South East Water

healthy water for life

Annual Report
2014–15
Including the Financial Report

Overview

Vision and values

South East Water's vision is to provide healthy water for life and its fundamental purpose is to deliver water, sewerage and recycled water services that provide value for customers.

South East Water's values are what help define the corporation. They drive the decision making, day to day actions and underpin, at all times, the behaviours that South East Water's people stand by.

Clarity	**We know what we're doing and we understand why.** We have a clear sense of purpose and a roadmap for success.
Unity	**Underpins our success by working together.** We collaborate and build partnerships to deliver real value.
Agility	**We are fast, flexible and courageous.** We embrace change and the opportunity to improve.
Delivery	**We strive for outcomes and celebrate achievement.** We are decisive and committed. We work hard to deliver outstanding value and results.

Manner of establishment and responsible ministers

South East Water is a state owned corporation under the *State Owned Enterprises Act 1992 (Vic)*. The responsible Ministers during the 2014–15 reporting period were:

- Hon Lisa Neville MP, Minister for Environment, Climate Change and Water for the period from 4 December 2014 to 30 June 2015, and
- Hon Peter Walsh MLA, Minister for Water, for the period from 1 July 2014 to 3 December 2014.

Objectives, functions, powers and duties

Since becoming a statutory corporation in 2012, South East Water has operated under a Statement of Obligations issued by the Minister for Water under section 93 of the *Water Act 1989*.

The corporation's activities are governed by a number of other Acts, including the *Catchment and Land Protection Act 1994*, the *Safe Drinking Water Act 2003*, the *Food Act 1984* and the *Environment Protection Act 1970*.

Regulators that oversee South East Water include the Environment Protection Authority (EPA) and the Department of Health and Human Services, which oversee recycled water quality and drinking water respectively.

The Essential Services Commission (ESC) is the water industry's economic regulator. Water plans outlining what South East Water will deliver and proposed prices are submitted to the ESC for review and approval. Water Plan 3 (2013–18) commenced on 1 July 2013.

Nature and range of services provided

South East Water delivers water, sewerage and recycled water service for residential, commercial and industrial customers totalling 1.7 million people within Melbourne's south east. South East Water's service region covers 3,640 square kilometres from Port Melbourne to Portsea and some 30 kilometres east of Pakenham. It is responsible for $4 billion of assets and manages more than 24,000 kilometres of pipeline to deliver its services with the support of 81 water pump stations, 259 sewage pump stations, nine recycled water pump stations, eight water recycling plants and one stormwater treatment plant.

The corporation's fundamental objective is to provide services that our customers value. In addition, South East Water strives to be a progressive and vibrant utility delivering innovative solutions to the water industry, financially self-sufficient and agile in meeting the changing needs and demands of its markets.

South East Water's key stakeholders include customers, developers, the community, its people, the Victorian Government's departments and regulatory authorities, suppliers, local councils and business partners.

South East Water holds the ISO 14001 for Environmental Management, ISO 9001 for all aspects of its operation, AS/NZS 4801 for Occupational Health and Safety and certification to Hazard Analysis and Critical Control Points (HACCP), as well as the ISO22000 Food Quality Standard for management of water quality.

State of Victoria, South East Water 2015. This publication is copyright. No part may be reproduced by any process except in accordance with the provisions of the *Copyright Act 1968*.

ISSN 2205-5193

Contents

Chair and Managing Director's Message

We are pleased to present South East Water's Annual Report for 2014–15 and to provide an overview of our operational performance, audited financial reports, key highlights, along with statements on our good governance and management practices.

As an essential service provider, our core role is to provide a reliable supply of quality water for home and business. We are fortunate and proud to be custodians of this finite resource and are vitally aware that how we manage that resource is critical to ensuring ongoing supply and meeting demand, especially with a growing population.

In the face of climate variability, population growth and affordability pressures, technological advances will increasingly play an integral role in the way that we provide these services to our customers.

We are working towards digitising our water and sewer networks to enable our assets and infrastructure to be fully connected and integrated by using established and new telecommunications technology. This will present innumerable benefits for our customers, including providing engineers with real-time operations data to maximise the performance of our network. To deliver this change, we are focusing on having the right people with the right skills to build the capacity and ability to analyse and proactively use the data. Becoming a progressive and vibrant water utility will provide opportunities for our people, as well as our customers.

This technology theme is embedded throughout the organisation. We seek to grow as a company and to share our advances. Through our subsidiary iota, we actively capture and work towards commercialising the innovations that South East Water people develop. In this way, our transformation can benefit the water sector as a whole.

But we never lose sight of our core obligations. We will embrace and deliver the transformation to a digital utility while meeting our regulatory, operational, environmental and financial requirements.

South East Water's 2014–15 financial results demonstrated a further 1.9 per cent decrease in operating expenditure despite population growth and against CPI trends increasing its costs. This is primarily achieved through smarter processes and technology. Our continuing aim to lower operating costs without comprising our level of service has had positive results. Significantly, the technologies we are using and the smarter ways of working have enabled us to save five per cent in network and operational capital expenditure.

Throughout the year, we have continued to demonstrate our commitment to protecting and enhancing the environment through projects like Peninsula ECO, which is leading the world in innovative pressure sewerage system design. Once all homes are connected, the new sewerage system will remove over 7.2 million litres of wastewater per year from the Peninsula, helping to protect waterways and beaches for current and future generations.

Anticipating customer needs, managing efficiency and ensuring we provide affordable services will be fundamental measures of our success. We are supporting customers with more choice and we are improving real-time communication. South East Water replaced 90 per cent of paper bill reminders with email and SMS notices and has launched live web chat as a contact option through our online self-service environment mySouthEastWater.

Delivering all this requires having the right culture and the right people. These are the drivers of our business. Planning for both current and future needs is critical to meet the business challenges that lie ahead. Our workforce planning strategy will build on our people's capabilities, particularly in the technical and digital space, and we will continue to invest in programs to develop and grow the capability of our employees.

The return of our head office to Frankston in 2015 will bring together all employees under one roof. Our people will enjoy a modern working space, designed to foster collaboration. The building's retail precinct will also gain value from increased trading activity from our people and create future employment opportunities. This new 5 star building will also drive energy and water efficiencies and generate a reduction in greenhouse emissions and our carbon footprint.

During the year, we continued our commitment to the safety and wellbeing of our people. We launched our 'liv it' campaign, which embodies a culture of safety and wellbeing in everything we do within and outside the workplace. Our ongoing focus on hazard reporting is having an extremely positive effect inside and beyond South East Water, as we gather critical information that enables us to take proactive steps to reduce safety risks. Our senior people leaders have also participated in a safety leadership program to empower them to positively influence safety behaviours and culture.

On behalf of the board, we sincerely thank all employees for their commitment and professionalism that allows the efficient and high quality 24/7 operation of this essential service. It is a pleasure to be associated with each and every one of you.

The Victorian Auditor-General's Office has issued a qualified audit opinion on South East Water's 2014–15 Financial Report and 2014–15 Performance Report in respect to the recognition of deferred taxes used to determine the fair value of infrastructure assets. South East Water is of the view, supported by an independent expert valuation report, that the valuation of infrastructure assets and associated deferred taxes recognised in the financial accounts remains appropriate and is in accordance with relevant accounting standards and directions.

In accordance with the *Financial Management Act 1994*, we are pleased to attest that South East Water Corporation's Annual Report 2014–15 is compliant with all statutory reporting requirements.

Lucia Cade
Chair

Kevin Hutchings
Managing Director

19 October 2015

Year in Review

Corporation highlights

Driving efficiencies

Strong efficiency drivers continue to be at the forefront of South East Water's business, underpinned by a strategic framework consisting of four focus areas – assets, customers, employees and sustainability – helping South East Water become a leading edge utility. Strong performance means the corporation can invest in innovation to create even greater efficiencies as well as remain financially self sufficient through reduced borrowings. Agility and technology is at the heart of everything South East Water does.

Assets are the largest controllable cost for South East Water and the corporation operates and maintains assets to deliver reliable, safe and cost efficient services that balance the needs of customers and the environment. In the 2014–15 financial year, South East Water continued to pursue benefits from technology and industry reforms to decrease its long-term capital investment and operating costs while supporting the Government Water Rebate targets. The introduction of an innovative contracting model in 2013, based on a mixture of competition and collaboration between contracted businesses, continued to deliver operations and maintenance savings for South East Water.

Capital expenditure is necessary to maintain high levels of service and to cater for population growth. A focus on innovation and strategic planning played an ever-increasing role in driving operations during the year, and contributed to $7.5 million savings (in a total network capital spend of $150.5 million), which is five per cent under budget. While the overall amount of capital expenditure was higher than planned due to the carry over works from 2013–14 on the construction of a new head office in Frankston, savings were still achieved in network capital spend.

The introduction of leading edge e-billing, the expansion of digital self-service and payment channels, and ongoing improvements achieved savings of $0.8 million. These initiatives included changing the occupier/tenancy processes through the implementation of an online form and auto-population of data, automatic creation of new customer billing accounts for real estate agents, landlords and tenants, red tape reduction in the creation of weekly credit audit reports, and greater governance, compliance and standardisation of the contract management process.

Network management and service delivery

South East Water's team of professionals continued to operate its 24,000 kilometre network of water, sewer and recycled water pipework efficiently. A team of emergency response crews, engineers and operation technicians, responsible for implementing ongoing improvements and undertaking emergency maintenance, manage this essential service for customers.

South East Water continued to deliver high quality water to its customers and in 2014–15 supplied 127.1 billion litres of drinking water.

The corporation expanded its network during the year, with 80 kilometres of water pipe, 88 kilometres of sewer pipe and 52 kilometres of recycled water pipe constructed to service a growing population.

Maintenance on ageing sections of pipeline involved proactively renewing 38 kilometres of water pipe and 30 kilometres of sewer to deliver an efficient network. In one significant upgrade project, South East Water commenced the renewal of a 150 year old water pipe along St Kilda Road.

Recycled water use continues to grow and in 2014–15 5.3 billion litres of recycled water was produced and supplied to customers, an increase from 4.2 billion litres from the previous year. This sustainable water resource is supplied to 8,600 residential properties and 131 non-residential properties. South East Water consistently produced Class A recycled water – suitable for garden watering and toilet flushing – at four water recycling plants (Boneo, Mt Martha, Pakenham and Somers). The remaining four water recycling plants – Blind Bight, Koo Wee Rup, Lang Lang and Longwarry – continued to provide Class B or C water, suitable for irrigation.

Proactive leak detection across more than 2,300 kilometres of the network identified 1,500 leaks that were then repaired. This saved 767 million litres of water that would otherwise have been lost. The use of unmanned aerial vehicles (drones) simplified lagoon and tank inspection practices across treatment plants and the network.

