STATE WATER CORPORATION

2010/11

STATEMENT OF CORPORATE INTENT

1. INTRODUCTION

State Water Corporation is a bulk water supply business, wholly owned by the Government of New South Wales. The Corporation's purpose is to capture, store and deliver water – for use by customers and the community – and for preservation of riverine ecosystem health. Water allocation to meet competing demands is governed by a Statutory Water Sharing Plan. State Water operates within the plan and its revenue is effectively capped by the plan limit. However, Water Sharing Plans in the Murray-Lower Darling, Murrumbidgee, Lachlan, and Macquarie-Cudgegong valleys have been suspended as a result of record-low water availability. This has allowed for drought management measures beyond the capacity of the Water Sharing Plans.

State Water Corporation provides a vital service: water is the economic lifeblood of the rural community in which the Corporation operates, and this precious resource provides the fundamental basis for a healthy environment. This operating context empowers State Water in its mission to sustain life and the economy by delivering water efficiently to customers and community.

The mission is accomplished through best practice operations and asset management. State Water operates systems to enable rapid response to water allocation decisions and to opportunities to supplement supplies to customers. State Water owns, maintains, manages and operates a diverse portfolio of assets worth $559 million as at 30 June 2010 ($3.2 billion Modern Engineering Equivalent Replacement Asset or MEERA valuation). As a bulk water supply business, the corporation has more than 6,200 customers; dominated by four large private irrigation companies that, in turn, distribute water to member water-users. Consultation with customer groups in each valley is a distinctive feature of State Water activities and the corporation maintains excellent relationships with the majority of customers.

The NSW Government, through the Department of Environment Climate Change and Water (DECCW), and the Commonwealth, through the Commonwealth Environmental Water holder (CEWH), have entered the market for water entitlements over the past three years. These agencies now hold a significant and growing proportion of the water entitlements in each NSW river valley in the Murray Darling Basin. The first significant volumes of water were delivered to key environmental sites from the combined holdings in the 2009/10 season, with more than 70,000ML was delivered to Lowbidgee environmental sites in May and June. DECCW and CEWH pay the same water charges as other customers.

State Water Corporation is in the fortunate position of having an asset base that essentially performs in accordance with the requirements of water users. Key capital investment drivers are associated with dam safety in extreme natural events, environmental protection improvements and operational information technology to improve water efficiency and customer service levels.

Investment decisions are critical for State Water. The Corporation must strike the appropriate balance of investment priorities between the important needs for competing classes of investments: asset protection for extreme flood conditions; water efficiency and savings for distribution; environmental compliance; and securing asset reliability in operations. The current drought conditions underline the relative importance of improving water efficiency so that pressing water needs can be better served.

State Water Corporation's overriding organisational vision is "to be recognised by our customers and other stakeholders as a value for money water utility". We plan to achieve this vision through a three-part program: improving further the business basics – asset management, water operations, customer service and environment management; taking an active part in the current innovative developments in water technology, water marketing and financing; and selectively responding to profitable growth opportunities that add value to the core business.

2. OBJECTIVES OF THE CORPORATION

The *State Water Corporation Act 2004* (SWC Act 2004) is the enabling legislation incorporating bulk water delivery services to rural and regional water users in NSW into a single business.

In accordance with the SOC Act, the principal objectives of State Water are to capture, store and release water in an efficient, effective, safe and financially responsible manner.

The other objectives of State Water are:

- to be a successful business and, to that end:
- to operate at least as efficiently as any comparable business, and
- to maximise the net worth of the State's investment in the Corporation;
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates;
- where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991; and
- to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

The purpose of State Water Corporation is:

"to efficiently deliver water and services to people, agriculture, industry and the environment to achieve sustainable growth in regional NSW."

3. NATURE AND SCOPE OF OPERATIONS

State Water's area of operations is defined in the SWCA 2004 as the whole of the State, (including the Fish River Water Supply) other than the area of operations of Sydney Water Corporation, Sydney Catchment Authority, Hunter Water Corporation and the areas of operation of any water supply authorities.

State Water owns, maintains, manages and operates major infrastructure assets that enable delivery of bulk water to approximately 6,200 licensed bulk water users on the State's regulated rivers along with associated environmental flows. In a normal year this involves delivery of up to 5,500 GL, (IPART revised to 4,627 GL in 2010 Final Determination) but in the current extreme drought conditions, diversions for 2009/10 were 1,622GL, excluding 345 GL of interstate trades. It also owns, maintains and operates the assets of Fish River Water Supply (FRWS) as a water supply authority to deliver bulk water through a system of pipelines to 4 major consumers and 230 minor consumers.

Unregulated rivers and groundwater within NSW are currently operated by the NSW Office of Water.

4. STRATEGIC DIRECTION

State Water's 2008-12 Corporate Plan sets out its strategic direction. The key strategic themes and associated strategies in the Plan are as follows:

Protect, operate and maintain our water assets with increasing efficiency:

- Secure the integrity of our assets to meet the standards required through efficient works and maintenance programs, reducing annual real costs
- Promote environmental responsibility in all our operations and seek recognition of this element of State Water's growing skill set
- Realise the full value of our existing assets through a proactive assessment and development, or rationalisation of under-performing assets

Maximise the delivered water available from each megalitre flowing into the regulated river system:

- Confirm adequate funding from the Commonwealth *Water for the Future* fund and deliver technologies to improve methods of measurement, metering and remote sensing
- Continue to improve the efficiency of water delivery into and from our storages and rivers, recognising the impact of climate change

Provide water-related services that respond to the growing variety of customer needs – specifically recognising the value of water, the environment, and customer service

- Provide premium services, where profitable, above those funded by IPART approved maximum charging
- Recognise the environment as a key water user and develop value adding services to assist emerging environmental water managers
- Provide tailored levels of service to meet the needs of different customers
- Modernise interaction with our customers through the introduction of existing, proven, service industry technologies
- Improve customer understanding of river operations

Improve business outcomes

- Secure benefits for State Water under the *Water for the Future* program
- Build on our extensive rural footprint to secure profitable business growth opportunities outside the IPART-regulated business
- Develop business systems that allow us to maintain productivity during times of change
- Meet the commercial and operational expectations of shareholders and regulators

Achieve our strategic objectives through our capable, committed, safe and skilled workforce:

- Meet the NSW *Working Together* for OH&S by putting safety first
- Provide employees with the tools to effectively and efficiently deliver services
- Develop a culture that allows us to build a team of skilled and dedicated people consistent with a modern utility business

5. DRAFT IPART 2010 PRICING DETERMINATION

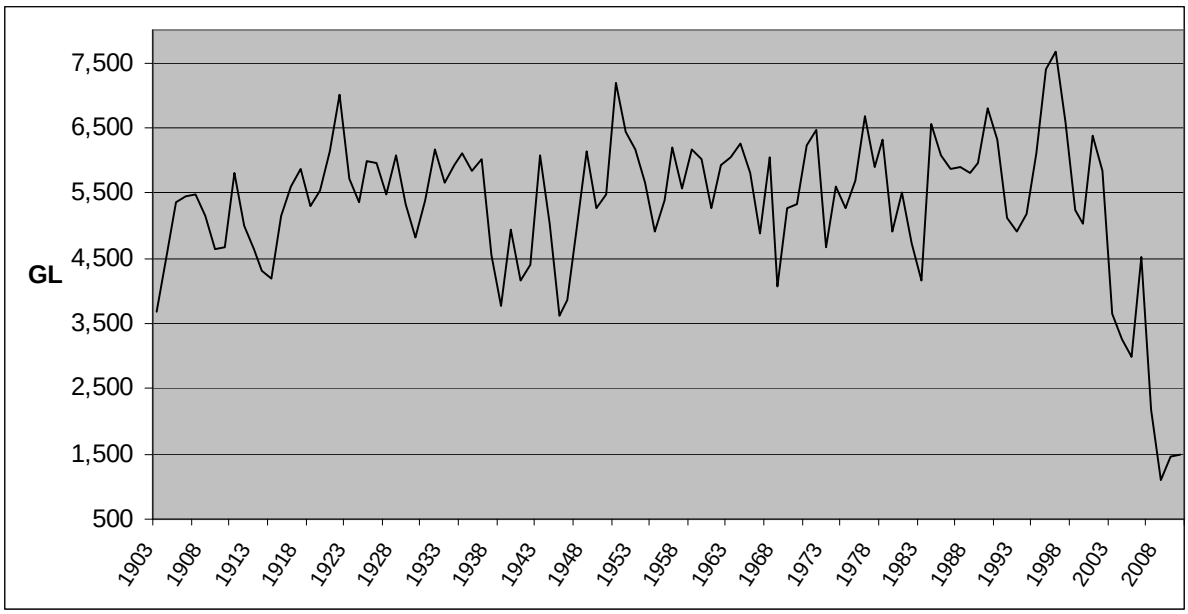
On 18 June 2010, IPART released its Final Determination of State Water's prices from 1 July 2010. This Statement of Corporate Intent has been developed based on IPART's recommendations.

6. WATER DELIVERY VOLATILITY

Sales revenue from State Water's customers is volatile, dictated by available supply and is difficult to predict in advance. Supply can be severely limited by drought and subsequent low storage levels, as is currently the case.

The following graph uses data generated from the NSW Office of Water's Integrated Quality-Quantity Model (IQQM). The IQQM calculates extractions, or water sales, which would have occurred historically under the Water Sharing Plans and which now determine extractive water use. The graph highlights the volatility in extractive water supply. Water supply in the last decade alone has varied from a peak of 7,661 GL in 1996/97 to the historic low of 1,111 GL in 2007/08, with anticipated deliveries of 1,620 GL in 2009/10.

Figure 1: Extractions under the Water Sharing Plans (GL)



Note: Actual extractions used from 2002/03. Prior to that extractions are estimated using IQQM.

In the 2010 Determination, IPART endorsed a new consumption forecasting methodology for estimating water sales, based on a rolling 20 year average of actual and modelled consumption. Consequently, the average consumption forecasts used for cost recovery of usage revenues will be 4,627 GL, compared to 5,450 GL in previous Determinations. State Water believes that this reduction will greatly reduce the under recovery of water charges that has occurred over the last 5 years.

The Base Case forecast of 3,000 GL for 2010/11 assumes sales will be equivalent to 2009/10 in the northern and coastal valleys with the increment relating to increases in the southern valleys. Carryover in the Murray and Murrumbidgee valleys will be in the order of 40% higher than in 2009/10 and the likelihood of early season allocation increases, coupled with more positive Bureau of Meteorology projections, provides a more optimistic outlook.

Catchment antecedent conditions are better than at this time last year due to early 2010 autumn rainfall, increasing the probability of significant winter/spring stream flows. Rice growers in southern valleys are currently planning for a return to more normal plantings.

The proposed GL water deliveries for each of the Base Case, Optimistic and Pessimistic Water Delivery Scenarios are summarised in the table below.

Table 1: Scenario Analysis GL Assumptions

Gigalitres (GL)	2010/11	2011/12	2012/13 & Fwd Years
Base Case	3,000	4,000	4,627
Pessimistic Drought Recovery	1,500	2,000	4,000
Optimistic Drought Recovery	4,700	5,500	5,500

Base Case
This scenario uses an estimate of 3,000 GL for 2010/11 water deliveries, 4,000 GL for 2011/12 and a return to average water sales of 4,627GL from 2012/13 onwards, which is around a 15% reduction in the previous average water deliveries of 5,450 GL.

Pessimistic Drought Recovery Scenario
For 2010/11 water sales, this scenario uses 1,500 GL and a recovery in 2011/12 to 2,000 GL. From 2012/13 this scenario assumes average water sales of 4,000 GL.

Optimistic Drought Recovery Scenario
For 2010/11 water sales, this scenario uses 4,700 GL, increasing to 5,500 GL in the forward years.

Basin Plan – Sustainable Diversion Limits
A key component of the charter of the Murray Darling Basin Authority (MDBA) charter is to develop a Basin Plan which establishes the environmental water needs of the Basin's key environmental assets and Sustainable Diversion Limits (SDLs) for each valley and water source (including unregulated and groundwater sources). Preliminary information on the likely water requirements of a sample of the identified environmental assets indicates the SDLs are likely to significantly reduce average diversions to State Water's traditional customers, and possibly to also increase the number of very low allocation seasons. This is planned to take effect from the 2014 water-year onwards when the new water management plans for NSW take effect.

It is unclear at this time if these increased environmental releases, allocations and reserves will provide entitlement or usage revenues to State Water. At this stage State Water's forward projections are based on full cost recovery from all water users with current plans.

7. FINANCIAL PERFORMANCE RESULTS AND TARGETS
Financial performance targets from 2010/11 to 2013/14 are shown in Table 2. Achieving financial performance targets is contingent on water availability. Although the drought has abated during the second half of 2010 across the North of NSW, inflows to the Murray and Murrumbidgee valleys, which account for some 65% of water deliveries by State Water, remain seasonally low, although not at the record lows of the past 5 years.

State Water's total storage level as at 5 July 2010 was 36.1% of total capacity, 12.1% higher than the same time last year. State Water is preparing for water deliveries in 2010/11 to continue to be drought affected.

State Water's estimate of water deliveries in 2010/11 is 3,000 GL, with water deliveries in 2011/12 assumed to recover and increase to 4,000 GL. As a result Earnings before Interest and Tax are expected to increase from $29.1 million in 2010/11 to $46.1 million in 2011/12. The results for key financial performance targets are shown in the following table.

