	118	N/A
Total	12,168	48,567	239,518	-	5,395	305,648	

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. 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

CONTINUED

24. FINANCIAL RISK MANAGEMENT (CONTINUED)

		Interest Rate Risk			
		-100 bpts		+100 bpts	
30/6/2009	Carrying amount	Profit \$000	Equity \$000	Profit \$000	Equity \$000
Cash on hand	-	-	-	-	-
Cash at bank	921	-	-	9	9
QTC Cash Fund	9,708	(97)	(97)	97	97
QTC Debt Offset	-				

		Interest Rate Risk			
		-100 bpts		+100 bpts	
30/6/2008	Carrying amount	Profit \$000	Equity \$000	Profit \$000	Equity \$000
Cash on hand	-	-	-	-	-
Cash at bank	9,459	-	-	95	95
QTC Cash Fund	19,234	(192)	(192)	192	192
QTC Debt Offset	-	-	-	-	-

Net fair value of financial assets and liabilities

The net fair value of the economic entity'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.

Financial Instruments	Total Carrying Amount		Net Fair Value	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Financial Assets				
Cash and cash equivalents	10,629	28,693	10,629	28,693
Trade and other receivables	5,264	3,406	5,264	3,406
	15,893	32,099	15,893	32,099
Financial Liabilities				
Trade and other payables	6,004	4,846	6,004	4,846
Interest-bearing liabilities	134,970	138,805	137,587	134,732
Employee benefits	500	431	500	431
Provisions	118	53	118	53
	141,592	144,135	144,209	140,062

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

25. CAPITAL RISK MANAGEMENT

GAWB considers its capital to comprise its issued capital, asset revaluation reserve and accumulated retained earnings.

In managing its capital, GAWB's primary objective is to ensure its continued ability to provide a consistent return for its equity owner 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 40 – 44% (2008: 40 – 44%). GAWB's gearing ratio at the balance sheet date is shown below:

	2009	2008
	\$000	\$000
Gearing ratios		
Net Debt	134,970	138,805
Total equity	192,433	191,187
Total equity and net debt	327,403	329,992
Gearing ratio	41%	42%

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.

26. OPERATING LEASES

Leases as lessee

Operating lease rentals are payable as follows:

Not later than 1 year	199	173
Later than one year, but less than five years	121	185
More than five years	-	-
	320	358

During the year ended 30 June 2009, \$137,787 was recognised as an expense in the income statement in respect of operating leases (2008: \$102,084).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

	Notes	2009 \$000	2008 \$000
27. CAPITAL AND OTHER COMMITMENTS			
Expenditure commitments (including GST) contracted for but not provided for and payable:			
Amounts to be expensed:			
Not later than one year		215	856
Later than one year, but less than five years		68	179
More than five years		-	-
Revenue received in advance		283	1,035
Amounts to be capitalised:			
Not later than one year		2,368	4,854
Later than one year, but less than five years		-	-
More than five years		-	-
		2,368	4,854

28. CONTINGENCIES

- (a) GAWB has agreement in principle for the purchase of land for the Alton Downs Water Treatment Plant subject to the final survey of the land, consent of authorities and determination of a valuation, on an agreed market basis, acceptable to both parties.
- (b) GAWB has a funding deed for the Gladstone to Fitzroy Pipeline with the Commonwealth Government. In the event that commencement of construction of the pipeline and a plan for completion is accepted by the Department of the Environment, Water, Heritage and the Arts by 30 March 2012 then the terms of the funding deed require the Department to pay GAWB \$9,500,000. A further payment of \$500,000 is due upon satisfactory completion of a final progress report for the project.
- (c) The Commonwealth Bank of Australia has issued on GAWB's behalf a bank guarantee for \$24,299 as security for a lease on premises at 38 Hope Street, South Brisbane. A term deposit of \$24,299 with the Commonwealth Bank of Australia secures the issuance of the bank guarantee.
- (d) Otherwise there are no other known contingent assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

29. RELATED PARTY DISCLOSURES

Directors

The directors of GAWB during the financial year were:

Name of Director	Date of Initial Appointment	Date of Re-Appointment
Ms Mary Boydell	29 June 2001	2 November 2007
Cr Craig Butler	17 September 2004	14 August 2009
Mr Peter Corones	1 October 2000	17 September 2004
Mr Warren Dinte	1 October 2000	14 August 2009
Ms Rowena McNally	2 November 2007	
Mr John Mulheron	15 December 2000	30 March 2007
Cr. Gail Sellers	17 September 2004	14 August 2009

At the time of signing of the 2009 financial statements, the directorships of Cr Craig Butler, Cr Gail Sellers and Mr Warren Dinte were renewed for the period from 14 August 2009 to 16 September 2010. Mr Peter Corones appointment was not renewed and Cr Clyde Cameron was appointed as the replacement director effective from 14 August 2009 up to and including 16 September 2010.