As part of the corporation's Peninsula ECO project, construction of the reticulation transfer system was close to completion at 30 June. This is one of the largest pressure sewer projects in Australian history and will allow the early connection of the entire southern Mornington Peninsula to the sewerage network, enabling the decommissioning of septic tanks. The Peninsula ECO project has benefited from innovations in technology and contracting. Using iota's OneBox technology enabled a reduction in the number of pump stations from seven to two. An innovative contracting approach was adopted for the 235 kilometre reticulation network by competitively awarding two catchments to two contractors with a third catchment available to the best performing contractor. This ensured lower overhead costs and larger packages of work, which saw lower margins and

very high productivity rates. These savings will be passed on to customers choosing the early connection option with discounts already applied at the end of the 2014–15 year.

In a great example of collaboration among Victorian water businesses, South East Water's construction of a pressure sewerage network on behalf of South Gippsland Water neared completion at 30 June 2015. This project is delivering a sewerage solution to the communities of Poowong, Loch and Nyora.

Customers

A focus on enhancing customers' preference for self-service drove the delivery of many online solutions during the year. South East Water LIVE was launched as an online map showing real time service faults and their estimated completion times, planned upgrades and scheduled maintenance projects across the corporation's service region. The development of an online leak reporting option was also launched to support the ability of customers to notify the corporation of faults and emergencies. Both these solutions had strong adoption rates.

Improvements to how South East Water's property and development industry stakeholders apply, submit and pay for works was simplified through the introduction of *PropertyConnect*. This online and smartphone-optimised application and bookings hub has delivered improved benefits including 24/7 applications, streamlined processing times and removed the need for printing, completing and returning print-based forms.

The process for customers to request information statements for property settlement was automated and has reduced calls to the contact centre while providing customers with 24/7 access to information statements online.

South East Water strives to deliver a valued and efficient service for customers, and in the 2014–15 financial year the corporation was thrilled to be the recipient of the Excellence in Customer Service Award at the Shared Services and Outsourcing Network Excellence Awards. The team answered 404,700 customer calls during the year and received 49,200 online queries and emails, reflecting a growing trend from customers towards using online services.

This trend is also reflected in the number of customers electing to receive email bills, with 60,000 customers switching to this option during the year, totalling 125,000 customers using this service at 30 June 2015. A key project to deliver an improved and user-friendly billing service supported this growing customer preference. Paper-based and email bills benefitted from a refresh and a reduced page count from four pages to two, and a mobile-friendly bill was developed to deliver a simple and clear bill with an easy click-to-pay option. Billing services were streamlined through the use of SMS to issue overdue bill reminders. Overall, these billing changes are delivering a vast reduction in the volume of paper used, saving an estimated 3.5 million pieces annually.

Enhancements to the mySouthEastWater smartphone app also delivered improvements and greater customer choice in the management of their accounts and payment of bills. The mySouthEastWater online account management and self-service environment continued to attract new customers with 39,600 registrations during the year taking the total customers registered to 111,350. Through this service, more than 3,400 customers chose live chat as a contact option.

South East Water measures its customers' experience of their interaction with the corporation, and in 2014–15 this delivered an above target customer satisfaction rating of 89 per cent.

Education and community

South East Water's education website brings learning to life for school-aged children. In 2014–15 the site had more than 43,000 visitors, was the recipient of a Melbourne Design Award in the digital experience category, and provided interactive games that teach children about the urban water cycle and Melbourne's water and sewerage systems. At 30 June 2015, further interactive games and resources were in development to enhance this popular educational package.

Bookings from school and community education groups continued to be popular in 2014–15. Approximately 3,000 primary students participated in school-based water literacy programs delivered by South East Water's education team, with an additional 50 education packs delivered to kindergartens, early learning centres and preschools providing teacher, student and parent activities.

South East Water delivered presentations and education sessions to more than 6,000 community members during the year. These included sessions for vulnerable customers about payment and support options and presentations to culturally and linguistically diverse groups about water and bill education.

The corporation donated its hydration station to 46 community events across its service region, providing attendees with free drinking water.

South East Water's Mt Martha Water Recycling Plant is home to an Education Centre that offers students and community members an insight into the workings of a treatment plant and how Melbourne's sewerage network operates. In 2014–15, 1,440 people toured the plant.

Year in Review

A progressive and vibrant utility

Technological improvements and the analysis of big data will drive a better comprehension of South East Water's business and help realise the corporation's strategic priority to become a progressive and vibrant digital utility that delivers leading edge solutions. Capturing and analysing data from multiple sources such as water usage and network flow will be critical to our future growth, efficiency and financial self-sufficiency. Leveraging this knowledge will enable the delivery of a host of benefits for our customers and stakeholders. South East Water is exploring opportunities to transform the way we manage our assets and communicate with customers.

The availability of high-speed ADSL meant South East Water could optimise the remote control and message sharing between assets to achieve operational efficiencies. The presence of a high-speed data hub at each remote site has allowed South East Water to leverage other monitoring activities such as CCTV cameras, digital metering, infrastructure and other advanced sensors.

iota Services Pty Ltd

Through its wholly-owned subsidiary, iota Services Pty Ltd, South East Water has created a sustainable approach to capture and commercialise innovation and technology borne from its regulated business. While these offerings have their genesis in the regulated network activities of South East Water, there is significant scope for wider application of iota's products and services, for the benefit of the state and the water industry as a whole.

During the year, the iota business was incorporated as a wholly-owned subsidiary of South East Water. Corporatisation has enabled iota to operate more effectively as a separate legal entity whereby iota's business activities can operate beyond Victoria and intellectual property can be commercialised.

iota's growth is centred on its ability to transact business interstate and overseas. Since its incorporation, iota successfully entered into contracts with Christchurch City Council in New Zealand and E/One in the United States. Expeditious execution of these contracts is possible with iota having adopted a more conventional legal structure for its commercial activities.

Closer to home, iota's OneBox has enabled the early roll-out of pressure sewerage systems in the Peninsula ECO project, significantly reducing the number of septic tanks in the environmentally sensitive region of the Mornington Peninsula. OneBox is an intelligent sewers device that provides the ability to control and monitor pressure sewer units, pumps and other remote assets from the office or smartphone.

Environmental management

South East Water's biosolids reuse program continued at its water recycling plants in 2014–15 with 100 per cent beneficial reuse of biosolids, including two off-site customers using the product for fertiliser. A study has been completed on reuse management practices and on how to reduce the storage time of biosolids from three years to one.

Substantial revegetation works to enhance biodiversity and improve natural habitats for wildlife at the Mt Martha Water Recycling Plant were carried out during the year. Similarly, at the corporation's Koo Wee Rup Water Recycling Plant, an environmental management plan is continuing to protect and enhance the natural habitat of the endangered southern brown bandicoot.

At 30 June 2015, plans were underway to upgrade the Lang Lang Water Recycling Plant to enable the treatment of wastewater to Class A recycled water standard, set to deliver improvements for the environment and enable greater reuse possibilities.

At the Longwarry Water Recycling Plant, an environmental risk assessment program commenced to identify an innovative solution for managing nutrient loads on a catchment wide basis. The ecological assessment of nearby King Parrot Creek will seek to recommend future actions and mitigation tactics to reduce any impact to the local waterway.

The corporation's backlog sewerage program is removing reliance on septic tanks by connecting properties to the sewerage network. Results so far are displaying improvements to waterway health in the Belgrave Heights region.

Environmental benefits to groundwater and waterways are also being achieved through the decommissioning of septic tanks along the entire southern Mornington Peninsula. The Peninsula ECO project is contributing to supporting a healthy environment in this popular and significant region of Victoria.

South East Water's trade waste team continues to work with more than 10,000 industrial and commercial businesses to improve wastewater discharge practices. Its wastelog program supports customers with the installation of food and oil interceptors and their regular pump-outs, preventing disruptive waste entering the sewerage network. In 2014–15 more than 23,000 pump-outs were performed, preventing 35 million litres of greasy waste from entering the sewer.

The team also joined forces with the Environment Protection Authority, Mornington Peninsula Shire Council and Frankston City Council to work with local businesses on improving their wastewater management practices. The program is designed to prevent harmful substances entering the stormwater systems which can negatively impact the local environment and waterways. These activities form key actions under the Yarra River and Port Phillip Bay Action Plan to minimise impact to Port Phillip Bay and local waterways.

The corporation actively worked with the Victorian water industry and government agencies on policy reform that seeks to address water quality impacts across Victoria. This State Environmental Protection Policy for Water review seeks to ensure clear standards, rules and statutory obligations to protect and improve the health of our water environments. This review is expected to be completed late in 2016.

People

South East Water's Strategic Workforce Plan was developed to address future workforce capabilities and enable a high performing, safe and resilient workforce who are aligned with the strategic direction and culture.

New learning pathways that identified technical competencies for the customer facing groups were introduced. The pathways provide employees with clarity on development and career progression as well as the opportunity to attain formal skills accreditation. This initiative will continue across other groups.

A new employer value proposition aimed at improving attraction was delivered, positioning South East Water as a preferred employer and industry leader. A pre-employment assessment tool was also deployed to better assess candidates during the recruitment process and ensure alignment with the values and underpinning behaviours.

Investment continued in programs to develop and grow employees with a specific focus on change and agility. All employees had the opportunity to participate in sessions building resilience, mindfulness and communication.

Each year South East Water conducts an annual employee survey, measuring employee job satisfaction, engagement and progress towards the aspirational culture. During the year each business group delivered an action plan responding to last year's strong survey results and developed various programs and initiatives to enhance collaboration and overall performance.

The move to Frankston in 2015 will bring all employees together under one roof in a leading edge and environmentally efficient building that will reduce South East Water's carbon footprint. Employees will enjoy a modern working environment and benefit from improved opportunities for collaboration. It is likely that the Frankston retail precinct will gain value from providing subsidised products and services to employees and the local community will benefit from prospective employment opportunities.

Safety

South East Water's commitment to supporting a safe and healthy environment for all of its people led to the launch of a new 'liv it' brand. liv it highlights the importance of employees' wellbeing and encourages safety-conscious behaviour at all times inside and outside of the workplace. A new liv it reward and recognition program was also introduced.

A leading practices safety forum held for South East Water's maintenance and construction contractors was attended by over 100 people. The forum shared knowledge, learnings and innovations in safety from all parties and reinforced safety as a high priority across every aspect of the corporation's operations.

These activities and the constant focus on encouraging employees to report hazards and close calls, saw an increase in the number of reports made and exceeded reporting targets set for the year.

A comprehensive wellbeing program provided a calendar of events delivering information and resources across a range of topics including manual handling, mental health, diabetes and obesity.