Table 2: Annual Financial Performance Results and Targets – Base Case

	2009-10Actual #	2010-11SCI	2011-12Forecast	2012-13Forecast	2013-14Forecast
Total Income ($M)	80.3	169.8	136.4	146.4	140.7
Total Expenses ($M)	(67.9)	(135.7)	(84.0)	(82.9)	(69.2)
Earnings Before Interest, Tax, Depreciation and Amortisation ($M)	12.3	34.0	52.4	63.4	71.5
Earnings Before Interest and Taxes ($M)	61.8	29.1	46.1	55.8	62.8
Operating Profit Before Tax ($M)	59.8	20.2	29.1	31.5	31.8
Income Tax Expense ($M)	(15.3)	0.0	0.0	0.0	0.0
Operating Profit After Tax ($M)	44.5	20.2	29.1	31.5	31.8
Capital Expenditure ($M)	69.7	117.9	123.8	112.1	50.1
Target Dividend($M)	(2.7)	(14.1)	(20.4)	(22.1)	(22.3)
Dividend Payout Ratio	70.0%	70.0%	70.0%	70.0%	70.0%
EBITDA Margin (%)	25.2%	47.7%	57.9%	61.9%	64.7%
EBIT Interest Coverage	17.27	2.99	2.72	2.30	2.02
Return on Average Assets (%)	12.0%	4.5%	6.0%	6.3%	6.4%
Return on Average Equity (%)	12.9%	5.4%	7.3%	7.4%	7.0%
Target Gearing Ratio (minimum)	12.0%	12.0%	12.0%	12.0%	12.0%

#In accordance with draft 2009/10 Financial Statements

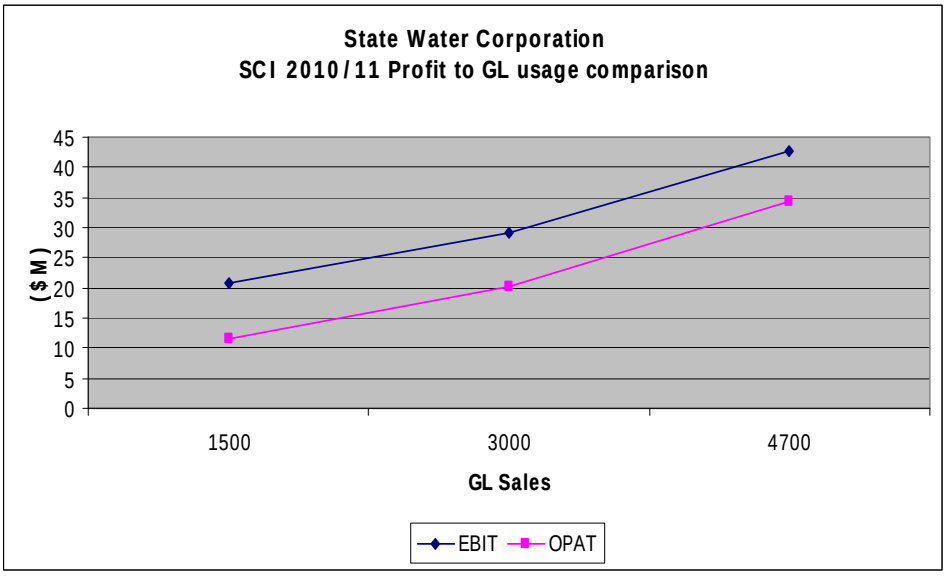
Given the reliance of State Water on water deliveries to achieve its financial performance targets, State Water has modelled the impact of the pessimistic and optimistic scenarios on the Annual Financial Performance Targets. The results of the modelling are shown in the Table 3.

Table 3: Annual Financial Performance Targets –Scenarios

	PESSIMISTIC SCENARIO			OPTIMISTIC SCENARIO		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
	SCI	Forecast	Forecast	SCI	Forecast	Forecast
Water Deliveries (GL)	***1,500***	***2,000***	***4,000***	***4,700***	***5,500***	***5,500***
Earnings Before Interest, Tax, Depreciation and Amortisation ($m)	25.7	38.1	59.7	47.6	61.3	68.6
Earnings before Interest and Taxes ($m)	20.8	31.8	52.0	42.7	55.0	61.0
Operating Profit Before Tax ($m)	11.6	14.0	26.7	34.2	38.9	37.7
Operating Profit After Tax ($m)	11.6	14.0	26.7	34.2	38.9	37.7
Target Dividend ($ m)	(8.1)	(9.8)	(18.7)	(23.9)	(27.2)	(26.4)

Target Dividend Payout Ratio (%)	70%	70%	70%	70%	70%	70%
Return on Average Assets (%)	3.2%	4.2%	5.9%	6.6%	7.2%	6.8%
Return on Average Equity (%)	3.1%	3.5%	6.4%	9.0%	9.6%	8.7%

The graph below indicates the reliance on water sales of Operating Profit after tax and Earnings before Interest and Tax.



EBIT – earnings before interest and taxation, OPAT – operating profit after Tax.

Regulated and Non-Regulated Business

State Water business includes both regulated and non-regulated components. The regulated business relates to the release of water to customers from its major storages which is regulated by IPART. The non-regulated business relates primarily to civil construction and maintenance works undertaken for third parties on a fee for service or cost recovery basis.

At present, works for the Murray Darling Basin Authority (MDBA) comprise the majority of the non-regulated business, although this is expected to change over the four-year SCI period as the business opportunities outlined in Section 13 of the SCI are realised.

State Water also undertakes works on a fee for service basis for the Bureau of Meteorology, Treasury Community Service obligations, Water for Rivers and Department of Environment, Climate Change and Water. In addition, State Water manages foreshore lands under delegation from the Water Administration Ministerial Corporation. State Water undertakes a leasing program for this land based through an open tender process. The majority of the leases are for agricultural grazing purposes.

Works Undertaken by State Water as Constructing Authority for the Murray Darling Basin Authority (MDBA)

State Water has a business relationship with the MDBA. This relationship involves undertaking regular maintenance, repair work and construction of new or replacement assets within the Murray-Darling basin. In accordance with Part IX, Section 78 of the Murray Darling Basin Agreement, State Water undertakes works on a full cost recovery basis; hence revenues are based on fully absorbed costs.

The volume of works undertaken by State Water as Constructing Authority for the MDBA is substantial and represents the major portion of non regulated income and expenditure in State Water's budget. The delivery of this program is contingent on a number of

external factors including MDBA funding approvals and sometimes complex heritage and environmental issues which are managed by third parties.

Table 4 details the revenues, expenses and earnings for regulated and non- regulated business for the next 4 years dissected into internal (project management) and external ("pass-through" contract) costs as follows:

Internal costs
Staff generally work on a mixture of capital, MDBA and other non-regulated projects. Should a particular MDBA project not proceed, the staff assigned to that project would be reassigned to other projects. Peaks in project load for commercial projects are managed using contract project management staff and hence State Water carries no ongoing liability.

External Costs
State Water's contract costs are paid on a cost incurred basis (including overhead allocation) by the MDBA as per the current MBDA / State Water agreement. State Water therefore carries no risk regarding these contracts.

Table 4: Regulated and Non-Regulated Business - Revenue, Expenses and Earnings

	2009-10 Actuals#	2010-11 SCI	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast
Regulated Business:					
Total Income ($M)	48.8	71.4	90.6	102.5	110.5
Total Expenses ($M)	(35.7)	(39.7)	(40.5)	(41.4)	(41.5)
Earnings Before Interest, Tax, Depreciation and Amortisation ($M)	**13.1**	**31.7**	**50.1**	**61.1**	**69.1**
Non-Regulated Business – MDBA:					
Total Income ($M)	15.6	83.7	31.5	28.7	15.3
Total Expenses (at risk) ($M)	(5.2)	(3.5)	(3.6)	(3.7)	(3.8)
Total Expenses (pass through) ($M)	(10.4)	(79.9)	(27.6)	(24.6)	(11.1)
Total Expenses ($M)	(15.6)	(83.4)	(31.2)	(28.3)	(14.9)
Earnings Before Interest, Tax, Depreciation and Amortisation ($M)	**(0.0)**	**0.3**	**0.3**	**0.3**	**0.4**
Non-Regulated Business – Other:					
Total Income ($M)	9.5	8.3	6.2	6.0	6.2
Total Expenses (at risk) ($M)	(6.9)	(2.5)	(3.0)	(3.5)	(3.6)
Total Expenses (pass through) ($M)	(3.4)	(3.7)	(1.2)	(0.5)	(0.5)
Total Expenses ($M)	(10.3)	(6.3)	(4.2)	(4.0)	(4.1)
Earnings Before Interest, Tax, Depreciation and Amortisation ($M)	**(0.8)**	**2.0**	**2.0**	**2.0**	**2.1**
Total Business:					
Total Income ($M)	73.9	163.4	128.2	137.2	131.9
Total Expenses ($M)	(61.6)	(129.4)	(75.8)	(73.7)	(60.5)
Earnings Before Interest, Tax, Depreciation and Amortisation($M)	**12.3**	**34.0**	**52.4**	**63.4**	**71.5**

 # In accordance with draft 2009/10 Financial Statements

Interstate Trade
In 2009/10 State Water started collecting usage fees (along with IPART determined trade fees) on water traded interstate or to licence holders without a works approval at the time of trade. This collection at the point of trade initiation will continue in 2010/11. This recovery method was introduced to resolve the earlier reported issue of revenue foregone when water was traded to interstate water authorities for use in another State. State Water is working with the NSW Office of Water to ensure future interstate agreements to facilitate water trade address state based revenues.

Environment as a Customer
The environmental customer, in the form of the combined holdings of the Commonwealth Environmental Water Holder and the Department of Environment Climate Change and Water DECCW through the Riverbank and The Living Murray programs, is fast becoming State Water's largest customer. To date, environmental customers have paid water entitlement and usage fees on time and in full.

The future plans and water use strategies of environmental customers provide a challenge and an opportunity for State Water. These customers may want to water iconic sites using large daily diversions and at different times to peak irrigation providing challenges in terms of efficiency and management of water deliveries. Also, while environmental customers in state and commonwealth entities have indicated they will pay all charges, there remains some uncertainty regarding their future intention of this important customer.

Superannuation
Over the past few years there has been significant volatility in stock markets. The significant drop in share values has impacted the managed funds which underpin the defined benefits superannuation schemes which apply to 1/3 of State Water employees. Much of the negative impacts have been turned around during 2009/10 and NSW Treasury has indicated that, at this stage, State Water will not be required to make any additional contributions. Should there be a sustained change in the value of the underlying managed funds in the future, this will affect State Water's obligations in respect of these schemes which will impact on the State Water's Earnings and Operating Profit targets.

8. NON-FINANCIAL PERFORMANCE TARGETS
State Water's primary non-financial performance indicators, for which it is accountable via the Operating Licence, comprise water delivery indicators and customer compliance indicators. The following table provides actuals for 2008/09 and targets for 2009/10 and 2010/11.

Table 5 – Non Financial Performance – Actuals and Targets

	2008/09 Actual	2009/10 Target #	2010/11 Target #
Percentage of Customers contacted within one working day of a non-complying water order being placed	64%	90%	90%
Percentage of complying orders identified as being delivered outside of +/- 1 day of the scheduled day of delivery	0%	5%	5%
Percentage of water orders rescheduled in consultation with customers within one working day of a known storage or delivery delay #	100%	95%	95%
Percentage of time that daily minimum flow targets are met #	93%	90%	90%
Percentage of complying intra-valley transfers processed per COAG service standards of State Water's receipt of correctly completed application form and fee.			
Intrastate	99%/10days	90%/5days	90%/5days
Interstate (excluding SA)	98%/20days	90%/10days	90%/10days
Interstate (SA)	98%/20days	90%/20days	90%/10days
Number of meters audited for compliance with metering conditions	0%	50%	
% take up of Internet Access to State Water's Customer System	0%	15%	25%

 # Targets have been set for operations in typical conditions. Performance in recent years has been in an extraordinary drought period where there have been very few orders and water deliveries. Water Sharing Plans have also been suspended with the relaxation of some minimum flow targets. 2009/10 Actuals to be provided when available.

In addition, additional non-financial output measures have been developed as part of the 2010 IPART Determination process. The following table provides measures for the four years commencing 2010/11.

Table 6 - Output Measures as per 2010 Draft IPART determination

	Proposed Targets			
	2010/11	**2011/12**	**2012/13**	**2013/14**
Facilities Management and Maintenance System (FMMS)				
Extent of maintenance jobs/tasks planned on FMMS (% and $ cost)	30%	45%	60%	75%
Number of jobs/tasks planned per annum	1,066	1,226	1,410	1,621
Backlog of maintenance activity – number and time to resolve	50% reduction from 1 January 2010 backlog.	A further 25% reduction	No change	No change
Ratio of planned to condition based/breakdown maintenance	N/A	N/A	N/A	N/A
Asset Condition Profile				
RAB condition profile as per Atkins/Cardno report	No deterioration	No deterioration	No deterioration	No deterioration
Maintenance – Completion of dam safety schemes				
Reduction in risk level through the completion of the dam safety upgrades	N/A	Risk reduction in Blowering and Chaffey Dams	N/A	N/A
Proposed construction program and agreed dam safety compliance Phase 1 target dates as per Atkins/Cardno report:				
Blowering Dam	Project complete			
Burrendong Dam	Design complete	Award contract	Project complete	
Chaffey Dam	Award contract	Project complete		
Copeton Dam	Design complete	Award contract	Project complete	
Keepit Dam	Design complete	Award contract	Project complete	
Split Rock Dam	Design complete	Award contract	Project complete	
Wyangala Dam	Design complete		Award contract	Project complete
Telemetry				
The number and percentage of key sites with established telemetry for monitoring and control of assets	15 Dams (83%) 43 Weirs & Regulators (83%)	3 Dams (100%) 14 Weirs & Regulators (100%)		

	Proposed Targets			
	2010/11	**2011/12**	**2012/13**	**2013/14**
Automation of key sites	9 Dams (69%) 14 Weirs & Regulators (30%)	1 Dams (77%) 22 Weirs & Regulators (76%)	0 Dams (77%) 4 Weirs & Regulators (85%)	3 Dams (100%) 7 Weirs & Regulators (100%)
Surveillance Monitoring Works	7 Dams (58%) 21 Weirs & Regulators (40%)	5 Dams (100%) 17 Weirs & Regulators (77%)	11 Weirs & Regulators (94%)	3 Weirs & Regulators (100%)
Environmental				
Total length of river open to fish by valley, length, year.	N/A	Macquarie 380 kms Lachlan 519 kms	Murrumbidgee 210 kms	Gywdir 368 kms Namoi 340 kms
For valleys where cold water pollution works are currently proposed, State Water is to achieve satisfactory performance by the scheduled date, as defined by the Operating Protocols under the Works Approvals.	N/A	N/A	N/A	N/A
Water Delivery				
Expenditure to enhance water delivery operations	Establish water delivery performance indicators and benchmarks in each major valley based on historical performance.	Set performance improvement targets for each valley. Measure and report performance against performance indicators.	Measure performance against performance indicator targets.	Measure performance against performance indicator targets.