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 Cr C Butler and Cr G Sellers are councillors and
- Gladstone Ports Corporation of which Mr P Corones is a Director.

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

Transactions with key management personnel

In addition to their cash salaries, GAWB also provide non-cash benefits in the form of salary packaging to key management personnel, and contributes to a defined contribution plan on their behalf.

Key management personnel compensation

The key management personnel compensation included in labour and on costs in the income statement are as follows:

	2009 \$000	2008 \$000
Short-term employee benefits	1,180	1,138
Other long-term benefits	18	13
Post employment benefits	205	93
	1,403	1,244

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

29. RELATED PARTY DISCLOSURES (CONTINUED)

Executive Remuneration

	2009 Number	2008 Number
The number of senior executives who received or were due to receive total remuneration of \$100,000 or more:		
\$100,000 to \$119,999	1	3
\$120,000 to \$139,999	1	2
\$140,000 to \$159,999	4	1
\$240,000 to \$259,999	-	1
\$280,000 to \$299,999	1	-
Total	7	7

Other key management personnel transactions

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.

30. SUBSEQUENT EVENT

There has not arisen in the interval between the end of the financial year and the date of this report any 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.

31. CREATION OF GLADSTONE AREA WATER BOARD EMPLOYING OFFICE

On 23 April 2007 the Queensland Parliament passed the Statutory Bodies Legislation Amendment Act 2007 which amended the Water Act 2000. These amendments included the creation of the Gladstone Area Water Board Employing Office as a statutory body for the purposes of the Financial Administration and Audit Act 1977. In relation to the Gladstone Area Water Board Employing Office there were no transactions prior to 30 June 2009 and no assets and liabilities existing as at 30 June 2009. Accordingly, a separate financial report for the 2008-09 financial year has not been prepared by the Gladstone Area Water Board Employing Office.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

32. PRIOR YEAR ADJUSTMENT

Balance Sheet
As at 30 June 2008

	Note	Unadjusted 2008	Adjustment	Adjusted 2008
Total current assets		32,164		32,164
Property, plant and equipment	8	315,533		315,533
Intangible assets	9	4,581	10,000	14,581
Deferred tax assets	23	3,894	52	3,946
Biological assets	17	18		18
Total non-current assets		324,026		334,078
Total assets		356,190		366,242
Total current liabilities		12,673		12,673
Non-current liabilities				
Loans and borrowings	19	135,287		135,287
Employee benefits	20	48		48
Deferred income	22	414	10,000	10,414
Deferred tax liabilities	23	16,581	52	16,633
Total non-current liabilities		152,330		162,382
Total liabilities		165,003		175,055
Net assets		191,187		191,187
Equity				
Issued capital	13	61,647		61,647
Asset Revaluation Reserve	13	116,916		116,916
Retained earnings	13	12,624		12,624
Total Equity		191,187		191,187

- (a) During the prior year a grant from the Commonwealth government was treated in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and deducted from the carrying amount of the intangible asset. Accounting Policy Guideline 3 issued by Queensland Treasury does not allow this alternative treatment for grants related to assets. The intangible assets and non-current deferred income were understated by \$10,000,000. Accordingly, the intangible assets and deferred income were adjusted by \$10,000,000 in the current year on a retrospective basis. The deferred tax liabilities and deferred tax assets were also adjusted by \$52,000 in the current year on a retrospective basis for the movement.

MANAGEMENT CERTIFICATION OF THE FINANCIAL STATEMENTS

MANAGEMENT CERTIFICATION OF THE FINANCIAL STATEMENTS

This general purpose financial report has been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* (the Act) and other prescribed requirements. In accordance with Section 46F(3) 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 2009 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

27 August 2009

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF GLADSTONE AREA WATER BOARD

Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report of Gladstone Area Water Board for the financial year ended 30 June 2009 included on Gladstone Area Water Board website. The Board is responsible for the integrity of the Gladstone Area Water Board's website. I have not been engaged to report on the integrity of the Gladstone Area Water Board's website. The auditor's report refers only to the statements named below. It does not provide any opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from Gladstone Area Water Board, to confirm the information included in the audited financial report presented on the website.