Year in Review

Five year financial summary

Financial result for the year ended 30 June extract	2011 ($M)	2012 ($M)	2013 ($M)	2014 ($M)	2015 ($M)
Total revenue	620.3	743.0	706.0	968.2	916.5
EBIT	151.5	187.4	138.1	196.0	195.4
Finance costs	51.8	58.2	62.9	69.7	77.1
Net profit before tax	99.7	129.3	75.3	126.4	118.3
Tax expense	30.0	38.8	22.6	33.3	35.6
Net profit after tax	69.7	90.4	52.6	93.1	82.7

Financial position for the year ended 30 June extract	2011 ($M)	2012 ($M)	2013 ($M)	2014 ($M)	2015 ($M)
Total assets	3,064.5	3,232.7	3,298.6	3,509.4	4,022.7
Payables and provisions	652.9	677.8	662.5	678.4	765.4
Borrowings	810.1	925.0	1,045.5	1,162.0	1,321.1
Net assets	1,601.5	1,629.9	1,590.6	1,669.0	1,936.2

Cash flows for the year ended 30 June extract	2011 ($M)	2012 ($M)	2013 ($M)	2014 ($M)	2015 ($M)
Operating	114.5	103.4	113.4	89.2	128.1
Investing	(189.4)	(168.1)	(172.5)	(189.9)	(233.3)
Financing	73.6	64.9	59.0	100.5	107.1

Current year financial review

South East Water enjoyed another successful year in 2014–15. Water consumption and land development activity was strong while productivity savings continued to be achieved across the business.

Consistent with the trend over recent years, South East Water achieved a 1 .9% reduction in operating costs in 2014–15 after allowing for inflation and property growth. This result is underpinned by a strong focus on cost control, investments in new technology, new procurement contracts and structural changes to ensure the business delivers on commitments to drive efficiencies and help ease customer bills.

The corporation continued to focus on initiatives to improve working capital management through the rollout of SMS reminder notices, targeted credit management strategies and limiting claims for leak allowances. Pleasingly, South East Water has been able to maintain bad debt write-offs at $2.2 million which is significantly below the industry average.

The successful delivery of South East Water's capital expenditure program was a major area of focus in 2014–15. Savings continue to be realised from the new delivery model particularly in respect of backlog sewerage works in the Peninsula ECO project along the southern Mornington Peninsula.

The financial year was also marked by the return of $100 to residential water customers as part of the Government Water Rebate initiative which has in part resulted in decrease in pre-tax profits compared to 2013–14.

The financial position of the business remains sound with gearing at 40.5% and funds from operations net interest cover at 2.7 times. Over the medium term, South East Water will reduce its call on new borrowings in line with the goal to be financially self-sufficient.

Capital projects

South East Water manages a number of capital projects, including treatment plant upgrades and water and sewer system growth projects. For information on other recent capital projects for South East Water and the broader Victorian public sector, please refer to the most recent Budget Paper No. 4 State Capital Program (BP4) available on the Department of Treasury and Finance's website. This publication also contains information on the department and its related portfolio agencies' asset investment programs.

Subsequent events

Review of water sector board director positions

On 8 April 2015, the Minister for Environment, Climate Change and Water, the Hon Lisa Neville MP, announced a review of all 135 Victorian water corporation board director positions. Expressions of interest were invited during April and May 2015 with new boards to be in place by 1 October 2015. Water corporations remain governed by a properly constituted board of directors and will do so following 1 October 2015 when any new appointments are due to commence.

Head office relocation

The group will transfer its operations from Heatherton to Frankston in the first half of 2015–16.

Year in Review

Water consumption report

District	Residential customers				Non-residential customers			
	Number	Potable water (ML)	Recycled water (ML)	Recycled storm-water (ML)	Number	Potable water (ML)	Recycled water (ML)	Recycled storm-water (ML)
South East Water	651,944	96,207	331	2.2	56,803	30,875	4,944	0

District	Total number of customers	Total potable water volume (ML)	Total recycled water volume (ML)	Total consumption (ML)	Average annual consumption[1] (ML)
South East Water	708,747	127,082	5,277	132,359	121,988

District	Weekly household drinking water consumption (litres per household per week)	Non-revenue water			Total non-revenue water	Total water all sources
		Leakage (ML)	Firefighting (ML)	Other[2] (ML)		
South East Water	2,840	12,666	704	5,198	18,568	150,675

1. Average calculated between 2010–11 and 2014–15.
2. Other includes operational usage, theft and meter inaccuracy.

Corporate water consumption

Data is calculated based on metered water consumption at South East Water's primary corporate offices at Heatherton and Lynbrook for 2014–15. Water consumption at a small site-based office in Frankston and Rye and at eight water recycling plants has been excluded. It also excludes water provided by the corporation to customers.

Location	Average full-time equivalent employees and contractors	Office space (m2)	Water consumption (kL)	kL/FTE	Water consumption by office space (l/m2)
20 Corporate Drive, Heatherton	438.4	8,000	2,359.30	5.38	295
40 Commercial Drive, Lynbrook	77.4	1,500	546.29	7.06	364
Total	**515.8**	**9,500**	**2,905.59**	**5.63**	**306**

Reports on the quality of drinking water

South East Water publishes an Annual Drinking Water Quality Report detailing its performance against the requirements of the *Safe Drinking Water Act 2003*, the *Safe Drinking Water Regulations 2005* and the *Australian Drinking Water Guidelines 2011*. Throughout the year, around 8,000 water samples are collected to ensure the highest water quality is maintained. South East Water's 2014 report demonstrates strong performance against testing requirements for E.coli, as well as with the regulations for the six other drinking water quality standards, including aluminium, turbidity and by-products of chlorine disinfection.

Environmental sustainability

Sustainable water use

Water recycling

South East Water supplies Class A recycled water to 8,600 residential properties and 131 non-residential properties and businesses in the south east suburbs. In 2014–15, recycled water use increased by 21 per cent with 5.3 billion litres supplied. This increase was due to a dry summer and greater volumes of recycled water used across all recycled water customers including residential, agricultural, recreation and irrigation customers. The corporation's water recycling plants at Boneo, Mt Martha, Somers and Pakenham treat wastewater to Class A recycled water quality for productive agricultural and industrial use. At 30 June, plans were also in place to upgrade the Lang Lang water recycling plant to a Class A treatment facility for high value uses. Recycling plants at Longwarry, Koo Wee Rup and Blind Bight treat wastewater to Class C quality, which is re-used by farmers and growers for irrigation.

Water conservation

Water conservation is promoted through online resources and information, designed to educate customers on ways to reduce water use and products that use low volumes of water. South East Water's education and customer program teams deliver face-to-face information sessions on sustainable water practices. The South East Water Assist team supports the most vulnerable customers in the community and during the year provides eligible customers with a free home water audit and plumbing assistance to help save water and money.

The corporation also promotes the School Water Efficiency Program which uses data logging technology to track water consumption and identify leaks. More than 140 schools participated in the program in 2014–15 and saved 49.6 million litres of water through repairing previously undetected leaks.

Sustainable and resilient water services systems

Through water recycling, education and conservation programs, South East Water endeavours to build and manage sustainable and resilient water services systems. During the year, the corporation ran a campaign targeting customers who own a pressure sewerage system to educate them on the risks and costs to their sewerage tank, South East Water's sewerage network, and the environment from flushing wipes. The corporation's trade waste team perform a similar task in working with industrial and commercial businesses on averting harmful waste from entering the sewer.

South East Water also contributed its expertise to lead a government study on avoidable systems costs, identifying and forecasting expenditure required to provide water, sewerage and drainage services for Melbourne until 2051. This work will be used across Melbourne to identify opportunities to optimise current systems, use integrated water cycle management practices, and to utilise capacity and defer expansion works. These preventative tactics will reduce overall whole-of-community costs, help improve the health and resilience of our water and sewerage systems, as well as improve waterway health outcomes.

Sustainable water strategies

South East Water contributes to the sustainable and integrated water cycle management strategies for devising future supply plans for Melbourne's growth and development regions, including Fishermans Bend, Southbank, Pakenham East and Casey-Clyde. Through these strategies, South East Water provides advice and expertise to forecast future needs, challenges, supply capacity and alternative water source options and solutions to service these areas. As part of the Pakenham East precinct plan to service 5,500 residential lots and 7.5 hectares of commercial area, South East Water explored various integrated water cycle management options to reduce long-term demand on water supply and potentially improve the quality of stormwater discharge to Port Phillip Bay.

In 2014, the corporation revisited its strategy for the supply of recycled water and amended its guidelines to require the installation of a recycled water washing machine connection tap for laundry use. This change is intended to increase the use of a sustainable resource and further reduce the reliance on drinking water for non-drinking purposes.

South East Water is currently working with Melbourne Water, local councils and the Melbourne Planning Authority in planning major new development and redevelopment areas to establish how to best meet the multiple objectives of sustainable water use, improved stormwater quality and environmental goals, as well as affordable community costs.

Year in Review

Sustainable and resilient water services systems

Community education and water awareness campaigns

South East Water delivers a popular in-school education program, which 3,000 students participated in during 2014–15. This is supported by an award winning, interactive education website that attracted more than 43,000 visitors over 12 months.

South East Water has been running educational sessions to culturally and linguistically diverse (CALD) communities across south east Melbourne reaching more than 1,000 students at 35 presentations. The presentations are intended to provide further information about the operations of South East Water, water efficiency and quality, billing information and assistance solutions, as well as encourage them to talk more broadly about the information to their families and members of their community. The students also received an information pack containing information on water efficiency, assistance solutions and a water bottle.

Regular attendance at monthly CALD network meetings across our network also provided South East Water with a great opportunity to keep updated with different communities and provide information updates, where relevant.

South East Water presented to seven community service providers (Cranbourne Integrated Care-Financial Counsellors, Centrelink Frankston-Counsellors, Cheltenham Financial Counselling, Victoria Legal Aid Dandenong, Springvale Community Aid and Advice Bureau, Financial Counselling Victoria and Scope) with information about South East Water Assist and the solutions that are available to customers who may be vulnerable or in a time of hardship. Case workers were also provided with information on assistance solutions for their clients.

South East Water rolled out targeted electronic direct mail campaigns promoting payment plans and online account management across its key vulnerable customer areas, reaching 42,800 customers and promoting awareness of payment plans, online account management and Solutions on Tap. The corporation provided information packs on assistance solutions to more than 30 service providers and 13 maternal health care providers in Frankston. It also attended four major events held in Cranbourne, Dandenong and Pakenham reaching more than 6,000 customers and providing information about assistance solutions and the opportunity for customers to discuss any concerns or questions about their bills.

The Solutions on Tap program offers customers, particularly families finding it hard to keep up with water and sewerage bill payments, access to a range of simple solutions including payment plans, concession and direct debit registrations, and the monitoring of water usage. South East Water has a long-standing partnership with Good Shepherd Youth and Family Service, which offers customers supplementary financial assistance programs and counselling services.

A trial of AquaTrip, a water use monitoring device, was conducted with 21 customers experiencing financial vulnerability and with high water use. The device provided customers with real-time water consumption data via a control panel inside their home, allowing them to set water use targets and be alerted to leaks or running taps. The program provided customers with education materials on water efficiency at home, and empowered them with the tools to successfully reduce their water usage.

Community consultation and engagement on water cycle strategy development

South East Water issued an expression of interest to properties in close proximity to the south eastern outfall about accessing recycled water from the pipeline. Consultation with those customers who expressed interest involved discussions about the customer's water use and volume requirements and the feasibility of constructing a connection from the pipeline to their property. The discussions were positive and the community members consulted identified that construction and connection costs require further efficiencies for it to be a viable solution for them.