9. CAPITAL WORKS PROGRAM

Table 7 shows the proposed Capital Works Program details and by Source of Funds. The Program is grouped in four categories:

Dam Safety Regulatory Compliance relates to compliance capital expenditure on dams, regulators and weirs incurred to ensure that the assets and operations meet the relevant regulations, standards and requirements set by various regulatory bodies for dam safety, public safety and operational safety.

Environmental Regulatory Compliance relates to compliance capital expenditure on dams, regulators and weirs incurred to ensure that the assets and operations meet the relevant regulations, standards and requirements set by various regulatory bodies for environmental benefits.

Renewal of Assets comprises minor works required on dams, regulators and weirs to ensure the continuation of the function/services.

Improved Effectiveness and Efficiency relates to enhancement capital expenditure to augment the assets to increase their operating capacity.

State Water's Total Asset Management Plan (TAMP) 2009 has been developed and endorsed by the Board. State Water is committed to maintaining its assets in accordance with the Government's Strategic Asset Management requirements. The Capital Works Program has been developed within the TAMP framework to directly meet business objectives and risk management. State Water is also currently developing Asset Plans which will enhance its asset lifecycle decision making process. This will allow further refinement of the capital program, as well as supporting improved operational expenditure, disposal decisions and provide greater transparency of expenditure decisions.

Table 7: Capital Works Program Details ($M, 2010/11)
SUMMARY

	2009/10 Actuals # $09/10	2010/11	2011/12	2012/13	2013/14
Total Dam Safety Regulatory Compliance*	60.7	74.6	69.1	68.1	14.2
Total Environmental Regulatory Compliance	3.8	10.1	12.6	18.5	5.9
Total Renewal of Assets	2.8	12.4	17.4	1.7	6.5
Total Improved Effectiveness & Efficiency	8.3	20.7	21.7	18.5	20.0
TOTAL	**75.6**	**117.9**	**120.7**	**106.7**	**46.5**
PROGRAM BY SOURCE OF FUNDS:					
Borrowing ($M 10/11)	52.6	80.0	79.8	70.7	14.0
Other sources including internal funds and sales revenue	23.0	37.9	40.9	36.0	32.5
TOTAL	**75.6**	**117.9**	**120.7**	**106.7**	**46.5**

** Phase 1 of the Dam Safety Compliance Program only. Phase 2 estimates commence in 2014/15.*

 # In accordance with draft 2009/10 Financial Statements

COMPONENTS OF MAJOR CATEGORIES OF CAPITAL EXPENDITURE					
	2009-10 Actuals	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Dam Safety Regulatory Compliance*					
Blowering	24.8	9.9	0.0	0.0	0.0
Burrendong	3.9	9.4	9.6	4.9	0.0
Chaffey	2.6	7.4	3.0	1.7	0.0
Copeton	5.4	9.4	16.3	10.6	0.0
Keepit	21.0	27.1	20.2	26.8	0.0
Split Rock	0.5	0.9	1.4	0.8	0.0
Wyangala	2.3	2.1	6.4	10.7	9.1
Wyangala Road and Bridge	0.0	0.0	3.4	3.4	3.4
Capitalised Interest	0.0	3.2	3.0	2.9	0.6
Other Minor (includes program contingency)	0.1	5.2	5.8	6.2	1.0
TOTAL DAM SAFETY REGULATORY COMPLIANCE	**60.7**	**74.6**	**69.1**	**68.1**	**14.2**
Environmental Regulatory Compliance					
Yallakool Fishway	0.0	1.6	0.0	0.0	0.0
Lake Brewster	1.9	0.0	0.0	0.0	0.0
Lake Cargelligo Fishway	1.0	2.7	0.0	0.0	0.0
Gulpa Fishway	0.6	1.0	0.0	0.0	0.0
Keepit Fishway/CWP	0.0	1.1	4.6	4.5	0.0
Burrendong Fishway/CWP	0.0	0.0	2.4	2.4	0.0
Copeton Fishway/CWP	0.0	0.0	1.6	2.4	0.0
Blowering	0.0	1.1	1.3	2.2	0.0
Wyangala Fishways	0.0	0.0	0.0	2.5	2.5
Other	0.2	2.5	2.7	4.6	3.4
TOTAL ENV IRONMENTAL REGULATORY COMPLIANCE	**3.8**	**10.1**	**12.6**	**18.5**	**5.9**
Renewal of Assets					
Berembed Bridge	0.5	0.0	0.0	0.0	0.0
Gogelderie Rollers	0.4	0.0	0.0	0.0	0.0
Wakool Offtake Regulator	0.0	0.3	0.8	0.0	0.0
Yallakool Weir	0.0	1.2	0.0	0.0	0.0
Fish River Drought Works	0.0	2.8	2.7	0.0	0.0
Menindee Fuse Plug	0.0	0.0	6.8	0.0	0.0
Replacement of Pipes Fish River	0.0	4.2	4.2	0.0	0.0
Marebone Break Regulator	0.0	0.0	0.0	0.0	1.4
Merrowie Creek Offtake regulator	0.0	0.0	0.0	0.0	1.3
Keepit Dam Butterfly valve	0.0	0.0	0.0	0.0	0.8
Other	1.9	3.9	2.9	1.7	2.9
Improved Effectiveness & Efficiency					
Total Water Delivery & Other Operations	6.8	6.8	2.4	1.3	1.0
Total Corporate Systems	0.0	0.0	0.0	0.0	0.0
Externally funded	0.0	11.4	16.8	14.2	16.6
Vehicles/Computers	1.5	2.5	2.5	3.0	2.5
TOTAL IMPROVED EFFECTIVENESS AND EFFICIENCY	**8.3**	**20.7**	**21.7**	**18.5**	**20.0**
TOTAL	**75.6**	**117.9**	**120.7**	**106.7**	**46.5**

** 2009/10 figures include capitalised interest in individual projects*

Impact of Changes to Treasury Accounting Policy TPP 10-1

TC 10/08 and AASB 123 "Borrowing Costs" issued in June 2010 require the capitalisation of borrowing costs relating to qualifying assets. State Water Corporation's material qualifying assets relate to dam safety upgrade works which are completed over several years. To complete this work State Water Corporation has had to increase its loan facilities with NSW Treasury. Given that funds are borrowed generally (as opposed to specifically) State Water Corporation determines the amount to capitalise by using the weighted average of borrowing costs (inclusive of government guarantee fees) applicable to the borrowings of the entity."

The Dam Safety Program

State Water has responsibility as a dam owner and operator to meet all regulatory requirements, including safety and environmental requirements. State Water's dams complied with the engineering standards of the day when they were built between 1910 and the 1980's. They are safe for day-to-day operations and can all easily withstand the worst floods since European settlement.

However, as a result of our improved ability to predict rainfall and extreme weather patterns and events, many of State Water's dams no longer comply with the NSW Dams Safety Committee's (DSC) standards and guidelines for extreme floods and earthquakes. The NSW Government is committed to a program to reduce the risks associated with dam failure and subsequent flooding to acceptable limits that meet first-world expectations.

To achieve the most cost effective overall risk reduction as soon as possible, State Water has adopted a staged risk reduction program developed in conjunction with the DSC. Phase 1 of the upgrade program is addressing the seven dams in State Water's dam portfolio with the highest risks. State Water has undertaken detailed investigation on each of the seven dams, and Phase 1 safety upgrades at Blowering, Keepit, Burrendong, Chaffey and Wyangala Dams are at various stages of construction.

Under the guidelines of the Australian National Committee on Large Dams (ANCOLD), each of the dams in Phase 1 of the program, excluding Split Rock Dam, is included in the "Extreme" flood consequence category due to the large number of people at risk and the potential for severe damage and economic loss following dam failure. However, this categorisation does not reflect the structural integrity of the dam, which is sound for all seven dams in the Phase 1 program. Split Rock dam is in ANCOLD's "High A" flood consequence category, one level below the "Extreme" category.

Under the Phase 1 program, Keepit will be upgraded to meet a PMF (Probable Maximum Flood) event because the incremental cost to do so is significantly less than upgrading the dam in two stages. The other dams in the Phase 1 program will be upgraded to less than the PMF level. The need for further risk reduction for these dams will be assessed in conjunction with the DSC during the later stages of the Phase 1 program.

Preliminary figures for Phase 2 of the Dam Safety Upgrade are included in the forward year's capital program estimates. State Water will provide a comprehensive assessment to the shareholders regarding the need for any Stage 2 works when investigations have been completed.

Further details of the Phase 1 program follow.

Blowering Dam Upgrade

The spillway capacity of the dam is insufficient and can accommodate a flood with a joint annual exceedance probability (AEP) of 1 in 270,000, which has a flowrate of only 30% of the PMF for Blowering Dam.

The Phase 1 upgrade involves raising the existing spillway and training walls, and construction of a new parapet wall on the existing embankment.

The Phase 1 works will have the capacity to pass a flood with joint AEP of 1 in 580,000, which has a flow rate of 40% of the PMF for Blowering Dam.

Construction work commenced on Blowering Dam in early 2009/10, and will be complete in 2010/11.

Burrendong Dam Upgrade

The spillway capacity of the dam is insufficient and can accommodate a flood event with a joint AEP of 1 in 72,000, which has a flowrate of 84% of the PMF for Burrendong Dam.

The Phase 1 upgrade involves raising the main embankment (wall) and raising the saddle dams (B and C) embankments. Construction of these works has commenced, and is anticipated to be completed in 2010/11.

The phase 1 works also involve upgrading the existing spillway. These works include raising the inlet training walls, radial gates protection, raising the hoist bridge and chute protection works. These works are in the design phase, with detailed design and construction anticipated to start in the latter half of 2010/11.

The Phase 1 works will have the capacity to pass a flood with joint AEP substantially less than 1 in 72,000 with a flowrate of 95% of the PMF for Burrendong Dam. The joint AEP is difficult to estimate with accuracy due to the unique characteristics of this dam.

Chaffey Dam Upgrade

The dam is safe for day to day operations and can accommodate floods with a joint AEP of 1 in 100,000 AEP, which has a flowrate of only 25% of the PMF for Chaffey Dam.

Interim flood mitigation works were completed in 2004. The interim works involved the raising of the crest level of the dam by 1.8 metre through the installation of a precast concrete parapet wall along the upstream side of the dam wall. The interim works also included an early warning system with alarm sirens at Woolomin.

The Phase 1 upgrade involves construction of a 35 metre wide auxiliary fuseplug spillway on the left hand embankment. The Phase 1 works when completed will have the capacity to pass a flood with joint AEP of 1 in 450,000, which has a flowrate of 67% of the PMF for Chaffey Dam.

Construction is due to commence in June 2009/10, and be completed in 2011/12.

Copeton Dam Upgrade

The spillway capacity of the dam is insufficient and can only accommodate a flood event with a joint AEP of 1 in 16,000, which has a flowrate of 50% of the PMF for Copeton Dam.

Phase 1 of the upgrade project involves construction of a 250 metre long 4 bay fuse plug at Diamond Bay (left hand side of the dam wall). This will satisfy the societal risk criteria as set by the NSW DSC and achieve an acceptable level of risk reduction.

The Phase 1 works, when complete, will have the capacity to pass a flood with joint AEP of 1 in 190,000, which has a flowrate of 80% of the PMF for Copeton Dam.

The works will impact on a number of Copeton Waters State Park recreation facilities. In order for the dam safety upgrade works to occur, a number of these facilities are being relocated prior to the construction of the dam safety upgrade works.

These relocation works have now commenced and are anticipated to be completed by mid 2010/11. The spillway works are anticipated to be completed in 2012/13.

Keepit Dam Upgrade

The spillway capacity of Keepit dam is insufficient and can only accommodate a flood event with a joint AEP of 1 in 30,000, which has a flowrate of 35% of the PMF for Keepit Dam. The dam would likely fail if overtopped.

Interim dam safety works were completed in 2003. These works reduced the risk of main dam failure by improving the safety of existing spillway bridge and gates, installing an early warning system and the lowering of a subsidiary wall. Despite these works, the risk level at Keepit Dam remained the highest in State Water's dam portfolio, hence the need for further works.

The upgrade involves construction of new saddle dams, a new spillway at the right abutment, a new subsidiary wall and spillway (as Package 1), and raising the main embankment (as Package 2). These works will protect Keepit Dam from a PMF flood event, and cascade failure from Split Rock.

Package 1 has commenced and is programmed to be complete in 2011/12. Construction of Package 2 will commence in 2011/12, and is programmed to be complete in 2012/13.

Split Rock Dam Upgrade

Split Rock Dam is safe for day to day operations and can accommodate floods to a joint AEP of 1 in 116,000, which has a flowrate of 50% of the PMF for Split Rock Dam.