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

Report on the Financial Report

I have audited the accompanying financial report of Gladstone Area Water Board which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and certificates given by the Chairperson and Chief Executive Officer of the Gladstone Area Water Board.

The Board's Responsibility for the Financial Report

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997*, including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a) the Board also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility to express an opinion on the financial report based on the audit is prescribed in the *Auditor-General Act 2009*. This Act, including transitional provisions, came into operation on 1 July 2009 and replaces the previous requirements contained in the *Financial Administration and Audit Act 1977*.

The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance 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 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 and fair presentation of the financial report 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 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 QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed 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 had 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 respect of the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report has been drawn up so as to present 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 2008 to 30 June 2009 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).

Emphasis of Matter – Inherent Uncertainty in Impairment of Intangible Assets

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 9 the Gladstone Area Water Board has performed an impairment assessment of its intangible assets based on current pricing arrangements used for its other regulated assets and under normal pricing principles. The impairment assessment has been prepared on the basis of the guidelines for recovery stated by the Queensland Competition Authority as outlined in Note 9 and has concluded that there is no impairment at 30 June 2009.

Without additional information on what the pricing arrangements for these intangible assets will be, there is inherent uncertainty as to whether the cash flows used in the impairment assessment will be consistent with the regulatory outcome. The financial statements have not been adjusted for the effect of any future impairment that may eventuate due to this uncertainty.

G G POOLE FCPA
Auditor-General of Queensland

Queensland Audit Office
Brisbane

31 August 2009

GLOSSARY

Act	<i>Water Act 2000 (Qld)</i>
AHD	Australian height datum
ARM	Audit and Risk Management Committee
Board	GAWB's Board of Directors
CAPEX	Capital expenditure
CDUJV	Clough Diversified United Joint Venture
CEO	Chief Executive Officer
CQRWSS	Central Queensland Regional Water Supply Strategy
CSS	Contingent Supply Strategy
CWT	Capital Works and Technical Committee
DERM	Department of Environment and Resource Management
EIS	Environmental Impact Statement
FOI	Freedom of Information
GAWB	Gladstone Area Water Board
GFP	Gladstone Fitzroy Pipeline Project
GRC	Gladstone Regional Council
KPI	Key Performance Indicators
LFRWIP	Lower Fitzroy River Water Infrastructure Project
Minister	Minister for Natural Resources, Mines and Energy and Minister for Trade
MI	Mega litres
MI p.a.	Mega litres per annum
NRM	Nomination and Remuneration Committee
QCA	Queensland Competition Authority
RAP	Risk Adjusted Price
ROL	Resource Operations Licence
ROP	Boyne River Basin Resource Operations Plan 2003
RRC	Rockhampton Regional Council
SAMP	Strategic Asset Management Plan
SEPBP	Senior Executive Performance Bonus Plan
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
WSSRA	<i>Water Supply (Safety & Reliability) Act 2008 (Qld)</i>

DIRECTORY

PRINCIPAL PLACE OF BUSINESS

First Floor
147 Goondoon Street
Gladstone
Queensland

POSTAL ADDRESS

PO Box 466
Gladstone QLD 4680

Contact Details

Phone (07) 4976 3000
Facsimile (07) 4972 5632
E-mail gawb@gawb.qld.gov.au
Internet www.gawb.qld.gov.au
ISSN 1837-2252

DIRECTORS

Mary Boydell – Chairperson
Cr Craig Butler
Clyde Cameron – appointed 14 August 2009
Peter Corones – retired 14 August 2009
Warren Dinte
Rowena McNally
John Mulheron
Cr Gail Sellers

CHIEF EXECUTIVE OFFICER

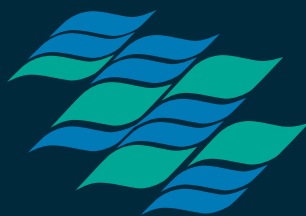
Jim Grayson

CORPORATE SECRETARY

Gary Larsen

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 the Internet.

The Queensland Government is committed to providing accessible services to Queenslanders from all culturally and linguistically diverse backgrounds. If you have difficulty in understanding the annual report, you can contact us on either 07 49763000 or gawb@gawb.qld.gov.au and we will arrange an interpreter to effectively communicate the report to you



Gladstone Area Water Board

**Second Floor
147 Goondoon Street
Gladstone Queensland**

**Postal Address
PO Box 466
Gladstone Q 4680**

**Phone 07 4976 3000
Fax 07 4972 5632
gawb@gawb.qld.gov.au**

Website www.gawb.qld.gov.au