As part of South East Water's involvement in providing advice and expertise in the development of precinct structure plans for inner city development areas Fishermans Bend and Southbank, the corporation invited community consultation through collaboration with the Metropolitan Planning Authority, Melbourne Water, City of Melbourne and City of Port Phillip.

Works undertaken with industry to improve water management outcomes

South East Water's trade waste team works with a number of industrial and commercial businesses to support them in implementing beneficial reuse, recycling and discharge practices. One customer installed their own advanced wastewater treatment plant to reduce reliance on drinking water and effectively manage the onsite treatment of waste by-product. Another major industrial customer worked with the team to develop an automated system for the supply of recycled water.

The corporation continued its collaboration with environmental health departments of local councils in its service region, working together to ensure all retail commercial food tenancies have a food and oil interceptor installed to prevent greasy waste entering and clogging the sewer.

In a working group with 10 other water authorities across Australia and the Water Services Association of Australia, South East Water participated in the development of national food waste guidelines for the discharge of greasy waste to sewer in an effort to standardise requirements. A final version of the guidelines is due to be completed in late 2015.

Work with local government to promote increased use of alternative water sources; and helping playing fields to be watered and available year round

South East Water supported a campaign with City of Knox and Melbourne Water to install rainwater tanks at residential properties to capture rainwater and reduce stormwater runoff to local waterways. The corporation also works with local councils in its region to deliver recycled water to open spaces, 13 sporting precincts and 41 playing fields year round, reducing their reliance on drinking water for irrigation.

The corporation supports the use of stormwater harvesting across its region to increase the use of integrated water practices and reduce reliance on drinking water supplies. South East Water's own Troups Creek stormwater recycling plant supplies 58 homes with this harvested and treated water supply for research into the large scale viability for use in toilet flushing and garden watering.

Promoting efficient use of drinking water and increased use of alternative water sources with householders and businesses

South East Water promoted the state government's water rebate program to householders and businesses to highlight the water and cost savings that can be achieved through use of water efficient products. The promotion was delivered via the corporation's website and customer bills. Through the website and over the phone, customers are supplied with information about checking for leaks, activities that can result in greater water use and ways to reduce water use.

Community presentations and information sessions held with more than 6,000 people in 2014–15 aimed to promote the benefits of using drinking water efficiently and how rainwater tanks and use of recycled water can help reduce reliance on drinking water supplies.

South East Water sends an annual newsletter to its recycled water supply customers to reiterate the great benefit they have through access to an alternative water source and to encourage the increased use of recycled water.

Uniform drought response plan and by-law

Permanent water saving rules were in place for metropolitan Melbourne at 30 June 2015. South East Water did not invoke its Uniform Drought Response Plan in 2014–15, however in accordance with the plan all metropolitan water corporations and Melbourne Water published an annual Water Outlook on 1 December 2014. This Water Outlook outlined a number of individual and joint industry short and medium term actions to improve future drought response. For further information visit **southeastwater.com.au**

Year in Review

Other statutory obligations

Catchment management strategy

South East Water is a founding stakeholder of the Port Phillip and Westernport Catchment Management Authority (PPWCMA) Living Links catchment program. Living Links aims to protect and connect landscapes to create functional habitats for wildlife, and more accessible areas for people to enjoy. South East Water was represented on the coordinating committee and contributed $11,000 to the program in 2014–15.

Biodiversity

South East Water protected and enhanced its significant biodiversity sites through the implementation of its Biodiversity Master Plan during the year. The plan ensures biodiversity principles and management frameworks are considered against operational, economic and community expectations when undertaking onsite actions. The Biodiversity Master Plan aims to improve awareness of biodiversity values across the corporation's operational area and improve management systems to ensure compliance with environmental legislative requirements and protection of its biodiversity assets.

Since 2012, South East Water has been a member of the Tootgarook Wetlands Advisory Group which provides advice to the Mornington Peninsula Shire on the conservation and management of the Tootgarook Wetlands and its catchment's native biodiversity values. South East Water's Boneo Water Recycling Plant is based at the head of the state-significant Tootgarook Wetlands and the land forms surrounding the site reflect its prehistoric coastline. To ensure South East Water's activities will be managed diligently to provide a sustainable future for the site and its surroundings, South East Water developed an Environmental Improvement Plan for the Boneo Water Recycling Plant.

Victorian waterway management strategy

South East Water continued its partnership with Melbourne Water's Stream Frontage Management Program to contribute to on-ground works and help manage the land to protect and enhance riverbanks. During 2014–15, South East Water continued stream restoration projects to improve waterway health along Deep Creek within Bald Hill Farm and along Balcombe, Tuerong and Devilbend creeks adjacent to Mt Martha Water Recycling Plant. The programs involved removal of noxious weed species and revegetation with indigenous species along the creek frontages.

State Environmental Protection Policy (Waters of Victoria)

South East Water has provided input into the Department of Environment, Land, Water and Planning and VicWater review of Victoria's water-related State Environment Protection Policies. Also South East Water continued its waterway sampling and modelling of Elster Creek in Elwood to better understand the impacts of the urban environment on waterway health. This research has assisted South East Water in contributing to the review of the State Environment Protection Policy (Waters of Victoria).

Values for waterways and bays

South East Water worked with Melbourne Water to develop a mapping based tool which identifies the significant waterways within its operating area. The mapped data aligns with Melbourne Water's Healthy Waterways Strategy and is intended to define a transparent and appropriate ecological consideration that is effective for decision making related to sewerage infrastructure works undertaken by South East Water. Additionally South East Water represented the metropolitan water industry on the government's taskforce to develop an action plan for the Yarra River and Port Phillip Bay.

Building a water stewardship community in Western Port

South East Water is helping deliver the *Building a water stewardship community in Western Port* project in partnership with Water Stewardship Australia and Inghams Enterprises, as well as support from Melbourne Water, Parks Victoria and PPWCMA.

The project links the goals of the global water stewardship program with the goals of the Western Port Biosphere and the sustainability goals of Inghams Enterprises. The benefit of the project will be healthy waterways, a healthier environment, a stronger economy and a healthier and more sustainable community. The initial focus for the project will be the catchment of Watson Creek, which has been regarded as one of Victoria's dirtiest waterways. The creek flows into the Yaringa Marine National Park and Ramsar-listed wetland of Western Port.

Greenhouse gas emissions and net energy consumption

CO_2 equivalent emissions	2014–15	2013–14	2012–13	2011–12	2010–11
Water treatment and supply (tonne)	5,915	5,218	6,053	4,764	5,505
Sewerage treatment and management (tonne)	33,502	29,262	31,766	29,128	28,428
Transport (tonne)	1,489	1,445	1,377	703	823
Other (tonne)	2,394	2,200	2,665	2,481	2,523
CO_2 offsets (tonne)	-974	-1,762	-1,650	-2,692	-5,928
Total CO_2 emissions (tonne)	42,327	36,363	40,212	34,385	31,351
Energy Use – Non Fleet GJ	106,264	101,884	108,781	98,309	99,319

This is a preliminary result based on available data at the time of reporting. A more comprehensive and accurate result will be available at the submission of National Greenhouse and Energy reporting in October 2015.

Net energy consumption

	2014–15	2013–14	2012–13	2011–12	2010–11
Water net energy consumption as kWh/ML	32.2	29.9	34.9	29.5	35.7
Sewer net energy consumption as kWh/ML	184.1	148.0	151.5	117.0	117.4

Social sustainability

Community service obligations

South East Water manages the following community service obligations that were funded by the Victorian Government in 2014–15.

Value of community service obligation provided	2014–15 ($)	2013–14 ($)
Provision of concessions to pensioners	43,928,932	42,987,974
Rebates paid to not-for-profit organisations under the water and sewerage rebate scheme	806,419	641,216
Utility Relief Grants Scheme payments	569,372	521,680
Water concession on life support machines (haemodialysis)	33,174	30,265
Hardship Relief Grant Scheme (Sewerage Connection Scheme)	2,700	0

Year in Review

Bulk entitlements

Under the 2014 bulk water reforms, South East Water holds bulk entitlements to the water resources of the Greater Yarra System – Thomson River Pool, the Victorian Desalination Project and bulk entitlements in the River Murray and Goulburn System.

South East Water's reporting requirements	Greater Yarra System – Thomson River Pool[1]	Desalinated Water[6]	Goulburn System[10]	Murray River[14]
The annual volume of water taken	Clause 16.1 (a) 145,650[2] ML	Clause 13.1 (a) 0 ML[7, 8]	N/A	N/A
The water allocation volume made available	Clause 16.1 (b) 118,634[3] ML	N/A	Clause 14.1(c) 7,033.3ML[11, 12]	Clause 11.1(a) 4,756.4ML[15, 16]
The volume of carry over	Clause 16.1 (b) 233,314 ML	N/A	N/A	N/A
Compliance with the entitlement volume	Clause 16.1 (c) Yes[4]	Clause 13.1(e) Yes[9]	N/A	N/A
Any temporary assignment or permanent transfer of all or part of entitlement	Clause 16.1(d) 0 ML	Clause 13.1(b) 0 ML	Clause 14.1(d) 7,096.5 ML Clause 14.1(e) 0 ML	Clause 11.1(b) 4,755.0 ML Clause 11.1(c) 0 ML
The approval, amendment and implementation of the metering program	Clause 16.1 (e) Continuing[5]	N/A	N/A	N/A

South East Water's reporting requirements	Greater Yarra System – Thomson River Pool[1]	Desalinated Water[6]	Goulburn System[10]	Murray River[14]
Any amendment to this entitlement	Clause 16.1 (f) Nil	Clause 13.1(c) Nil	Clause 14.1(f) Nil	Clause 11.1(d) Nil
Any new entitlement of water granted	Clause 16.1(g) Nil	Clause 13.1(d) Nil	N/A	N/A
Any failure to comply with any provision of this entitlement and any remedial action taken or proposed	Clause 16.1(h) None	Clause 13.1(f) None	Clause 14.1(g) None	Clause 11.1(e) None
Any difficulties experienced or anticipated in complying with this entitlement and any remedial action taken or proposed	Clause 16.1(i) None	Clause 13.1(g) None	Clause 14.1(h) None	Clause 11.1(f) None
Daily amount of water taken from the waterway	N/A	N/A	Clause 14.1(a) 0 ML[13]	N/A
Annual amount of water taken from the waterway	N/A	N/A	Clause 14.2(b) 0 ML[13]	N/A

Year in Review

Notes for compliance with bulk entitlements

Greater Yarra System – Thomson River Pool

1. South East Water holds Bulk Entitlement (Greater Yarra System-Thomson River Pool – South East Water) Order 2014 – BEE072376.
2. South East Water is a primary entitlement holder with a delivery bulk entitlement to 209,562 ML.
3. The Resource Manager – Melbourne Water makes seasonal allocations monthly.
4. Compliance with the entitlement volume is measured by compliance with the overall cap within the source entitlements for the Thomson and Yarra systems (held by Melbourne Water). The caps were complied with.
5. Metering programs for this bulk entitlement are continually maintained and reviewed via the Bulk Water Supply Agreement between South East Water and Melbourne Water and System Management Rules established by Melbourne Water.