Phase 1 of the Split Rock Upgrade involves construction of a new parapet wall on the existing embankment to protect Split Rock from failure and avoid a potential cascade failure of Keepit Dam. With Phase 1 works in place, discharge of water in excess of Split Rock's existing spillway capacity will be via some two kilometres of saddle dams located on the perimeter of the storage. As a result, if the Split Rock saddle dams were to fail, this would result in only a partial loss of storage at Split Rock, with no potential for cascade failure of Keepit Dam when upgraded.

When the Phase 1 works are completed, the main Split Rock embankment will withstand a PMF event, with the saddle dams acting as spillways. However, due to the spillway action of the saddle dams, the Split Rock dam structures as a whole do not meet full PMF compliance.

Construction of the parapet wall is anticipated to begin in the first half of 2010/11, and be completed in early 2012/13.

Wyangala Dam Upgrade

Wyangala Dam is safe for day to day operations and can accommodate floods to a joint AEP of 1 in 9,000, which has a flowrate of 70% of the PMF for Wyangala Dam.

The Phase 1 upgrade project involves raising and locking the existing spillway gates, raising the downstream spillway chute walls, and construction of a new parapet wall on the existing embankment.

These works will reduce the road access across the dam crest to a single carriageway, with road across the dam crest to be closed to the public. Excluding public access will bring the dam into line with contemporary security practice for critical infrastructure and workplace safety. The current proposal includes a new road and bridge for public access to address road safety concerns and community access requirements. The new road and bridge have resulted in the cost for the Wyangala Dam Safety Upgrade project being revised from $34 million to $42.5 million. The total capital works program has been increased accordingly.

The Phase 1 works when complete will have the capacity to pass a flood with joint AEP of 1 in 70,000, which has a flowrate of 80% of the PMF for Wyangala Dam.

Raising the spillway chute walls has commenced and is anticipated to be completed by early 2010/11. Work on the spillway gates is programmed to commence in 2010/11 and is anticipated to be complete in 2011/12, with construction of the parapet wall to commence in 2011/12.

10. ADHERENCE TO TREASURY COMMERCIAL POLICY FRAMEWORK, CIRCULARS ACCOUNTING POLICIES

State Water complies with NSW Treasury Circulars, Guidelines and Policies specified in Attachment 1 of the SCI Guidelines. State Water also complies with *Public Finance and Audit Act 1987* requirements.

11. FUNDING ARRANGEMENTS

At present, State Water receives significant revenue directly from the NSW Government. This arrangement is driven by the IPART pricing Determination principles and is separate to any Community Service Obligation (CSO) funding. The nature of this funding falls into two categories:

Government Share of Efficient Costs

The Government share of revenue is shown in State Water's financial statements as Sales Revenue from Government. IPART are required to determine cost shares for a variety of costs based on establishing the beneficiary of the services provided. This represents the revenue required to support the Government's share of efficient capital expenditure and bulk water delivery costs, as determined by IPART.

State Water's Regulatory Asset Base (RAB) is split between the Government and water users. Sales revenue from Government represents the required return on its share of the RAB. The opening RAB is adjusted by any efficient capital expenditure each year plus an allowance for inflation and reduced by the depreciation and any assets sales to derive the closing RAB for the year.

Sales Revenue from Government also includes the Government's share of operating expenditure. In 2010/11, sales revenue from Government will be $28.8 million.

Government Operating Subsidies – Minor Valleys

The operating subsidy represents the shortfall between full-cost recovery prices and actual prices set by IPART, assuming average water sales. Under-recovery of costs from water users is the result of a combination of high costs relative to the demand for water and low water prices set by IPART.

The only valleys where current water prices do not fully recover costs are the Peel Valley, North Coast and South Coast Valleys. The under-recovery of costs in these valleys is explicitly recognised as a subsidy to be met by Government. In 2010/11, the operating subsidy from Government will be $1.7 million.

Debt Levels

The scenario modelling shows that State Water's debt levels will increase over the forecast period as expenditure on the dam safety program, funded by the State Government, is progressively implemented. Debt levels will increase from $107.9 million on 30 June 2010 to $465.1 million under the Base Case, $430.5 million under the Optimistic Case and $492.7 million under the Pessimistic Case, at June 2020.

State Water has received the Treasurer's formal approval for its debt facility to $196 million for 2010/11.

The major increase in capital expenditure from 2010/11 onwards is funded principally from borrowings, with debt levels continually growing through the 10 year forecast period. In order for State Water to sustain and service these debt levels a capital injection, or a change to the dividend policy, may be required in future years to ensure the successful delivery of the Dam Safety Program and the ongoing commercial viability of State Water.

Table 8: Debt Levels - Scenario Modelling

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
2010/11 SCI Base Case										
Water Deliveries	***3,000***	***4,000***	***4,627***	***4,627***	***4,627***	***4,627***	***4,627***	***4,627***	***4,627***	***4,627***
Debt $M	181.0	266.1	344.2	363.2	380.7	391.1	396.5	397.6	414.4	465.1
Gearing %	31.9%	39.3%	43.9%	43.6%	43.1%	42.1%	40.8%	39.3%	38.8%	39.9%
EBIT Interest Coverage	3.0	2.7	2.3	2.0	2.1	2.1	2.2	2.3	2.4	2.4
2010/11 Optimistic Scenario										
Water Deliveries	***4,700***	***6,700***	***6,700***	***6,700***	***6,700***	***6,700***	***6,700***	***6,700***	***6,700***	***6,700***
Debt $M	171.3	254.9	332.4	349.4	363.5	370.7	372.8	370.5	383.6	430.5
Gearing %	30.5%	37.8%	42.5%	42.1%	41.3%	40.1%	38.6%	36.8%	36.1%	37.1%
EBIT Interest Coverage	4.6	3.4	2.6	2.3	2.4	2.5	2.6	2.7	2.8	2.9
2010/11 Pessimistic Scenario										
Water Deliveries	***1,500***	***2,000***	***4,000***	***4,000***	***4,000***	***4,000***	***4,000***	***4,000***	***4,000***	***4,000***
Debt $M	186.9	279.3	354.9	375.5	395.5	408.2	416.0	419.7	439.1	492.7
Gearing %	32.7%	40.8%	45.1%	44.9%	44.6%	43.8%	42.7%	41.4%	40.9%	42.2%
EBIT Interest Coverage	2.1	1.8	2.1	1.8	1.9	1.9	2.0	2.0	2.1	2.1

12. SOCIAL PROGRAMS AND NON-COMMERCIAL ACTIVITIES

As a SOC, State Water operates as a commercial business. Under the SOC Act and the Commercial Policy Framework, social or non-commercial programs delivered by State Water on behalf of the Government should be funded by a CSO payment.

State Water receives CSO funding for a number of non-commercial activities, as shown in the table below. This funding is appropriated to the NSW Office of Water.

Table 9: Community Service Obligations ($'000)

Activity	Government Directive	2010/11 $000	2011/12 $000	2012/13 $000	2013/14 $000
Maintenance of unregulated structures	Separation of the regulator and operator upon corporatisation resulted in these assets being transferred to State Water, without a revenue source.	525	538	552	565
Flood operations and downstream remediation	The enabling legislation for Burrendong and Glenbawn Dams allows dedicated flood mitigation airspace.	As incurred	As incurred	As incurred	As incurred
	TOTAL	**525**	**538**	**552**	**565**

13. FINANCIAL ASSET AND LIABILITY MANAGEMENT

State Water's policy for financial asset and liability management is to comply with Treasury and State Government policies, guidelines and legislative requirements, including:

- *Public Authorities (Financial Arrangements) Act 1987*;
- Treasury Circular 03/09: Guidelines on Reporting on Liability Management;
- Treasury Circular 98/7: Structured Finance; and
- Treasury Circular TC06/25: Release of Updated "Working with Government: Guidelines for Privately Financed Projects" (2006).
- Guidelines on Reporting of Investment and Liability Management (NSWTC 09/07)

State Water borrows from NSW Treasury Corporation to partly fund its capital expenditure program. Additionally, in accordance with the *Public Authorities (Financial Arrangements) Act 1987*, State Water will invest surplus funds when available with NSW Treasury Corporation.

14. OTHER BUSINESS ACTIVITIES

State Water's pursuit of business opportunities is focused on our expertise in river operations and asset management. Where possible, business development opportunities are designed to enhance or build upon our water delivery business.

State Water's unregulated business is largely undertaken on a (fully absorbed) cost recovery basis. State Water undertakes this work principally to ensure that delivery of the works, on assets principally utilised by State Water are conducted in a prudent manner. There are also a number of projects, outlined below that, once delivered, will deliver commercial returns. State Water currently operates in, and is seeking growth in, areas of unregulated business, each in a manner consistent with our strategic objectives.

In 2010/11, State Water will be reinforcing the focus on realistic business opportunities by creating a specific Commercial Business Development Unit, dedicated to growing current commercial business and pursuing new opportunities. Current commercial business includes the following:

Works for the Murray Darling Basin Authority (MDBA)

As Constructing Authority for the MDBA, State Water carries out a variety of annual operating and capital works along the Murray valley under a long standing arrangement that allows for full recovery of costs at low risk, but without any margin for profit. State Water derives strategic benefits from undertaking these works, given that it will be responsible for operating and maintaining them following construction. State Water's role as Constructing Authority also enables it to influence the shape the MDBA program.

Recently State Water has been engaged as the Construction Manager for the $49.1 million Perricoota forest watering project which will provide more frequent watering of some 32,000 hectares of this threatened iconic red gum forest near Barham/Deniliquin through a 3.9 kilometre man-made channel, a network of control gates and more than 40 kilometres of embankments. Works are planned to commence in 2010 after environmental approvals are finalised by the NSW Office of Water, with completion before 30 June 2011.

State Water is also the project manager for the $40 million Southern Training Wall Remedial Works at Hume Dam.

Water for Rivers (WfR) Project

This project will provide significant commercial returns to State Water. The purpose of this project is to provide world class river management for irrigation supply in the Murrumbidgee Valley with a total estimated project cost of $60.5 million, funded by WfR, for an estimated saving of 30 GL. The project will be executed by State Water using a mix of in house and external resources. WfR will retain any water savings generated in

the Murrumbidgee. The systems, technology and intellectual property developed will be owned by State Water and will be applied to other valleys to generate water savings that can be retained by State Water. The WfR Board has accepted the business case to fund this project. The project is scheduled to commence in 2010/11.

Works Funded by Commonwealth Government

Department of Energy Water Heritage and the Arts (DEWHA) and Bureau of Meteorology (BOM) are the relevant agencies for these works. The 2007 announcement of the Federal Government initiative to invest in water infrastructure with a clear focus on the Murray Darling Basin has provided the potential for several projects for State Water.

1. The Metering Project

State Water has worked with NSW Premier's Department and NOW to complete the business case for the delivery of $90 million meter replacement program within the regulated river segments of the NSW Murray Darling Basin. This business case was submitted in June 2010 and we are currently awaiting Commonwealth response. In addition a proposal to install and own the estimated 15,000 to 20,000 unregulated-river and groundwater meters within the NSW basin on behalf of NOW was also developed. The project will be expected to commence in 2010/11 with a $20 million pilot of regulated, unregulated and groundwater meters in the upper Murray Valley.

2. Menindee/ Darling River Reconfiguration

State Water continues to be involved with the review of Menindee Lakes operations to conserve water and to address the massive evaporative losses that occur annually at Menindee. A key aim is to deliver secure urban supplies to Broken Hill, and to improve environmental flows through and from the Lakes-system without jeopardising current water users. The Commonwealth Government has established an indicative budget of $400 million for this project, the single largest initiative in the Water for the Future portfolio.

3. Pipelines to replace current Stock and Domestic supplies

It is estimated that State Water supplies water to 30 stock and domestic systems. These vary enormously but are typically a naturally dry effluent stream that is now supplied from a key river using man-made weirs and diversion works to maintain supply. The water comes from State Water storages largely with the sole purpose of providing water to livestock and/or homesteads. The losses or conveyance component in such systems, compared to a purpose-built pipeline can exceed 99%. State Water is proposing to carry out these projects under water efficiency business model that allows State Water to fund water saving projects via the sale of licences for the water savings, issued by DECCW, to the Commonwealth Environmental Licence Holder. In 2010/11 State Water will focus on developing the business case to pipe stock and domestic supplies along Crooked Creek, in the Macquarie System.

4. Bureau of Meteorology

State Water is an active participant in the Bureau's "Modernisation and Extension" program, having previously successfully obtained funding for a range of works covering automation and monitoring equipment at storages as well as projects for re-defining storage capacity tables, and data management and transfer systems. State Water has submitted a bid seeking $1.1 million in 2010/11 for new projects to further improve the accuracy of data from our storage monitoring network, and accelerate the transfer of this data to our corporate information systems, and then to the Bureau. These systems will also reduce ongoing operating expenditure as they reduce the reliance on manual data collection systems.

15. STATEMENT ADDRESSING SHAREHOLDERS' ISSUES

The key issue for the 2010/11 SCI is State Water's ongoing viability during the record prolonged drought. State Water's capital program is projected to increase significantly in 2010/11 to meet current dam safety standards determined by the NSW Dams Safety Committee. However, the drought continues to reduce State Water's usage based revenues. Consequently, State Water is at risk of losing its investment grade rating if drought conditions persist for the 2010/11 year and beyond.

This risk has been partly mitigated by the outcome of the 2010 IPART Determination in which State Water successfully argued for structural changes to pricing which should continue to improve State Water's financial viability. Despite these improvements, IPART and State Water's modelling shows that State Water's credit rating may fall below investment grade during the new regulatory period. Consequently, State Water requests that NSW Treasury undertake a full capital structure review of the business to determination whether a dividend holiday or an equity injection is required to assist State Water maintain its investment grade rating.

It is possible State Water may require an equity injection or a dividend relief for some years to retain its investment grade rating. As a minimum, State Water will be requesting that NSW Treasury undertake a capital structure review to determine sustainable debt levels.

16. RISK MANAGEMENT

The key risks affecting the achievement of State Water's strategic goals are as follows:

- Drought and Climate Change
- Modernisation of business systems (finance, water accounting)
- Major projects delivery
- Commonwealth Water for the Future Institutional Arrangements and Priority Projects Funding

State Water has a Risk Management Policy and Risk Management Plan which is the basis for risk analysis and management within the corporation. The Risk Management Committee of the Board of State Water monitors risks and advises the Board on the management of these risks.

17. REPORTING

In compliance with Section 23 of the SOC Act, State Water will provide the Voting Shareholders, one month after the end of the first six months of the financial year, a report of the operations of the corporation during that half year.

18. OTHER INFORMATION

The following reports will be provided by State Water during the course of the year:

- Forecast financial statements requested by NSW Treasury e.g. via TOES
- Forecast of financial distributions and tax equivalents requested by NSW Treasury (budget round forecasts)
- Forecast capital works program via CAPTOES
- Reporting on capital projects monthly via the Major Capital Projects Reporting System (MCPRS)
- Submissions for Projects of State Significance
- Annual Report

19. REPRESENTATION AND COMMITMENT STATEMENT

The Board of State Water Corporation confirms the following:

1. The performance targets within the SCI are based on and supported by the Corporation's Business Plan.
2. The Corporation has a Strategic Asset Management Plan, which is as far as practicable consistent with the principles of the Total Asset Management (TAM) requirements for updating the NSW State Infrastructure Strategy (SIS) Policy issued by NSW Treasury (TPP 08-02) and the NSW Government Procurement Policy (TPP 04-1). Its asset maintenance policies and processes are adequate and appropriate to manage and control risks associated with physical assets.
3. Where relevant and applicable, the Corporation will comply with the NSW Government Procurement Policy for budget-funded procurements of goods or services including construction, except for any accreditation schemes which form part of this policy.
4. The Corporation is aware of the requirements of Ministerial Memorandum No. 2005-9, Major Infrastructure Coordination and Delivery and will comply with these requirements if not contrary to the objectives of the Corporation.
5. Where relevant and applicable to the Corporation, Projects of State Significance have been identified in accordance with the criteria set down in the Guidelines for Assessment of Projects of State Significance. In-principle approval from Cabinet Standing Committee on the Budget ("Budget Committee") and final approval from the Voting Shareholders has been received for Projects of State Significance planned to commence in 2010-11.
6. The requirements of the Financial Appraisal Guidelines have been complied with for capital expenditure projects proposed to commence in 2010-11.
7. All known 'key risks' and 'major emerging contingent liabilities' which could materially impact the current and future results of the Corporation have been disclosed.
8. The Corporation is aware of the internal audit and risk management policy outlined in NSW Treasury Circular 09/08 Internal Audit and Risk Management Policy and the associated TPP 09-5 Internal Audit and Risk Management Policy for the NSW Public Sector. The Corporation has demonstrated its own practices are consistent with standards recommended for Australian Securities Exchange (ASX) listed companies and where appropriate, has applied any additional requirements that are set out in NSW Treasury Circular 09/08.
9. The requirements of the Treasury Management Policy have been complied with and related party interests, which may represent a possible conflict of interest for Directors have been disclosed.
10. The Corporation will comply with the requirements of Premier's Memorandum No 2007 12, NSW Public Sector Wages Policy 2007.
11. The Corporation will comply with the requirements of Premier's Memorandum No. 2008-21 Filling and Advertising of Public Sector Vacancies.
12. The Corporation will comply with the requirements of Premier's Memorandum M2009-04 Official Travel within Australia and Overseas.
13. The Corporation will comply with the requirements of Premier's Memorandum No 2005-14, Working Together: Public Sector OHS and Injury Management Strategy 2005-2008.

14. The Corporation's Chief Executive Officer has an employment contract and performance agreement. The employment contract is appraised twice per year annually with the next appraisal scheduled for July 2010.
15. The Corporation's Board agrees to provide the Voting Shareholders with financial and other information, including information on major capital expenditure projects, on a quarterly basis to assess the performance against commitments in this SCI and to assess the value of the Shareholders' investment in the business.
16. The Corporation's Board agrees to comply with Section 3.4 (Continuous Disclosure) of the Reporting and Monitoring Policy.
17. As a SOC, the Corporation will comply with Treasury Circulars on accounting policy matters in accordance with Attachment 1 of the Guidelines for the Development of the 2010-11 Statement of Corporate Intent.

A G Wright
Chairman
State Water Corporation
Date:

Hon Eric Roozendaal MLC
Shareholder
Date:

G B Warne
Chief Executive Officer
State Water Corporation
Date:

Hon Michael Daley
Shareholder
Date:

STATE WATER CORPORATION

2010/11

STATEMENT OF CORPORATE INTENT

APPENDICES

COMMERCIAL-IN-CONFIDENCE

FINANCIAL PERFORMANCE TARGETS

Appendix Table 1: Quarterly financial performance targets: 2010/11

	September YTD	December YTD	March YTD	June YTD
Total income ($m)	40.5	44.5	45.7	39.1
Total expenses ($m)	(34.5)	(33.6)	(33.9)	(33.8)
Earnings Before Interest, Tax, Depreciation and Amortisation ($m)	6.0	10.8	11.8	5.3
Earnings Before Interest and Taxes ($m)	4.8	9.6	10.6	4.1
Operating Profit Before Tax ($m)	3.1	7.2	8.2	1.7
Income Tax Expense ($m)	0.0	0.0	0.0	0.0
Operating Profit After Tax ($m)	3.1	7.2	8.2	1.7
Target Dividend ($m)	(2.2)	(5.0)	(5.7)	(1.2)
EBITDA margin (%)	14.8%	24.4%	25.9%	13.6%
Debt/Debt+Equity (minimum)	12%	12%	12%	12%
Debt/Debt+Equity (maximum)	50%	50%	50%	50%
Capital Program	30.4	28.7	28.7	30.1

Assumptions Underlying the Annual Financial Performance Targets

The Financial Performance Targets are derived from the attached financial statements, which are based on the following assumptions.

Dividend Policy

State Water's current dividend policy is 70% of net profit after tax (NPAT), subject to the Board's review of the 2009/10 Financial Statements and consideration of the capacity of the corporation to fund dividend payments from operations.

Treasury has agreed, subject to the outcome of Moody's 2010 credit rating review, to exclude from 2009/10 NPAT, for dividend calculation purposes, the amount by which profit was increased as a result the changes to accounting and Treasury Policy on the capitalisation of borrowing costs.

State Water has initiated preliminary discussions with Treasury on appropriate dividend policy, in order to provide increased financial stability for State Water and a more commercial driver for the State Water business

Tax Policy

As a Government business, State Water is subject to the National Tax Equivalents Regime (NTER) and is required to make Commonwealth tax equivalent payments of 30% of tax profit. However, as State Water principally provides water to customers for use in primary production, it has access to a newly introduced concessional tax treatment for capital expenditure on water facilities. This provides for accelerated write-off, over 3 years, of most of State Water's capital expenditure.

These concessional deductions will result in accumulated tax losses beyond the period covered by the SCI and therefore no tax has been provided for. Similarly, no adjustments have been made to the deferred tax liability as it requires analysis beyond the requirements of this SCI and has no impact in the foreseeable future. To compensate Government for the reduction in tax equivalent payments resulting from the application of accelerated depreciation, State Water's dividend payout ratio was increased from 50% to 70%.

Weighted Average Cost of Capital (WACC)
In the draft 2010 Pricing Determination, IPART included a WACC of 7.4%, which has been adopted for the SCI forecasts.

Additional Assumptions

- CPI of 2.5%.
- Interest rate commencing 2010-11 of 9%.
- Sales revenues from customers in 2010/11 assume drought recovery water sales of 3,000GL, 4,000 GL for 2011/12 and a return to average sales of 4,627 from 2012/13 onwards.
- Sales Revenue from Government ($28.8 million) and Operating Subsidies ($1.7 million) for 2010/11 are based on the outcomes of the 2010 Bulk Water Price Determination.

On 18 June 2010, IPART released its final Determination of State Water's prices from 1 July 2010. This Statement of Corporate Intent has been developed based on IPART's recommendations.

BULK WATER PRICE DETERMINATION
The 2010 IPART pricing Determination acknowledged a number of the key concerns raised by State Water in its submission, resulting in higher revenue requirements and prices. The key parameters of the 2010 Determination are:

- A 48% increase in State Water's revenue requirements by 2013/14
- WACC increased from 6.5% to 7.4%, based on market factors
- Establishment of a revenue volatility allowance of $2.2 million pa
- Increases in High Security water users bills of between 2% (Murrumbidgee) and 73% (Border Valley), recognising an increase in the proportion of its water available.
- Changes in General Security water user bills varying between a 4% reduction (Murrumbidgee) and a 47% increase (Lachlan)
- Increased cost recovery in the Peel, North Coast and South Coast Valleys, with the operating subsidy reducing to $1.1 million by 2013/14 ($2009/10)
- Reduced state wide consumption forecasts of 4,627GL pa compared to 5,450 GL in the 2006 Determination
- Endorsement of a metering service charge to complement State Water's Regulated Metering Project

Importantly, the structural changes in water charges obtained by State Water in the 2010 Determination should continue to improve State Water's financial viability in the future. For example, the new methodology for calculating consumption forecasts is likely to result in falling consumption forecasts in future Determinations, resulting in higher usage charges. The increase in the High Security Premium also shifts the recovery of a greater part of State Water's revenues to a more secure income base.

Despite these improved outcomes, IPART's modeling indicates that State Water's credit rating is likely to fall below investment grade towards the end of the regulatory period. Consequently, State Water requests that Treasury undertake a full capital structure review of the business to determination whether dividend relief or an equity injection is required to assist State Water maintain its investment grade rating.

CAPITAL PROGRAM

State Water has developed a Capital Investment Strategy (CIS) to ensure it correctly focuses its resources to achieve effective and efficient enhancement of its asset base. The CIS has been developed in the context of State Water's:

- Corporate Plan
- Statement of Corporate Intent
- Asset Management Framework
- Total Asset Management Plan

Under the CIS, requirements for expenditure of capital on new assets are determined from drivers such as customer service, regulation and compliance, new business opportunities and various stakeholder inputs. The CIS defines the process by which State Water develops its Capital Investment Plan (capital program).

The condition, service capability, technical currency, regulatory compliance and the criticality of all assets is reviewed at least once every five years. These assessments, conducted as part of a rolling program, provide the basis for capital expenditure requirements to be determined.

State Water has developed a stringent set of project initiation procedures under its CIS. Following identification of the need for a project, the Project Sponsor must appoint a Project Manager. The Project Manager must complete a Project Charter, which includes the scope, rationale and priority of the project, and a summary of the expected costs and benefits. For higher value and/or higher risk projects further consideration of options and completion of a Basic Economic Assessment needs to be carried out. The Project Charter also indicates the level of documentation required to justify the project, ranging from the Project Charter only to a fully developed business case, depending on expected cost and risk of the project.

All Project Charters are submitted to State Water's Budget and Expenditure Review Panel (BERP). The information contained in the Project Charters (predominantly the NPV analysis and priority) allows the BERP to recommend a prioritised annual capital investment plan for approval by the Board of the corporation.

REGULATORY ENVIRONMENT

State Water operates in a highly regulated environment. The main statutory and regulatory instruments are:

- *State Water Corporation Act 2004*
- *State Owned Corporation Act 1989*
- *Dams Safety Act 1978*
- *Water Act 2007 (Commonwealth)*
- *Water Management Act 2000*
- Water Sharing Plans under the *Water Management Act 2000*
- Works Approvals (under development by NSW Office of Water)

State Water has been assisting the NSW Office of Water in developing the Works Approvals under the Water Management Act 2000. The Works Approvals authorise State Water to construct and use the specified water supply works to capture, store and release water for regulated water releases. Works Approvals are binding and have their own compliance regime. The Namoi, Lachlan, Hunter, Paterson and Macquarie Works Approvals have been completed and the remaining Works Approvals should be in place during 2010/11.

State Water is currently assisting the NSW Minister for Water to undertake a review of the *State Water Corporation Act 2004*, as required under the terms of the Act. The Minister is required to table in Parliament, by 30 June 2010, a report on the outcome of the review. The outcomes of the review will not be available prior to finalisation of the 2010/11 SCI. However, based on the inputs to the review and on preliminary findings, it is unlikely that the review will impact significantly on SCI.

NSW TREASURY STRATEGIC PERFORMANCE REVIEW OF STATE WATER

NSW Treasury has commissioned a strategic performance review of State Water by Price-Waterhouse-Coopers, as part of the activities of the Better Services and Value's Taskforce. The meetings between management and the review team and the draft review recommendations provided to date consider:

- further modest operating efficiencies,
- alterations to the capital model that may be acceptable to the Shareholders,
- opportunities and obstacles to increasing the activities undertaken by State Water as a utility, and
- outline options for the future overall strategic direction for the organisation.

It is unlikely that the final implementation plan, which will endorse a series of actions to deliver financial benefits, will be available before the finalisation of the 2010/11 SCI.

SCENARIO ANALYSIS

Given the reliance of State Water on water deliveries to achieve its financial performance targets, State Water has modeled the impact of pessimistic and optimistic water delivery scenarios on the Annual Financial Performance Targets. The results of the modeling are shown in the following table.

State Water will continue to keep the Shareholders informed regarding the impact of reductions in revenues from water deliveries on State Water's cashflow and credit rating, and on the ability of the corporation to finance operations and the capital program from internal resources. In the event of continuing drought conditions, maintenance of an investment grade rating may require further capital, suspension of dividends or a reopening of the IPART determination.