Victorian Desalination Project

6. South East Water holds Bulk Entitlement (Desalinated Water – South East Water) Order 2014 – BEE050815.
7. South East Water may take an average annual volume of up to 53,454ML of desalinated water over any period of five consecutive years that is delivered to a delivery point to the Melbourne headworks system.
8. On 1 April 2015, the Hon Lisa Neville MP, Minister for Environment, Climate Change and Water made a zero desalinated water order.
9. Compliance with the entitlement volumes is measured with respect to whether the annual volume taken exceeds the entitlement. This did not occur during 2014–15.

Goulburn System

10. South East Water holds Bulk Entitlement (Goulburn System – South East Water) Conversation Order 2012 – BEE072238.
11. South East Water is entitled to a water entitlement in the Goulburn System equal to one–ninth of the total Phase 4 water savings achieved in the Goulburn component of the Goulburn Murray Irrigation District (GMID) from Northern Victoria Irrigation Renewal Project (NVIRP) Stage 1 as verified in the latest audit.
12. South East Water's annual water allocation in a given year from the Goulburn System is equal to one–ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.
13. Diversion limits are specified in Clause 9.

Murray River

14. South East Water holds Bulk Entitlement (Murray River – South East Water) Conversion Order 2012 – BEE072241.
15. South East Water is entitled to a water entitlement volume in the following parts of the River Murray System equal to one-ninth of the total Phase 4 water savings achieved in these parts of the GMID from NVIRP Stage 1 as verified in the latest audit:
    - Trading zone 6; and
    - Trading zone 7.
16. South East Water's annual water allocation in a given year from the River Murray is equal to one–ninth of the total Phase 3 water savings achieved in the previous year of the Goulburn component of the GMID from the Goulburn Murray Water Connections Project Stage 1 as verified in the latest audit.

South East Water has in place water management strategies to manage water allocations holdings in the Murray River and Goulburn System to maximise the value of the resources held to our customers and minimise risk of spilling water allocation. These strategies include the transfer of allocations between bulk entitlement allocation accounts and trading water allocations.

Major non-residential water users

Customer by volume range

Volumetric range – ML per year	No. customers
Equal to or greater than 200ML and less than 300ML	5
Equal to or greater than 300ML and less than 400ML	4
Equal to or greater than 400ML and less than 500ML	-
Equal to or greater than 500ML and less than 750ML	1
Equal to or greater than 750ML and less than 1000ML	-
Greater than 1000ML	-
Total number of customers	**10**

Names of major customers and their participation in water conservation programs

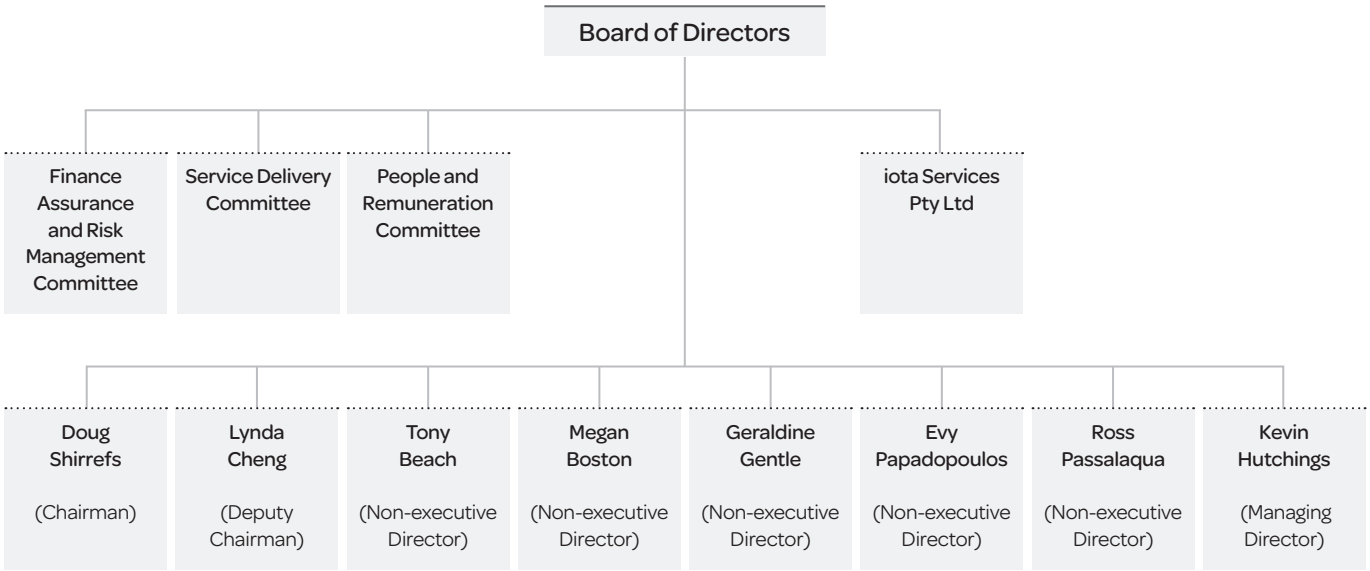
South East Water provided water efficiency support to all business customers through the launch of innovative business water and energy calculators, a national industry water use benchmarking resource and case studies. The Water Management Action Plan (WaterMAP) program became voluntary in 2011 and during 2014–15 customers chose not to participate.

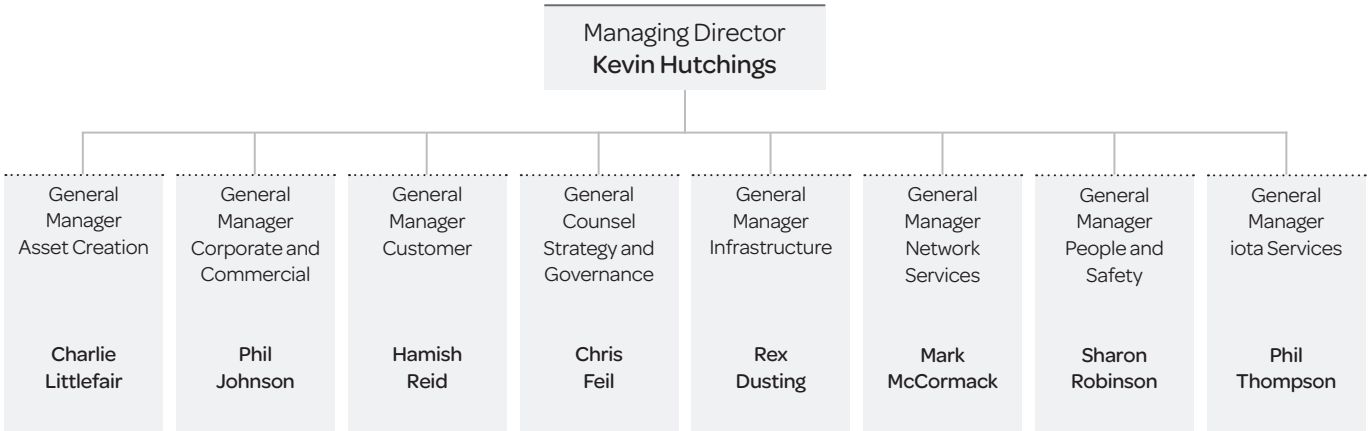
Name of customer	Information as to customer's participation in water conservation program
Crown Melbourne Ltd	Previous participant of the WaterMAP program
Coca-Cola Amatil (Aust) Pty Ltd	Previous participant of the WaterMAP program
Inghams Enterprises Pty Ltd	Previous participant of the WaterMAP program
O'Connor G & K Pty Ltd	Previous participant of the WaterMAP program
Bluescope Steel Limited	Previous participant of the WaterMAP program
Lesaffre Australia Pacific Pty Ltd	Previous participant of the WaterMAP program
Parmalat Australia Ltd	Previous participant of the WaterMAP program
Alfred Health	Previous participant of the WaterMAP program
HMAS Cerberus	Previous participant of the WaterMAP program
Saurin Investments Pty Ltd	Previous participant of the WaterMAP program

Corporate Governance

The corporate governance section of this annual report is for the reporting period 1 July 2014 to 30 June 2015.

Organisational chart





Directors' biographies

Doug Shirrefs

BAg and Res Eco, LLB (Hons), GAICD

Chairman

Doug was appointed as a director in August 2005 and as Chairman in October 2010. He is a barrister, economist and professional company director. He practises commercial law with a particular interest in franchising, competition law and the resolution of general commercial disputes. Prior to commencing practice as a lawyer, he held senior positions as a regulatory economist for both the Commonwealth and Victorian governments. Doug has extensive experience in public policy and public administration, particularly in utilities and infrastructure sectors. He is also Chairman of the Victorian Water Industry Association (VicWater) and a Commissioner of the Taxi Services Commission.

Lynda Cheng

BComm, LLB (Hons), GAICD

Deputy Chairman

Lynda was appointed as a director in October 2011. She has broad commercial and international corporate finance experience. She is currently Director of Corporate Development and Mergers and Acquisitions at Visy Industries and has held other senior executive roles there and at Pratt Holdings since 2005. Previously, Lynda was a Vice President at J.P. Morgan Investment Bank and worked in their New York, San Francisco, Sydney and Melbourne offices.

Tony Beach

MAICD, MIE Aust, BEng (Civil)

Director

Tony was appointed as a director in October 2013. He is currently the Managing Principal of Phase 10 Consulting Pty Ltd. He was the foundation Managing Director of the Zinfra Group and has an extensive background in essential infrastructure across electricity, gas, water, rail and ports. He has also undertaken key executive management roles with Jemena, Asciano, AGL, Powercor Australia and HEC Tasmania. He was previously a board member of South East Water (2006–11) and Aurora Energy, Tasmania. Tony is a member of the Australian Institute of Company Directors and the Institute of Engineers Australia.

Megan Boston

BComm, CA, GAICD, Dip. Share Trade & Investment

Director

Megan was appointed as a director in October 2012. She is a chartered accountant with skills and expertise in the areas of finance, audit, risk management and governance. Megan is a board member of the Adult Multicultural Education Service (AMES) where she chairs the Audit and Risk Committee and a non-executive director of Beyond Medical Education, where she also chairs the Finance, Audit and Risk Committee. Megan is also a member of the Victorian Equal Opportunity and Human Rights Commission's Independent Audit Committee.

Corporate Governance

Directors' biographies *continued*

Geraldine Gentle

BEcon (Hons), PhD, GAICD

Director

Geraldine was appointed as a director in September 2008. She is an economist with extensive experience in economic analysis and public policy, particularly in areas relating to industry, regulation, trade and natural resources and environmental management. She has held senior positions with the Australian, Victorian and Queensland governments and was a Commissioner of the Murray-Darling Basin Commission. Geraldine has also worked in the private sector as an economic consultant.