Appendix Table 2: Revenue Scenario Analysis Results

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
2010/11 SCI Base Case										
EBIT $m	29.1	46.1	55.8	62.8	69.7	73.5	76.8	79.9	83.8	89.9
OPBT $m	20.2	29.1	31.5	31.8	36.8	39.3	42.1	44.8	48.8	52.4
Dividends $m	(14.1)	(20.4)	(22.1)	(22.3)	(25.7)	(27.5)	(29.4)	(31.4)	(34.2)	(36.7)
Debt $m	181.0	266.1	344.2	363.2	380.7	391.1	396.5	397.6	414.4	465.1
Gearing %	31.9%	39.3%	43.9%	43.6%	43.1%	42.1%	40.8%	39.3%	38.8%	39.9%
EBIT Interest Coverage	3.0	2.7	2.3	2.0	2.1	2.1	2.2	2.3	2.4	2.4
Notional Credit Rating	**BBB**	**BBB**	**BBB**	**BB+**	**BB+**	**BB+**	**BBB**	**BBB**	**BBB**	**BBB**
Average Notional Credit Rating	**BBB**									

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Optimistic Scenario										
EBIT $m	42.7	55.0	61.0	68.3	76.8	81.1	84.7	88.1	92.2	98.7
OPBT $m	34.2	38.9	37.7	38.4	45.3	48.6	51.9	55.3	59.8	64.1
Dividends $m	(23.9)	(27.2)	(26.4)	(26.9)	(31.7)	(34.0)	(36.3)	(38.7)	(41.9)	(44.9)
Debt $m	171.3	254.9	332.4	349.4	363.5	370.7	372.8	370.5	383.6	430.5
Gearing %	30.5%	37.8%	42.5%	42.1%	41.3%	40.1%	38.6%	36.8%	36.1%	37.1%
EBIT Interest Coverage	4.6	3.4	2.6	2.3	2.4	2.5	2.6	2.7	2.8	2.9
Notional Credit Rating	**A**	**BBB+**	**BBB**	**BBB**	**BBB**	**BBB**	**BBB**	**BBB**	**BBB**	**BBB**
Average Notional Credit Rating	**BBB**									

	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20
Pessimistic Scenario										
EBIT $m	20.8	31.8	52.0	58.9	64.6	68.1	71.1	74.1	77.8	83.6
OPBT $m	11.6	14.0	26.7	26.9	30.4	32.4	34.8	37.1	40.7	43.8
Dividends $m	(8.1)	(9.8)	(18.7)	(18.8)	(21.3)	(22.7)	(24.3)	(26.0)	(28.5)	(30.6)
Debt $m	186.9	279.3	354.9	375.5	395.5	408.2	416.0	419.7	439.1	492.7
Gearing %	32.7%	40.8%	45.1%	44.9%	44.6%	43.8%	42.7%	41.4%	40.9%	42.2%
EBIT Interest Coverage	2.1	1.8	2.1	1.8	1.9	1.9	2.0	2.0	2.1	2.1
Notional Credit Rating	**BBB**	**BB+**	**BB+**	**BB+**	**BB+**	**BB+**	**BB+**	**BB+**	**BB+**	**BB+**
Average Notional Credit Rating	**BB+**									

IMPAIRMENT OF ASSETS

This non-cash entry can have a fluctuating impact on the financial results for the year depending on the results of the impairment testing conducted at 30 June each year and does not reflect actual operating results, or the dividend paying capacity, of the business.

FINANCIAL ASSET AND LIABILITY MANAGEMENT

State Water's "Treasury Management Framework and Operational Risk Policies" was approved by the Board in June 2009. This document articulates State Water's debt management and financial investment responsibilities and constraints in order to achieve the following objectives:

1. Minimise the cost of debt and maximise the return on State Water's investments, within a conservative risk profile consistent with other State Owned Corporations.
2. Manages debt and investments within the framework of the *Public Authorities (Financial Arrangements) Act 1987* and subsequent approvals granted by the NSW Treasurer and guidelines established by NSW Treasury.
3. Minimise the volatility of the accounting result caused by interest rate movements.

RISK MANAGEMENT AND INTERNAL AUDIT

Risk Management

State Water has a Risk Management Policy and Risk Management Plan which is the basis for risk analysis and management within the corporation. The Plan applies to all risks affecting the achievement of State Water's strategic goals. All risks identified are analysed and key risk indicators (both positive and negative) are assigned to each risk to enable the management of risks to be monitored. Planned treatment for each risk is identified and appropriate actions are assigned to the relevant managers. All planned treatments for risks are monitored on a quarterly basis and as treatments are implemented the risks are reassessed and ratings are adjusted accordingly.

A Risk and Compliance system has been implemented which allows staff to identify and record risks, notify and record incidents, monitor management actions arising from audits and readily produce reports.

State Water Corporation addresses risks to the business in two streams:

1. Operational
2. Strategic

Operational Risks

The operational risks are mitigated and managed by each line of business which is responsible for developing and maintaining their own operational risk register. Management reports monthly on the status of operational risks to the Chief Operating Officer, who in turn reports to the CEO. The CEO advises the Board of any operational risks which may have a material impact on the business.

Strategic Risks

Accountabilities for strategic risks are assigned to responsible managers. The status of strategic risks and their management is monitored by the Risk and Compliance Manager, with reports provided to the Risk Management Committee of the Board which advises the Board on the management of these risks.

Internal Audit

State Water's Internal Audit function is located in the Strategy and Governance group. The Risk and Compliance Manager is responsible for managing the outsourced Internal Audit function. The Audit and Compliance Committee comprises six directors of the State Water Board and meets five times per year to consider audit findings, and monitor management action plans to address the recommendations of the audits.

The internal audit plan is developed using a risk-based approach and a three yearly cycle with high risk areas reviewed annually. These reviews are conducted by an external provider, IAB Services.

The tables on the following pages provide the following:

1. Major Risks and Risk Management Actions
2. Key Audit Actions
3. The Draft 2010-11 Internal Audit Plan

APPENDICES

1. Business Plan - Corporate Plan 2008 - 2012
2. Ten Year Financial Statements
3. Capital Works Program

Appendix Table 3: Major Risks and Risk Management Actions

Risk	Potential Risk Symptoms	Likelihood	Consequence	Impact on Value Drivers	Risk Management Action
1. Drought and Climate Change	1. Lower and more variable supply due to reduced runoff caused by change in climate and land use 2. Prolonged drought 3. Changed pattern of demand from agricultural sector 4. Increasing/decreasing flows for the environment 5. Environmental water not chargeable 6. Increased customer non-compliance resulting in increased compliance costs	H	M	H	1. Improve ability to project long term trends by accessing the best available scientific evidence 2. Make submissions to the pricing regulator for charges which reflect lower availability and higher variability of water supply, (eg higher WACC, a volatility allowance and/or a higher fixed tariff component) 3. Include requirement for capital structure review in Statement of Corporate Intent to signal the need for equity injections or changes in dividend policy if required 4. Investigate changes to infrastructure and operations to deliver environmental water 5. Continue to lobby for environmental water to be chargeable 6. Access funds from the *Water for the Future* and other funding sources to improve delivery efficiency and real time metering 7. Diversify within core capabilities of the business into new areas of growth which are less volatile 8. Implement effective customer compliance procedures, and ensure customers are aware of hardship provisions
2. Implementation of business support systems	1. Technology not implemented at the pace required for the function-based organisation structure 2. Inability to secure access to vital data on the NSW Office of Water network 3. IT system fails with impact on continuity of critical business systems 4. Cost over-runs due to poor project oversight	M	H	H	1. Continue strong focus on development of systems to support the function-based structure 2. Continue upgrading Water Accounting System (WAS). Negotiate service level agreements with NSW Office of Water on data transfer from/to Licence Administration System (LAS) and Water Operating and Usage system (WOU) 3. Implement business continuity plan for IT systems 4. Implement systems for monitoring of project

Risk	Potential Risk Symptoms	Likelihood	Consequence	Impact on Value Drivers	Risk Management Action
3. Major Project Delivery	1. Project not supported by all stakeholders 2. Contract for construction does not appropriately assign risk to principal and contractor 3. Inadequate supervision of contractor results in failure to achieve quality outcome, on time and within budget 4. Contractor defaults during construction 5. Construction activity results in environmental damage 6. Contractors or employees are harmed during construction 7. Public is harmed during construction 8. Dam structure/facilities are damaged during construction 9. High storage levels during construction increase risk to dam safety 10. Change in scope requires increased budget	M	H	H	1. Develop comprehensive business case and communication plan 2. Develop site specific risk plan and document risk allocation in the contract 3. Appoint independent contract manager for each major project, with State Water to review progress regularly 4. State Water and contractor to develop environment management plan for each project 5. Develop OH&S management plans for State Water OH&S responsibilities and ensure that contractor has site specific OH&S plan 6. Restrict public access to site with fencing, signage and communication 7. Design construction processes to enable fill and spill events to be managed 8. Ensure contract covers damage to structure/facilities, establish vulnerabilities and communicate to contractor and independent contract manager. 9. Engage expert advice to assess validity of scope change and negotiate with contractor 10. Provide program contingency to cover scope changes if supported by strong business case
4. *Water for the Future* Institutional Arrangements and Priority Projects Funding	1. Federal Government may take over control of Murray Darling water operations. 2. State Water loses its accreditation as a Constructing Authority for the MDBA 3. ACCC fails to deliver realistic pricing determinations 4. Poor business case, or response to due diligence process, results in Commonwealth not approving funding for Metering project 5. Increase in rules-based water with proposed SDLs results in less chargeable water and changed agricultural demand pattern	M-H	M-H	M-H	1. Demonstrate excellence as a Constructing Authority through efficient delivery of Metering Priority Project and all regulated and unregulated projects 2. Input to annual Corporate Plan of the MDBA 3. Influence regulatory reform via dialogue and provision of submissions to the ACCC 4. Engage expert advice to develop business case and assist with due diligence requirements 5. Model impact of lower levels of chargeable water and change in agricultural demand 6. Ensure pricing regulator includes impact of rules based water in the cost base for pricing purposes

Appendix Table 4: Key Audit Actions from 2008-09 - Status

Risk or issue being addressed by the action	Brief description of key audit action	Deadline for completion	Status of audit action and comment on progress
Risk of gaps in security access policy, system change policy and system audit logging processes.	Development and implementation of IT management controls for finance system.	September 2009	Complete. Policies have been developed. System audit logging processes are documented and implemented.
Risk of Fraud and Corruption arising from gaps in a range of policies including Sponsorship, Taxi Use, Code of Conduct, Procurement and Internal Complaints or Grievances.	Fraud and corruption risk analysis and strategy development. Policy review and development.	December 2009	Complete. Fraud and corruption control strategy developed. Code of Conduct has been revised and refresher training provided to new staff and a portion of existing staff on a rolling basis. Hospitality policy has been revised. Use of taxis policy has been developed. Grievances policy has been developed. Procurement is currently under revision.
Reliance on the NSW Office of Water for the provision of critical information for billing customers.	Water billing process management and development of commercial relationship with the NSW Office of Water	June 2010	Complete The Memorandum of Understanding with NSW Office of Water was revised and signed off on the 30 June 2009. The billing service level agreement was developed and signed off in December 2008 and will expire in June 2010. A Stakeholder Management plan identifying accountabilities has also been developed and implemented.

Appendix Table 5: 2010-11 Internal Audit Plan

Key Focus Areas for 2010-11	Risk or Issue being addressed by Audit Activities	Description of Audit Activities	Timing
IAB SERVICES REVIEWS			
Incident Management (including critical incidents and general incidents)	Failure to maintain State Water processes in a consistent manner leading to risk of systemic issues not being identified.	Review incident reporting and recording procedures for completeness and appropriateness.	Q4
Tendering, Purchasing and Procurement and Contract Management	Loss due to ineffective controls and risk of fraud and corruption	Review of State Water controls for completeness, effectiveness and compliance.	Q1
Business Continuity Management	Lack of business resilience should an event occur that seriously impacts key people, key information systems or key buildings.	Review of business unit Business Continuity Plans for completeness and effectiveness.	Q4
Water Billing and Complaints Handling	Poor customer service. Breach of privacy laws.	Review of controls, policies and procedures for completeness, compliance with the IPART Operating licence and effectiveness.	Q2
Performance Management (Staff), Recruitment, Retention and Succession Management and Retention of Corporate Knowledge.	Lack of cohesion between Corporate Plan objectives and staff work plans. Skills shortages. Increased training costs. Loss of Corporate Knowledge.	Review of Employee Planning and Review process to ensure Corporate Plan objectives are embedded in work plans at all levels. Review arrangements for succession planning. Review Recruitment procedures and Retention initiatives for effectiveness and compliance with SWC policies. Review systems for the retention of corporate knowledge.	Q2
Environment Management Plan and Environmental Management System	Failure to achieve environmental performance objectives. Penalties and prosecution.	Review of environmental management planning (including Environmental Management Systems, controls, policies and procedures) for completeness, compliance with legislation and IPART Operating Licence, record keeping and effectiveness.	Q4
OH&S site reviews x 3	Inadequate OH&S controls to ensure compliance with relevant legislation and to prevent injury to staff.	Review of 3 sites for compliance with OH&S legislation, the OH&S Framework, and OH&S Management System.	Q1-3

Project Management	Failure to deliver projects on time and in budget.	Review of Project Delivery System including policies, procedures and internal controls for effectiveness, completeness and compliance.	Q1
General Ledger	General ledger reconciliations being inaccurate and monthly and annual accounts being unreliable.	An examination of relevant documented policies, guidelines and procedures for effectiveness, completeness and compliance.	Q2
Finance – Fraud and Corruption Risk	Fraudulent or corrupt practices due to lack of or ineffective, controls.	Review of policies, procedures and internal controls for effectiveness, completeness and compliance.	Q3
INTERNALLY-RESOURCED REVIEWS			
Legal Panel Operations	Lack of fairness in distribution of engagements, or matters being referred to the panel without referral to Legal Services (Corporate) Manager.	Review of procedures to ensure they are appropriate to provide full transparency and that they are being adhered to.	Q2
Area Office/Site Health Checks	Fraudulent or corrupt practices due to lack of, or ineffective controls. Failure to implement recommended actions from OH&S and environmental audits.	Review 4 sites for compliance with policy and procedure, including spot audits of petty cash and any cash receipting. In addition, verify completion of recommendations from environmental audits, including completion of Materials Safety Data Sheet requirements and removal of redundant chemicals.	Q2-4
Requisition and Purchase Order Follow Up	Failure to act on recommendations from previous review leaving internal control gaps.	Audit sample of Purchase and requisition Orders to ascertain compliance with purchasing and procurement policy and procedures.	Q3
Human Resources Authorisations	Poor workforce practices resulting in inefficiencies.	Review compliance with the HR Authorisations.	Q4

State water

our corporate values

We operate on the basis of our corporate values:

Accountability - We are responsible for our actions, behaviours and outcomes.

Customer Service - We meet our customers' needs and strive to exceed their expectations.

Environment - We respect and enhance the environment.

Expertise - We apply our skills, competency and experience to deliver effective and innovative solutions.

Integrity and Respect - We are honest, truthful and respectful in all that we do.

People - We support, develop and motivate each other, professionally and personally.

Safety - We put safety above time, cost, productivity and employment.

Shareholder Value - We deliver consistent returns and long-term growth.

Our vision and purpose

Our Vision
To be recognised by our customers, shareholders and other stakeholders as the best value for money water utility in Australia

Our Purpose
To efficiently deliver water and services for people, agriculture, industry and the environment, to be an integral service industry supporting sustainable growth in regional NSW

Corporate Plan 2008-12

STRATEGIC THEMES	STRATEGIES	2010-11 TACTICAL ACTIONS TO ACHIEVE STRATEGIES	ACCOUNTABLE MANAGER
1. Protect, operate and maintain our water assets with increasing efficiency	1.1 Secure the integrity of our assets to meet the standards required through efficient works and maintenance programs, reducing annual real costs	a) Deliver the Board-approved dam safety program on-time and under budget, demonstrating competence to deliver a major capital works program.	GM Major Projects
		b) Develop innovative ways to progress dam safety improvement and control dam safety expenditure flow to protect commercial position of SWC.	GM Strategic Assets
		c) Demonstrable progress in accordance with the Board-approved schedule in implementing the full Asset Management Framework.	GM Strategic Assets
		d) Determine and implement a basis on which to measure and report efficiency in operating, maintaining and delivering water assets.	Manager Maintenance and Services GM Major Projects
		e) Implement environmental projects and business improvement/IT projects to achieve improved time, cost and quality outcomes	GM Major Projects Manager Business Improvement Chief Information Officer
		f) Implement maintenance projects to achieve improved time, cost and quality outcomes	Manager Maintenance and Services
	1.2 Promote environmental responsibility in all our operations and seek recognition of this element of State Water's growing skill-set	g) Develop the 2010-15 Environmental Management Plan	GM Strategic Assets
		3.2d) Develop a plan for bringing SWC to a carbon neutral position.	GM Strategic Assets
		h) Implement environmental projects to achieve agreed time, cost and quality outcomes	GM Strategic Assets
	1.3 Realise the full value of our existing assets through a proactive assessment and development, or rationalisation of under-performing assets	i) Identify and dispose of any assets currently maintained, that do not contribute to State Water's core commercial and community service obligation deliverables	GM Strategic Assets
2. Maximise the delivered water available from each mega litre flowing into the regulated river system	2.1 Continue to improve the efficiency of water delivery into and from our storages and rivers, recognising the impact of climate change	a) Implement operational improvements across the business to improve water saving effectiveness in operations.	Manager Water Delivery
		b) Develop and implement a basis to measure water saving effectiveness in operations and demonstrate the contribution made by SWC to the quest for ongoing water savings. Develop a mechanism for SWC to receive financial compensation or recognition for identified water savings.	Manager Water Delivery GM Commercial Business
		c) Develop a comprehensive plan for progressive development of a cost-effective SCADA/telemetry network (iSMART delivery) for operational assets.	Manager Business Improvement
		d) Establish effective flood operations procedures and develop skills in a broad group of employees to provide back-up during flood times	Manager Water Delivery
	2.2 Confirm adequate funding from the Commonwealth Water for the Future fund and deliver technologies to improve methods of measurement, metering and remote sensing	e) Upgrade customer metering sites under pilot metering project	Chief Operating Officer
		f) Work with the Commonwealth on its due diligence of the metering project	Chief Operating Officer
3. Provide water-related services that respond to the growing variety of customer needs - specifically recognising the value of water, the environment, and customer service	3.1 Recognise the environment as a key water user and develop value adding services to assist emerging environmental water managers	b) Establish and progress implementation of a systematic basis to maintain and further develop commercial relationships with environmental water licence holders at Commonwealth and State level. Explore scope to assist these customers by delivering their on-site activities.	GM Commercial Business GM Strategic Assets
	3.2 Modernise interaction with our customers through the introduction of existing, proven, service-industry technologies	a) Maintain sound and supportive commercial relationships with SWC's ten largest business customers and the NSW Irrigators' Council.	CEO GM Commercial Business
		c) Implement and refine modern, streamlined water ordering systems and payment systems that provide improved efficiency for SWC and more efficient access for customers.	Manager Customer Operations
		e) Assist the NSW Office of Water to improve input to services provided by State Water for the Office	Manager Customer Operations
	3.3 Improve customer understanding of river operations	f) Educate customers on the benefits to users through increased water availability of universal water ordering and compliance	Manager Customer Operations
4. Improve business outcomes	4.1 Meet the commercial and operational expectations of shareholders and regulators	a) Sound Financial Performance i) Overall financial results for the following key indicators achieved within 10 percent of approved budget (subject to unforeseeable changes to operating conditions): • Earnings before interest and tax. • Operating profit before tax. • Return on assets. • Return on equity.	CEO/Executive
		ii) Capital expenditure within 10 percent of approved budget on each of the separate program areas (which should be separately reported): • Dam Safety Program. • SWC program. • Non-regulated business program.	Managers with capital programs

			iii) Business operating revenue and expenditure within 5 to 10 percent plus or minus of approved budget for each of the separate business areas (which should be reported separately): • IPART regulated business (5 percent). • Service undertakings for NOW/DECCW (7.5 percent). • The non-regulated business (10 percent).	All Managers
			d) Implementation of Corporate Strategy iv) Progress further implementation of the SWC Reform Strategy and deliver the results and outcomes designated in the Corporate Plan and Business Plan as proposed for 2010-11. This includes the delivery of the *business basics* outlines progressively since 2007.	All Managers
			e) Reporting v) Arrange reporting to Shareholders, community and SWC Board on-time, in accordance with governance schedule, and of a quality standard expected of a State Owned Corporation operating in a trading environment (Quarterly and Annual Reports submitted as scheduled, SCI submitted in accordance with Treasury requirements, Reports to Audit Office as scheduled).	GM Finance Company Secretary
			f) Achieve full compliance with Operating Licence	All Managers
			g) Develop implementation plan for initiatives from the PwC review which have merit in conjunction with Board, management, customer and IPART-driven improvements. Implement improvements in 2010-11 in line with the plan.	Company Secretary
		4.2 Develop business systems that allow us to maintain productivity during times of change	b) Business Operations Improvement i) Position SWC to be seen consistently by stakeholders as an efficient, commercially focused utility working toward its vision to be recognised by our customers and other stakeholders as a value for money water utility. This will require active promotion of SWC's achievements, performance and capabilities.	All Managers
			ii) Further develop the relationship with NOW/DECCW and other stakeholders (inc NSW Treasury) based on recognition of SWC as an operating utility and State Owned Corporation, leading to progress in mature consideration of transfer of commercially attractive operating opportunities from NOW and DECCW to SWC.	GM Commercial Business
			g) Develop and implement business systems and processes: i) systems based financial audit ii) interoperability for core systems iii) remote sensing project (iSMART) iv) improved network speeds at remote sites v) risk management, internal audit and compliance system vi) business continuity plan vii) transfer water delivery systems from NSW Office of Water to State Water environment viii) an information system strategy ix) process maps and operations manuals for each business unit	All system owners
		4.3 Build on our extensive rural footprint to secure profitable business growth opportunities outside the IPART-regulated business	c) Non-regulated Business Development i) Complete and progress a Business Development strategy based on the full assessment of existing programs (MDBA, Water for Rivers) and assessment of emerging opportunities, and providing a basis for sound commercial evaluation of all commercial opportunities including key short-listed projects and partnership opportunities.	GM Commercial Business
			h) Develop ways of charging for emerging water services, including payment for end of system water transfers	GM Commercial Business
		4.4 Secure benefits available to State Water under the *Water for the Future* program	c) Non-regulated Business Development ii) Participate, as far as possible, and position SWC to advantage in the Commonwealth Government's development of the Water for the Future Plan – retaining or expanding operational scope and winning support to deliver appropriate capital and operational projects.	GM Commercial Business
			i) Examine the impact of the Sustainable Diversion Limits under the Basin Plan and develop a strategy for State Water to play a key role in operating under the new Limits.	CEO Chief Operating Officer
	5. Achieve our strategic objectives through capable, committed, safe and skilled workforce	5.1 Meet the NSW Working Together Targets for OH&S by putting safety first	c) Deliver the State Water OH&S strategy and performance improvement in accordance with Board-approved plans.	All Managers
		5.2 Develop a culture that allows us to build a team of skilled and dedicated people consistent with a modern utility business	a) Develop and implement a leadership development scheme covering the CEO position and key executive level positions.	Manager Human Resources
			b) Identify senior staff who could potentially fill the CEO role. Commence a development program to provide experience to these staff members in various parts of the business, and clear accountability for some critical, cross-branch strategic projects	CEO
			d) Further progress in implementing the Culture Change Program, in consultation with the Remuneration and Organisation Development Committee, to bring about a commercial, compliance-driven culture throughout the corporation, based on: • consistent management team adoption of corporate strategy, policies and values; • A fully implemented workplace agreement and appropriate management accountabilities; • individual and team accountability for clear, agreed outcomes based on appropriate delegations of authority to make decisions and manage operating risks, together with effective reporting and controls; • willingness to take timely decisions and manage with a consistent risk appetite across the corporation; • commitment to *compliance* with Operating Licence provisions, health and safety regulations and environment protection regulations as a driving force; • clear, communicative leadership by CEO and management team; and • opportunities for personal development.	All Managers
			e) Implement the Workforce Plan including vision alignment, culture change, improved communication, performance management and management accountability	Manager Human Resources
			6a) Present two papers at state and national level conferences, highlighting State Water's performance/achievements or concepts for improving water resource management.	CEO
			6b) Continue program of reviews of formal performance through the delivery of the Employee Planning and Review (EPR) System	All Managers
			7. Lead the adoption of the proposed organisation-wide Headline KPIs scheme for 2010/11 and ensure regular reporting of progress against these KPIs.	All Managers
		5.3 Provide employees with the tools to effectively and efficiently deliver services	f) Ensure a formal training program is developed for all new corporate information systems	All System Owners