Evy Papadopoulos

LLB, BSc, MBA, GAICD

Director

Evy was appointed as a director in October 2012. She has extensive experience as a lawyer with energy companies, including SPI PowerNet, Multinet Gas and IKON Energy, and the Gas and Fuel Corporation. She is currently working part-time as Principal Lawyer (previously Group Manager Legal) at Australian Energy Market Operator Ltd and holds another board position with a start-up, Wheretonext.biz Pty Ltd. Evy's areas of expertise include regulated industries, corporate governance and procurement. She has previously been a director of a superannuation fund and company secretary of SPI PowerNet. Evy is a member of the Law Institute of Victoria and the Australian Corporate Lawyers Association.

Ross Passalaqua

Dip Eng (Civil), GAICD

Director

Ross was appointed as a director in October 2010. He has broad commercial, operational, and technical experience gained across multiple business sectors including energy, logistics, natural resource management, tourism, services and safety. Ross initially worked with consulting engineers in the water supply and sewerage field before gaining diversified experience in Australia and internationally, primarily with the Shell Group of companies. He holds other board roles with Parks Victoria, the North East Victoria Tourism Board, and Disabled Wintersport Australia. He also provides independent safety consulting and coaching services through the DuPont organisation.

Kevin Hutchings

GAICD

Managing Director

Kevin was appointed as the Managing Director of South East Water on 1 July 2011, having held the role of Acting Chief Executive Officer from February 2011. Kevin is also a director of iota Services. He brings a wealth of water, sewerage and infrastructure expertise to both of these roles. Kevin was previously the general manager responsible for asset design and construction, management of treatment plants, establishing new growth opportunities for external works, and both emergency and scheduled maintenance. Before joining South East Water in 1995, Kevin spent 19 years at Email Electronics in both their South Australian and Victorian locations. In 2015, he attended and completed the Stanford University Executive Program.

Executives' biographies

Kevin Hutchings

GAICD

Managing Director

Refer to Mr Hutchings' biography on page 22.

Rex Dusting

BEng (Civil), MBA, MIE Aust, CP Eng (Civil)

General Manager Infrastructure

Rex leads the Infrastructure group which is responsible for developing plans and systems to ensure the corporation's pipes, pumps and treatment plants meet the ongoing service needs of customers and stakeholders. He has worked for other water authorities and engineering consultants in Australia and internationally, in roles incorporating management, planning, design, operation and construction of water industry infrastructure. Rex joined South East Water in 1996.

Chris Feil

BEc, (Hons), LLB , FGIA, GradDipACG

General Counsel, Strategy and Governance

Chris is South East Water's General Counsel and leads the Strategy and Governance group. The group encompasses strategy, regulation, quality, risk, corporate communications, legal, compliance and secretariat functions. Chris joined South East Water in 2006. Prior to this, he worked in a range of legal roles including at Nemmco and a number of private sector firms.

Phil Johnson

BBus (Acc), CPA, GAICD

General Manager Corporate and Commercial, and Chief Financial Officer

Phil leads the Corporate and Commercial group which encompasses commercial services, business technology services, major projects, business improvement, and is a director of iota Services Pty Ltd. Previously, Phil was Group Manager, Commercial and Technical Services for Utility Services, an alliance formed between South East Water, Thiess and Siemens to deliver the corporation's operations, maintenance and capital works program. He was also a member of the alliance governance board. Prior roles include Chief Financial Officer for South East Water and other senior commercial positions within the utilities industry. Phil joined South East Water in 1995.

Charlie Littlefair

BEng (Civil), CP Eng, IntPE(NZ), MIPENZ

General Manager Asset Creation

Charlie leads the Asset Creation group which manages the design and construction of South East Water built infrastructure assets, developer works and customer connection of new developer built assets. He also manages the handover of assets to Network Services. Previously he was General Manager, Asset Investment for Metrowater in Auckland. Charlie has more than 30 years of international experience in the water and sewerage industry, having worked for both private and public water utility organisations in New Zealand, Australia and the United Kingdom. Charlie joined South East Water in 2008.

Corporate Governance

Executives' biographies *continued*

Mark McCormack

BEng (Civil), EWS, GAICD

General Manager Network Services

Mark leads the Network Services group which oversees the operation and maintenance of South East Water's water and sewerage network, treatment plants and 24 hour emergency call centre. Previously he was the acting General Manager of the 'us'– Utility Services alliance and a member of the alliance board which delivered the corporation's capital works and maintenance programs. He has more than 25 years of experience in the water industry working in roles encompassing design, construction, development, operations and maintenance. He commenced his career with the State Rivers and Water Supply Commission. Mark joined South East Water in 1995.

Hamish Reid

BSc (Hons), PhD, GAICD

General Manager Customer

Hamish leads the Customer and Business Futures group which includes both operational and strategic focus areas. He oversees areas including the overarching business customer strategy, customer contact centre, customer accounts and billing, customer experience, digital channels and customer engagement. He previously held the role of General Manager Corporate Strategy and has held a range of water industry and government roles, including with EPA Victoria and the New Zealand Ministry for the Environment. Hamish joined South East Water in 2005.

Sharon Robinson

BBus (Marketing and Management)

General Manager People and Safety

Sharon leads the People and Safety group which is responsible for overseeing South East Water's key people functions of human resources, payroll, internal communications, safety and wellbeing. She brings a wealth of experience in the human resource field, gained across various industries including financial services, natural resource management, hospitality, consulting and engineering. She has held senior roles at Crown Melbourne Ltd, National Australia Bank and the Arup Group. Sharon joined South East Water in 2012.

Phil Thompson

General Manager iota Services

Phil is General Manager of iota Services and is responsible for the commercialisation of innovative technologies emanating from the operational needs of South East Water. iota is a distributor of engineered products and solutions serving the water, wastewater and utility sectors. Previously, Phil was founder and Managing Director of Infratec International, a civil based construction and engineering business. He has also held senior executive positions within the water, oil and gas division of BHP/Tubemakers and is a board member of the Children's Protection Society of Victoria. Phil joined South East Water in 2014.

Governance and management arrangements

South East Water maintains a comprehensive framework of governance practices designed to provide appropriate levels of assurance and accountability. While these practices derive principally from our statutory requirements and good governance guidelines, they stretch beyond fulfilling a regulatory imperative and are embedded throughout the corporation.

Quality management systems underpin the corporation's performance. They comprise a number of accredited systems and standards that are subject to independent auditing and certification, including:

- ISO 9001 (Quality System)
- ISO 14001 (Environment Management System)
- AS/NZS 4801 (Occupational Health and Safety)
- Hazard Analysis and Critical Control Point (HACCP) for drinking water and recycled water management
- ISO 22000 (Food Safety Management) for sewage quality management.

South East Water is committed to continually improving the quality of its operations and undertakes a program of regular audits to ensure compliance and to identify opportunities for improvement.

The Board of Directors

The central role of the board is to set the corporation's strategic direction and to preside over all significant strategic, commercial, regulatory, financial and risk-focussed elements of the business.

The board is accountable for the good governance of the corporation including:

- setting the strategic objectives of the corporation
- risk management
- determining all material policies governing operations
- reviewing the progress and performance of the corporation in meeting its strategic objectives.

For the reporting period 1 July 2014 to 30 June 2015, the board comprised seven non-executive directors (including the chairman), and a managing director, representing a diverse mix of skills, experience and backgrounds. The Board of Directors is appointed by the Minister for Environment, Climate Change and Water, in consultation with the Treasurer.

Director independence

The board has considered the status of each non-executive director and is of the view that each non-executive director is independent, having no relationships or interests, business or otherwise, which could compromise their autonomy.

Independent advice

Directors are entitled (with prior approval of the Chairman of the Board) to obtain relevant independent professional advice related to the discharge of their responsibilities. All reasonable costs are reimbursed by South East Water.

Reporting to government

The board informs the government and relevant government departments of all major developments through:

- quarterly performance reports
- annual and half-yearly reports (each containing information about operations and financial and non-financial performance against key indicators)
- a detailed annual corporate plan in accordance with section 247 of the *Water Act 1989*
- direct contact between the chairman, managing director and government representatives on key issues
- frequent communication at an executive level on performance, industry and policy issues
- annual board performance evaluation.

Board performance

South East Water is required to evaluate the board's performance annually under the *Public Administration Act 2004* and our Statement of Obligations. The board is committed to high standards of governance and uses this assessment as an opportunity to review boardroom dynamics and ensure continuous improvement.

The 2015 board and committee performance review was conducted internally and comprised a skills and experience matrix to observe board composition, a self-assessment questionnaire, interviews between the chair and each director and a session dedicated to discussing key observations and areas of focus. This approach is consistent with the board's three year assessment plan (which includes both internal and external reviews) and aligned to the Department's guidance on board performance assessment.

Corporate Governance

Board committees and subsidiary board

Three permanent committees and a subsidiary board (iota) assist the board in the discharge of its responsibilities. Committee membership is determined by the board and reviewed at least every two years. Each of the committees and the subsidiary board is chaired by a non-executive director and operates under a written charter that provides a blueprint for its mandate. Charters are available on South East Water's website. Committee membership for the reporting period 1 July 2014 to 30 June 2015 was as follows:

Committee	Role
Finance Assurance and Risk Management Committee	
Lynda Cheng (Chair) *Independent* Doug Shirrefs *Independent* Geraldine Gentle *Independent* Megan Boston *Independent* Kevin Hutchings	The Finance Assurance and Risk Management Committee assists the board in discharging its duties regarding the corporation's financial management, risk and control framework. It is free to act in an objective, impartial manner and free from any conflicts of interest. The committee reviews, monitors, and where necessary, recommends improvements to: • the financial management framework and reporting process • quality management systems • the efficiency and effectiveness of the internal control and risk management system • the internal audit function • the process for monitoring compliance with laws, regulations, internal standards, policies and expectations of key stakeholders • the external audit process. Generally, meetings are held quarterly and at any other time on request of a committee member or the internal or external auditor. Four meetings were held during the financial year and were regularly attended by the Victorian Auditor-General's Office and the internal auditor.
Service Delivery Committee	
Ross Passalaqua (Chair) Doug Shirrefs Tony Beach Evy Papadopoulos Kevin Hutchings	The Service Delivery Committee assists the board in discharging its duties regarding the corporation's service delivery responsibilities. The committee reviews, monitors and, where necessary, recommends: • the development of plans and master plans for the delivery of services to customers and stakeholders • asset strategy and proposals (including IT projects) • annual capital, operations and maintenance budgets consistent with approved plans. Meetings were held quarterly during the financial year.
People and Remuneration Committee	
Geraldine Gentle (Chair) Doug Shirrefs Tony Beach Megan Boston Lynda Cheng Evy Papadopoulos Ross Passalaqua Kevin Hutchings	The People and Remuneration Committee provides guidance on strategic people matters. The committee reviews, monitors and recommends relevant policies and strategies in relation to executive remuneration, employer brand and reputation, strategic workforce planning, wellbeing and safety, and delivery of organisational cultural objectives. Meetings were held quarterly during the financial year.

Committee	Role
iota Board *	
Doug Shirrefs (Chair) *Independent* Megan Boston *Independent* Ross Passalaqua *Independent* Kevin Hutchings Phil Johnson	The board of South East Water's wholly-owned subsidiary, iota Services Pty Ltd ('iota'), is responsible for steering it in a manner that ensures iota fulfills its functions effectively and complies with its governance framework. The iota board is accountable to South East Water and presides over all significant strategic, commercial, regulatory, financial and risk focussed elements of iota. Board composition consists of a majority of independent directors: three non-executive directors from South East Water's board, the managing director and chief financial officer. Three meetings were held during the financial year. Meetings are generally held on a quarterly basis.

* The board commenced operation following the establishment of iota as a wholly-owned subsidiary on 29 October 2014.

Director attendance at board and committee meetings – 1 July 2014 to 30 June 2015

	Board	Finance Assurance and Risk Management Committee	Service Delivery Committee	People and Remuneration Committee	iota Board
Doug Shirrefs	11 of 11	4 of 4	4 of 4	4 of 4	3 of 3
Tony Beach	10 of 11	N/A	4 of 4	4 of 4	N/A
Megan Boston	10 of 11	3 of 4	N/A	4 of 4	3 of 3
Lynda Cheng	11 of 11	4 of 4	N/A	4 of 4	N/A
Geraldine Gentle	11 of 11	4 of 4	N/A	4 of 4	N/A
Evy Papadopoulos	11 of 11	N/A	4 of 4	4 of 4	N/A
Ross Passalaqua	11 of 11	N/A	4 of 4	4 of 4	3 of 3
Kevin Hutchings	10 of 11	3 of 4	3 of 4	4 of 4	3 of 3
Phil Johnson					3 of 3

Occupational health and safety

The Safety and Wellbeing Strategy 2014–17 has enabled continued improvement in safety culture and performance. Driving an open and vigorous reporting culture, enhancing safety leadership capability, offering opportunities to improve employee wellbeing, and reinforcing best practice contractor management, have ensured South East Water continues to see company-wide engagement in safety and wellbeing.

The ongoing maintenance of an externally certified Safety Management System, complying with AS/NZS 4801:2001, provides a robust and reliable framework against which South East Water can continue to improve and always meet current standards and legislative requirements.

Performance against occupational health and safety indicators

A strategic decision to enhance safety and wellbeing reporting, supported by significant organisational engagement, resulted in an increase in hazard and close call reporting, with 917 hazards and 73 close calls reported. These results represented 68.8 and 32.8 per cent increases compared to the previous year, and well above the targeted 20 per cent increase in both reporting categories.

A total of two lost time injuries were recorded for the year across the combined South East Water employee and contractor workforce, resulting in a lost time injury frequency rate of 1.09, a 6 per cent improvement on last year. South East Water did not achieve its target of no lost time injuries for the year.

There was one WorkCover claim in the year with total costs of $8,500 as compared with three claims in the previous year at an average cost of $5,500.

Note: Given the structural changes in the area of safety reporting, data for the year 2013–14 is not included due to differences in classification and reporting methods.

Workforce Data

Application of public administration employment and conduct principles

South East Water's Code of Conduct underpins its core values and provides a binding link with the Victorian Public Sector values. The behavioural expectations are clearly articulated and deeply ingrained in the way the corporation works.

South East Water has focussed on further embedding the core values across the organisation. This year saw the introduction of a pre-employment assessment tool to support cultural alignment in recruitment. In addition, its approach to performance management has strengthened the importance of values alignment, and remuneration and reward decisions take this into account. The focus on South East Water's core values provide clarity of expectations on acceptable behaviour at all stages of an employee lifecycle.

To further support the culture at South East Water, a biannual review and update of its policy framework is communicated to employees. The policy framework is guided by legislation, including the *Public Administration Act 2004*, to ensure compliance and alignment with the public sector. The framework supports diversity as a strategic imperative and ensures equal employment opportunity for employees, both current and future.

Workforce data

South East Water's total FTE has reduced from 547.3 FTE to 525.2 FTE. While the composition of the workforce has remained relatively stable during the past 12 months, the corporation's focus on flexible work practices has led to an increased proportion of part-time and fixed-term employees. Operating in a flexible and diverse workforce better equips South East Water to respond to business needs and meet workforce requirements.

	Total FTE	Full time	Part time	Casual/ Fixed term
2013–14	547.3	486	86	8
2014–15	525.2	457	88	13

	2014–15	2013–14
Executive	9	8
Group Managers	20	21
Senior Officers	110	113
Officers	419	439
FTE	525.2	547.3
Male	307	311
Female	251	269

Workforce inclusion policy

Workforce diversity is a strategic imperative for South East Water and a key feature of the 2015–20 Corporate Plan. Building key relationships with local job support agencies and developing a variety of employment programs maximise local skill usage, job opportunities and workforce diversity.

	2014–15	2013–14
Average age of employees (years)	44.5	43.7
% female	45	46.4
% male	55	53.6

South East Water's diversity action plan is currently being reviewed and will include specific targets and measures of success.

Application and operation of the *Carers Recognition Act 2012*

The *Carers Recognition Act 2012* is applied at South East Water through its policies, procedures and values. Employees are provided with 15 days paid personal leave including carers leave, with access to additional leave, if required.

Other Disclosures

Consultancy expenditure

Details of consultancies greater than $10,000

South East Water did not engage any consultants during 2014–15 where total fees payable were valued in excess of $10,000 (exclusive of GST).

Details of consultancies less than $10,000

South East Water did not engage any consultants during 2014–15 where total fees payable were valued at less than $10,000 (exclusive of GST).

Government advertising expenditure

South East Water's expenditure in the 2014–15 reporting period on government campaign expenditure did not exceed $150,000.

Application and operation of the *Freedom of Information Act 1982*

The *Freedom of Information Act 1982* allows the public a right of access to documents held by South East Water. In 2014–15, South East Water received 15 requests to access documents. Access was granted to 14 requests and one was not yet finalised. Requests for access to South East Water documents under the *Freedom of Information Act 1982* may be made in writing to:

John Robertson, Audit and Customer Advocacy Manager, South East Water, Locked Bag 1, Moorabbin 3189

Each application must be accompanied by a $27.20 application fee and clearly identify the documents sought. General enquiries relating to Freedom of Information can be made by contacting the Audit and Customer Advocacy Manager on (03) 9552 3674 between 8.30 am and 4.30 pm (Monday to Friday) or via email at foi@southeastwater.com.au

Additional information available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by South East Water and are available (in full) on request, subject to the provisions of the *Freedom of Information Act 1982*:

a) A statement of completion of declarations of pecuniary interests by relevant officers.

b) Details of publications produced by South East Water about itself, and how these can be obtained.

c) Details of any major external reviews carried out on South East Water.

d) Details of major research and development activities undertaken by South East Water.

e) Details of major promotional, public relations and marketing activities undertaken by South East Water to develop community awareness of the entity and its services.

f) Details of changes in prices, fees, charges, rates and levies charged.

g) Details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit.

h) Details of assessments and measures undertaken to improve the occupational health and safety of employees.

i) Details of all consultancies and contractors including:
- consultants/contractors engaged;
- services provided; and
- expenditure committed to for each engagement.

The information is available on request from:
Audit and Customer Advocacy Manager, South East Water
Phone: (03) 9552 3674

Additional information included in annual report

Details in respect of the following items have been included in South East Water's Annual Report on the pages indicated below:

j) Assessments and measures undertaken to improve the occupational health and safety of employees (on page 27).

k) A general statement on industrial relations and time lost through industrial accidents within South East Water (on page 27).

l) A list of South East Water's major committees; the purposes of each committee; and the extent to which the purposes have been achieved (on page 26).

Information that is not applicable

The following information is not relevant to South East Water for the reasons set out below:

m) A declaration of shares held by senior officers (no shares have ever been issued in South East Water's name).

Compliance with *Protected Disclosure Act 2012*

The *Protected Disclosure Act 2012* enables people to make disclosures about improper conduct by public officers and public bodies. The Act aims to ensure openness and accountability by encouraging people to make disclosures and protecting them when they do.

Other Disclosures

What is a 'protected disclosure'?

A protected disclosure is a complaint of corrupt or improper conduct by a public officer or a public body. South East Water is a 'public body' for the purposes of the Act.

What is 'improper or corrupt conduct'?

Improper or corrupt conduct involves substantial:

- mismanagement of public resources, or
- risk to public health or safety or the environment, or
- corruption.

The conduct must be criminal in nature or a matter for which an officer could be dismissed.

How do I make a 'protected disclosure'?

You can make a protected disclosure about South East Water or its board members, officers or employees by contacting the Department of Environment, Land, Water and Planning or the Independent Broad-Based Anti-Corruption Commission on the contact details provided below. Please note that South East Water is not able to receive protected disclosures.

How can I access South East Water's procedures for the protection of persons from detrimental action?

South East Water has established procedures for the protection of persons from detrimental action in reprisal for making a protected disclosure about South East Water or its employees. You can access South East Water's procedures on its website at southeastwater.com.au

Contact

Independent Broad-Based Anti-Corruption Commission (IBAC) Victoria
Level 1, North Tower, 459 Collins Street,
Melbourne Victoria 3000
IBAC, GPO Box 24234, Melbourne Victoria 3001
ibac.vic.gov.au
1300 735 135

Compliance with the *Building Act 1993*

South East Water operates two offices in Heatherton and Lynbrook.

South East Water complies with the *Building Act* 1993, the *Building Regulations* 2006 and associated statutory requirements and amendments. An occupancy permit is obtained for new facilities or for upgrades to existing facilities endorsed by a municipal building surveyor or registered building surveyor practitioner.

South East Water conducts and reports on quarterly inspections of its owned buildings to ensure compliance with building standards and regulations. This internal control system allows South East Water to satisfactorily manage risks.

South East Water commenced one major project in 2014–15 on the development and building owned by the corporation at a sum greater than $50,000:

- new corporate head office at Frankston.

There have been no cases of registered building practitioners becoming deregistered following work on buildings controlled by South East Water.

National Competition Policy

Competitive neutrality seeks to enable fair competition between government and private sector businesses. Any advantages or disadvantages that government businesses may experience, simply as a result of government ownership, should be neutralised. South East Water continues to implement and apply this principle in its business undertakings.

Victorian Industry Participation Policy (VIPP)

The *Victorian Industry Participation Policy Act 2003* requires public sector bodies to report on the implementation of the Victorian Industry Participation Policy (VIPP). The VIPP aims to foster industry development by encouraging Victorian government departments and public bodies to genuinely consider Victorian, Australian and New Zealand supply.

During 2014–15, for metropolitan Melbourne, South East Water:

- registered two VIPP applicable projects totalling $160 million, and
- commenced two VIPP procurement projects totalling $16.6 million.