STATE WATER Profit & Loss ($million)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales Revenue From Customers - Fixed	13.0	24.0	24.8	25.6	27.1	25.2	26.8	27.9	28.8	29.7	30.9	32.1	33.3
Sales Revenue From Customers - Variable	14.3	16.9	28.5	33.0	34.8	38.4	40.9	42.5	43.9	45.2	47.2	48.9	50.8
Sales Revenue From Government	18.9	28.8	35.7	42.6	47.3	51.6	54.2	56.7	59.5	62.8	67.6	73.4	79.2
Government Operating Subsidies	2.6	1.7	1.6	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
SW Sales Revenue	**48.8**	**71.4**	**90.6**	**102.5**	**110.5**	**116.4**	**123.2**	**128.3**	**133.4**	**138.9**	**146.9**	**155.6**	**164.5**
'Pass Through' Revenue	6.3	6.4	8.2	9.2	8.7	8.9	9.5	9.9	10.2	10.5	11.0	11.4	11.8
Government CSO	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
MDBA Contract Income	15.6	83.7	31.5	28.7	15.3	12.8	7.3	7.5	7.7	7.9	8.1	7.2	7.3
Other Income (excluding interest)	9.1	7.7	5.6	5.4	5.6	5.7	5.9	6.1	6.2	6.4	6.6	6.7	7.0
Total Revenue	**80.3**	**169.8**	**136.4**	**146.4**	**140.7**	**144.5**	**146.6**	**152.4**	**158.2**	**164.4**	**173.2**	**181.5**	**191.2**
Operating Expenses	(35.7)	(39.6648)	(40.5)	(41.4)	(41.5)	(39.9)	(42.3)	(43.6)	(45.0)	(45.9)	(46.8)	(47.6)	(49.1)
'Pass Through' Costs	(6.3)	(6.4)	(8.2)	(9.2)	(8.7)	(8.9)	(9.5)	(9.9)	(10.2)	(10.5)	(11.0)	(11.4)	(11.8)
MDBA (At Risk)	(5.2)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)	(4.0)	(4.1)	(4.2)	(4.3)	(4.4)	(4.5)	(4.6)
MDBA (External)	(10.4)	(79.9)	(27.6)	(24.6)	(11.1)	(8.6)	(3.0)	(3.0)	(3.1)	(3.2)	(3.3)	(2.2)	(2.3)
Other Expenses (At Risk)	(6.9)	(2.5)	(3.0)	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)	(4.0)	(4.1)	(4.2)	(4.3)	(4.4)
Other Expenses (External excl. interest)	(3.4)	(3.7)	(1.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)
Earnings Before Interest Tax & Depn	**12.3**	**34.0**	**52.4**	**63.4**	**71.5**	**79.0**	**83.5**	**87.4**	**91.1**	**95.8**	**103.0**	**110.8**	**118.4**
Depreciation & Amortisation	49.5	(4.9)	(6.3)	(7.7)	(8.6)	(9.3)	(10.0)	(10.6)	(11.2)	(12.0)	(13.1)	(14.3)	(15.5)
Earnings Before Interest Tax	**61.8**	**29.1**	**46.1**	**55.8**	**62.8**	**69.7**	**73.5**	**76.8**	**79.9**	**83.8**	**89.9**	**96.5**	**102.9**
Investment Income	0.9	0.8	-	-	-	-	-	-	-	-	-	-	-
Interest Expense	(4.6)	(10.3)	(15.9)	(21.8)	(25.2)	(26.5)	(27.5)	(28.1)	(28.3)	(28.9)	(31.4)	(34.3)	(36.8)
Government Guarantee Fee	(1.9)	(2.6)	(4.1)	(5.6)	(6.5)	(6.8)	(7.1)	(7.2)	(7.3)	(7.4)	(8.0)	(8.8)	(9.4)
Capitalised Interest	3.0	3.2	3.0	3.1	0.7	0.4	0.3	0.6	0.5	1.4	1.9	2.3	2.1
Net Superannnuation valuation movement	0.6												
Net Profit Before Tax	**59.8**	**20.2**	**29.1**	**31.5**	**31.8**	**36.8**	**39.3**	**42.1**	**44.8**	**48.8**	**52.4**	**55.7**	**58.7**
Income Tax Expense	(15.3)	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit After Tax	**44.5**	**20.2**	**29.1**	**31.5**	**31.8**	**36.8**	**39.3**	**42.1**	**44.8**	**48.8**	**52.4**	**55.7**	**58.7**
Dividend Payable	(2.7)	(14.1)	(20.4)	(22.1)	(22.3)	(25.7)	(27.5)	(29.4)	(31.4)	(34.2)	(36.7)	(39.0)	(41.1)
Contributions to Retained Earnings	**41.8**	**6.1**	**8.7**	**9.5**	**9.5**	**11.0**	**11.8**	**12.6**	**13.5**	**14.6**	**15.7**	**16.7**	**17.6**

STATE WATER Balance Sheet ($million)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash and Investments	11.1	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	22.8	12.9	16.8	18.4	19.5	20.0	21.3	22.2	22.9	23.6	24.6	25.5	26.5
Fixed Assets	558.7	682.9	813.2	933.2	991.9	1,069.0	1,135.5	1,187.5	1,228.3	1,292.1	1,394.3	1,473.0	1,567.0
Accumulated Tax Losses	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
TOTAL ASSETS	**592.8**	**695.9**	**830.2**	**951.8**	**1,011.6**	**1,089.2**	**1,157.0**	**1,209.8**	**1,251.3**	**1,315.9**	**1,419.1**	**1,498.7**	**1,593.6**
Loan Debt	107.9	181.0	266.1	344.2	363.2	380.7	391.1	396.5	397.6	414.4	465.1	496.6	535.9
Accounts Payable	31.1	19.0	19.8	18.5	11.0	13.0	12.0	10.3	9.1	11.9	16.6	13.7	15.6
Provision for Tax Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Provision for Dividend	2.7	14.1	20.4	22.1	22.3	25.7	27.5	29.4	31.4	34.2	36.7	39.0	41.1
Other Liabilities	55.5	66.9	84.1	99.0	116.8	138.6	160.5	170.7	171.6	172.5	173.5	174.5	175.6
Deferred Income Tax Liability	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
TOTAL LIABILITIES	**225.2**	**309.0**	**418.4**	**511.7**	**541.4**	**586.0**	**619.0**	**634.9**	**637.7**	**661.0**	**719.8**	**751.9**	**796.2**
Asset Revaluation Reserve	77.0	90.3	106.4	125.2	145.9	167.7	190.9	215.1	240.4	267.0	295.6	326.5	359.5
Share Capital	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5	300.5
Retained Earnings	(10.0)	(3.9)	4.8	14.3	23.8	34.8	46.6	59.2	72.7	87.3	103.1	119.8	137.4
SHAREHOLDER FUNDS	**367.6**	**386.9**	**411.7**	**440.0**	**470.2**	**503.1**	**538.0**	**574.9**	**613.6**	**654.8**	**699.2**	**746.8**	**797.4**

STATE WATER Cash Flow ($million)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Receipts from Customers	65.7	148.4	94.5	99.9	90.2	90.3	88.9	92.7	95.8	98.7	102.4	105.1	108.9
Receipts from Government	22.0	31.1	37.7	44.5	49.1	53.4	56.0	58.5	61.3	64.7	69.5	75.2	81.1
Payments to Suppliers and Employees	(61.6)	(145.6)	(80.9)	(81.8)	(74.2)	(61.0)	(61.5)	(64.0)	(65.6)	(63.0)	(62.8)	(70.7)	(68.0)
Cash Flow From Operating Activities	**26.1**	**33.9**	**51.4**	**62.6**	**65.1**	**82.7**	**83.4**	**87.2**	**91.5**	**100.4**	**109.1**	**109.6**	**122.0**
Sale of Investments / Fixed Assets	1.8	1.1	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.5
Purchase of Investments / Fixed Assets	(69.7)	(117.9)	(123.8)	(112.1)	(50.1)	(68.0)	(56.9)	(42.0)	(30.5)	(53.1)	(90.5)	(66.2)	(80.6)
Cash Flow From Investing Activities	**(67.9)**	**(116.7)**	**(122.6)**	**(110.9)**	**(48.9)**	**(66.7)**	**(55.7)**	**(40.7)**	**(29.1)**	**(51.7)**	**(89.1)**	**(64.7)**	**(79.1)**
Interest Received	0.8	0.8	-	-	-	-	-	-	-	-	-	-	-
Interest Paid	(6.7)	(9.7)	(17.0)	(24.3)	(31.0)	(33.0)	(34.2)	(34.7)	(35.1)	(35.0)	(37.5)	(40.8)	(44.2)
Tax Paid	0.6	-	-	-	-	-	-	-	-	-	-	-	-
Dividends Paid	-	(2.7)	(14.1)	(20.4)	(22.1)	(22.3)	(25.7)	(27.5)	(29.4)	(31.4)	(34.2)	(36.7)	(39.0)
Capital Repatriation	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	11.4	17.2	14.9	17.8	21.8	21.9	10.2	0.9	1.0	1.0	1.0	1.0
Cash Flow From Financing Activities	**(5.3)**	**(0.3)**	**(13.9)**	**(29.8)**	**(35.3)**	**(33.5)**	**(38.1)**	**(52.0)**	**(63.6)**	**(65.4)**	**(70.7)**	**(76.4)**	**(82.2)**
Net Cash Flow	**(47.1)**	**(83.1)**	**(85.1)**	**(78.0)**	**(19.1)**	**(17.5)**	**(10.4)**	**(5.4)**	**(1.1)**	**(16.7)**	**(50.7)**	**(31.5)**	**(39.3)**
Increase (Repayment) of Borrowings	52.6	73.1	85.1	78.0	19.1	17.5	10.4	5.4	1.1	16.7	50.7	31.5	39.3
Net Increase (Decrease) Cash	**5.4**	**(10.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Add Cash as at Beginning of Period	4.6	10.0	-	-	-	-	-	-	-	-	-	-	-
Cash as at End of Period	**10.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

State Water Corporation Capex Program ($'000 2010/11)

Project/Valley/BU	Budget 10-11	Forecast 11-12	Forecast 12-13	Forecast 13-14	Forecast 14-15	Forecast 15-16	Forecast 16-17	Forecast 17-18	Forecast 18-19	Forecast 19-20	Forecast 20/21
Dam Safety Compliance Phase 1											
Blowering	9,888.98	45.15									
Brogo			35.79								
Burrendong	9,469.38	9,546.74	4,473.61								
Burrinjuck				53.19							
Carcoar		36.12									
Chaffey	7,343.05	2,941.33	1,789.03	35.46							
Copeton	9,461.75	16,282.06	10,570.16								
Glenbawn											
Glennies Ck				177.29							
Keepit			35.79								
Lostock			44.74								
Menindee	767.48										
Mgt	27,138.85	20,201.09	26,835.51								
Oberon		45.15									
Pindari											
Rydal			44.74								
Split Rock	940.73	1,477.82	829.82								
Toonumbar	36.45										
Windamere	54.68										
Wyangala	2,077.62	6,317.08	10,651.30	9,175.22							
Wyangala Raod and Bridge		3,423.33	3,423.33	3,423.33							
Corporate	7,466.69	8,737.49	9,333.50	1,297.99							
Total Dam Safety Compliance Phase 1	**74,645.69**	**69,053.36**	**68,067.31**	**14,162.47**							
Dam Safety Compliance Phase 2											
Copeton	-	-	-	-	794.25	926.63	4,412.52	3,088.76	-	-	-
Split Rock					5,155.82	4,296.51	4,296.51	4,296.51	4,296.51	3,437.21	-
Wyangala					446.84	502.69	644.48	842.12	17,302.06	21,598.58	25,895.09
Blowering					-	-	-	-	-	4,296.51	8,593.03
Corporate					7,591.23	6,841.58	10,979.99	9,711.06	25,399.23	34,346.58	40,903.28
Total Dam Safety Compliance Phase 2					**13,988.13**	**12,567.42**	**20,333.50**	**17,938.46**	**46,997.81**	**63,678.88**	**75,391.40**
Environmental Compliance											
Border Rivers											
Gwydir	46.52	1,742.79	2,541.04	429.35	14,920.62	5,130.30					
Namoi	1,129.70	4,647.43	4,556.34	429.35	3,163.68						
Peel											
Macquarie		2,502.46	4,381.10	1,545.67							
Lachlan	3,403.78		2,554.97	2,490.24	3,591.21						
Fish River											
Murrumbidgee	1,646.64	2,100.28	2,190.55								
Murray	2,669.17										
North Coast											

State Water Corporation Capex Program ($'000 2010/11)

Project/Valley/BU	Budget 10-11	Forecast 11-12	Forecast 12-13	Forecast 13-14	Forecast 14-15	Forecast 15-16	Forecast 16-17	Forecast 17-18	Forecast 18-19	Forecast 19-20	Forecast 20/21
Hunter											
South Coast											
Lowbidgee											
Corporate	1,238.80	1,649.82	2,253.78	968.09	2,571.55	12,184.99	11,523.82	11,537.96	11,483.86	11,451.22	5,807.63
Non RAB Purchases											
Total Environmental Compliance	**10,134.60**	**12,642.78**	**18,477.79**	**5,862.70**	**24,247.06**	**17,315.29**	**11,523.82**	**11,537.96**	**11,483.86**	**11,451.22**	**5,807.63**
Renewal and Replacement											
Border Rivers	115.30				4.50	167.91	278.50			160.81	
Gwydir	42.79				1,116.76	146.57	278.14	32.38	144.37	4,825.24	42.45
Namoi	200.17		106.02	1,017.56	133.99	456.67	229.91	43.26	18.30	2,087.39	8.80
Peel											
Macquarie											
Lachlan	1,109.02		303.17	1,646.99	365.74	205.59	285.05	24.66	184.00	2,140.50	
Fish River	6,919.87	7,149.89		191.49	64.29	179.65	11.75			31.05	
Murrumbidgee	539.98	68.82	619.93	855.27	3,869.44	563.67	169.24	255.32	1,349.06	5,408.42	7.03
Murray	1,676.65	8,378.78		48.95	324.04	125.90	17.78	69.66	220.11	2,814.85	17.41
North Coast	33.19					188.46	132.57	15.45		87.23	213.12
Hunter	198.76				8.59	637.73	29.06			694.38	11.35
South Coast					247.60	9.28	10.69	9.95	59.15	171.41	
Lowbidgee	138.65			621.13	0.64	1.67				289.27	
Corporate	760.11	1,241.57	102.70	924.30	596.40	163.77	22.21		58.92	2,182.34	
Non RAB Purchases	685.35	536.24	525.73	515.22	513.03	513.03	513.03	513.03	513.03	513.03	513.03
Total Renewal and Replacement	**12,419.84**	**17,375.30**	**1,657.55**	**5,820.91**	**7,245.00**	**3,359.90**	**1,977.92**	**963.70**	**2,546.92**	**21,405.92**	**813.19**
Improved Operating and Effectiveness and Water Efficiency											
Border Rivers											
Gwydir	100.23					17.10					
Namoi	100.23					17.10					
Peel											
Macquarie	72.89					17.10					
Lachlan	72.89					17.10					
Fish River	27.34										
Murrumbidgee	72.89					17.10					
Murray											
North Coast	25.15										
Hunter	82.48										
South Coast	25.15										
Lowbidgee	25.15										
Corporate	6,848.17	2,953.70	1,829.64	2,160.20	807.66	820.03	808.84	809.20	807.81	806.97	522.71
Non RAB Purchases	13,309.95	18,720.61	16,676.10	18,494.72	21,327.45	21,651.32	10,413.52	2,400.87	2,580.43	2,625.74	2,580.43
Total	**20,762.51**	**21,674.31**	**18,505.74**	**20,654.92**	**22,135.11**	**22,556.86**	**11,222.36**	**3,210.07**	**3,388.24**	**3,432.72**	**3,103.14**
Total Capex	**117,962.65**	**120,745.76**	**106,708.39**	**46,501.02**	**67,615.30**	**55,799.47**	**45,057.60**	**33,650.19**	**64,416.83**	**99,968.74**	**85,115.35**