The outcomes expected from the implementation of the VIPP projects include:

- an estimate that 95 per cent local content be committed to the project
- a total of nine jobs (Annualised Employee Equivalent (AEE)) be committed, including the creation of six new jobs and the retention of three existing jobs (AEE)
- five apprentice/trainee positions be committed, including the creation of three new apprenticeships/traineeships and the retention of two existing apprenticeships/traineeships.

The commitments to the Victorian economy in terms of skills and technology transfer include:

- on-the-job training for practical skills – plumbing and electrical works, correct use of personal protective equipment, hand tools and plant and equipment, and
- external training in use of machinery and equipment such as bobcats, backhoes, and test & measuring equipment.

Performance Reporting

Financial performance indicators

KPI number	Key performance indicator	2013–14 result	2014–15 result	2014–15 target	Variance to prior year	Notes	Variance to target	Notes
F1	**Cash Interest Cover** Net operating cash flow before net interest and tax / net interest payments	2.8 times	3.4 times	2.9 times	21.4%	1a	17.2%	1b
F2	**Gearing Ratio** Total debt (including finance leases) / total assets * 100	33.1%	32.8%	35.4%	-0.9%	-	-7.3%	-
F3	**Internal Financing Ratio** Net operating cash flow – less dividends / net capital expenditure * 100	38.5%	32.6%	39.2%	-15.3%	2a	-16.8%	2b
F4	**Current Ratio** Current assets / current liabilities (excluding long-term employee provisions and revenue in advance)	0.6 times	0.9 times	0.7 times	50.0%	3a	28.6%	3b
F5	**Return on Assets** Earnings before net interest and tax / average total assets * 100	5.8%	5.2%	4.3%	-10.3%	4a	20.9%	4b
F6	**Return on Equity** Net profit after tax / average total equity * 100	5.7%	4.6%	3.3%	-19.3%	5a	39.4%	5b
F7	**EBITDA Margin** Earnings before interest, tax, depreciation and amortisation / total revenue * 100	28.0%	30.1%	27.7%	7.5%	-	8.7%	-

Notes:

1a. The favourable variance to the prior year is due largely to lower bulk water and sewerage costs consistent with the pass through of desalination contract savings, government water rebates and the carbon tax repeal.

1b. The favourable variance to target was due to higher water sales, carbon tax repeal and working capital variations.

2a. The unfavourable variance to the prior year result is due largely to an increase in net capital expenditure consistent with higher outlays related to the construction of new offices in Frankston. Capital expenditure for 2015–16 and beyond has been scaled back to reduce the call on new borrowings in line with our objective to be self-sustaining by 2018–19.

2b. The unfavourable variance to target relates partly to a change in methodology of calculating net capital expenditure from an accruals basis to a cash basis as well as higher net capital expenditure and the decision by government to defer the payment of the 2013–14 interim dividend. Capital expenditure for 2015–16 and beyond has been scaled back to reduce the call on new borrowings in line with our objective to be self-sustaining by 2018–19.

3a. The 2014–15 result was better than the prior year due to favourable interest rates which allowed for the refinancing of 11am at call borrowings into long term debt and lower income tax liabilities following a change to monthly income tax instalments from 1 January 2015.

3b. The favourable variance to target was due largely to higher than anticipated receivable and inventory balances as well as lower payables and tax liabilities.

4a. The unfavourable variance to prior year results is largely due to the revaluation of infrastructure assets to their fair value as at 30 June 2015.

4b. The favourable variance to target is due largely to higher earnings before interest and tax which benefited from higher water sales and developer income than anticipated, during the financial year.

5a. The unfavourable variance to prior year was due largely to the revaluation of infrastructure assets and lower developer income which contributed to an 11% reduction in net profit after tax in 2014–15.

5b. The favourable variance to target was due to higher than budgeted water sales and developer income which contributed to a 55% increase in net profit after tax in 2014–15. This was partly offset by higher equity balances as a result of the revaluation of infrastructure assets.

Performance Reporting

Water and sewerage service performance indicators

KPI number	Key performance indicator	2013–14 result	2014–15 result	2014–15 target	Variance to prior year	Notes	Variance to target	Notes
WS1	**Unplanned water supply interruptions** Number of customers receiving 5 unplanned interruptions in the year/ total number of water (domestic and non-domestic) customers * 100	0.098%	0.067%	0.047%	-31.6%	6a	42.6%	6b
WS2	**Interruption time** Average duration of unplanned water supply interruptions	90.9 minutes	89.2 minutes	89.7 minutes	-1.9%	-	-0.6%	-
WS3	**Restoration of unplanned water supply** Unplanned water supply interruptions restored within 5 hours/total unplanned water supply interruptions * 100	99.3%	99.4%	99.0%	0.1%	-	0.4%	-
SS1	**Containment of sewer spillages** Sewer spills from reticulation and branch sewers contained within 5 hours/total sewer spills from reticulation and branch sewers * 100	100.0%	100.0%	100.0%	0.0%	-	0.0%	-
SS2	**Sewer spills interruptions** Number of residential customers affected by sewerage interruptions restored within 4 hours	99.4%	99.6%	99.0%*	0.2%	-	0.6%	-

* Target was set but not disclosed in the 2014–19 Corporate Plan hence not fully in line with MRD01.

Notes:

6a, b. This KPI is a rolling twelve month average. Despite improved results from 2013–14, this target was not met due to multiple bursts on the Maple St, Bayswater and Fintonia Rd, Noble Park sections of main in April. Both sections have been approved for renewal with one starting construction in August 2015. The business will continue to review customers impacted by multiple shutdowns and install valves to reduce the number of impacted customers for any future failures.

Customer responsiveness performance indicators

KPI number	Key performance indicator	2013–14 result	2014–15 result	2014–15 target	Variance to prior year	Notes	Variance to target	Notes
CR1	**Water quality complaints** Number of complaints per 100 customers	0.27	0.18	0.27	-33.3%	7a	-33.3%	7b
CR2	**Sewerage service quality complaints** Number of complaints per 100 customers	0.000	0.000	0.001	0.0%	-	-100.0%	8b
CR3	**Sewage odour complaints** Number of complaints per 100 customers	0.005	0.003	0.005	-40.0%	8a	-40.0%	9b
CR4	**Billing complaints** Number of complaints per 100 customers	0.063	0.049	0.050	-22.2%	9a	-2.0%	-

Notes:

7a, b. The 2014–15 result outperformed the target and the prior year due largely to significant changes implemented to ensure works on mains larger than 225mm are completed between 11 pm and 5 am, which has seen a reduction in dirty water complaints. In addition there has been a focus on working with contractors and water carters to improve the charging up of mains following bursts and a reduction in incorrect hydrants being used to fill tankers. Chlorine residuals have been monitored in the system to better manage taste and odour complaints at customer properties.

8a, 9b. The 2014–15 result outperformed the target and prior year due largely to milder temperatures during summer compared to 2013–14.

8b. There were no sewerage service quality complaints in 2014–15.

9a. The 2014–15 results outperformed the target and prior year and are a return to normal expectations after higher than expected price increases and usage and leak allowance issues in 2013–14. This favourable performance can also be attributed to the Government Water Rebate provided to customers in the first quarter.

Performance Reporting

Environmental performance indicators

KPI number	Key performance indicator	2013–14 result	2014–15 result	2014–15 target	Variance to prior year	Notes	Variance to target	Notes
E1	**Effluent reuse and volume (end use)** Percentage recycled	24%	29%	23%	20.8%	10a	26.1%	10b
E2	**Total net CO_2 emissions** Net tonnes CO_2 equivalent	36,644 tonnes*	42,327 tonnes	42,900 tonnes	15.5%	11a	-1.3%	-

* The 2013–14 figure was estimated at 36,475 tonnes. The actual result for 2013–14 was 36,644 tonnes as reported to the Essential Services Commission in October 2014. The 2013–14 result reported in this performance report has been amended accordingly.

Notes:

10a, b. The 2014–15 results outperformed the target and prior year due to higher demand from urban and industrial use customers (food crop and tree farms) during the summer period.

11a. The unfavourable variance to prior year is largely due to the Pakenham treatment plant becoming operational in 2014–15. Management will review the performance of this indicator against target in October 2015 when all CO_2 information will be available for analysis and interpretation.

Certification of Performance Report for 2014–15

We certify that the accompanying Performance Report for the Group in respect of the 2014–15 financial year is presented fairly in accordance with the *Financial Management Act 1994*.

The Performance Report outlines the relevant performance indicators for the financial year as determined by the Minister for Environment, Climate Change and Water and as set out in the 2014–15 Corporate Plan, the actual and comparative results achieved for the financial year against predetermined performance targets and these indicators, and an explanation of any significant variance between the actual results and performance targets and/or between the actual results in the current year and the previous year.

As at the date of signing, we are not aware of any circumstances which would render any particulars in the Performance Report to be misleading or inaccurate.

Dated this 19th day of October 2015.

L Cade
Chair

K Hutchings
Managing Director

P Johnson
Chief Financial Officer

Independent Auditor's Report on Performance

VAGO

Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000
Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
Email comments@audit.vic.gov.au
Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Board Members, South East Water Corporation

The Performance Report

The accompanying performance report for the year ended 30 June 2015 of the South East Water Corporation which comprises the performance report, the related notes and the certification of performance report has been audited. The performance report is the consolidated performance statement of the consolidated entity, comprising the South East Water Corporation and the entity it controlled at the year's end.

The Board Members' Responsibility for the Performance report

The board members of the South East Water Corporation are responsible for the preparation and fair presentation of the performance report and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the performance report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the performance report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the performance report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the performance report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the performance report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the South East Water Corporation's and the consolidated entity's preparation and fair presentation of the performance report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the the South East Water Corporation's and the consolidated entity's internal control. An audit also includes evaluating the overall presentation of the performance report.

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

Independent Auditor's Report on Performance

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Basis for Qualified Opinion

My audit of the 2014-15 financial report of the South East Water Corporation identified an estimated error in the fair value of infrastructure assets of an overstatement of $279.5 million for the year ending 30 June 2015 (an overstatement of $248.0 million for the year ending 30 June 2014). Consequently certain values used to calculate the following financial performance indicators should be adjusted.

If the total assets, average assets and average total equity were adjusted for the impact of this estimated error, the adjusted financial performance indicators in the performance report for the South East Water Corporation would be:

KPI Number	Key performance indicator	2013-14 Adjusted Result	2014-15 Adjusted Result
F2	Gearing ratio	35.6%	35.3%
F5	Return on assets	6.0%	5.6%
F6	Return on equity	6.2%	5.4%

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the performance report of the South East Water Corporation and the consolidated entity in respect of the financial year ending 30 June 2015 presents fairly, in all material respects, in accordance with the *Financial Management Act 1994*.

MELBOURNE
21 October 2015

Dr Peter Frost
Acting Auditor-General

Auditing in the Public Interest

Financial Report

2014–15

Consolidated Financial Report

Directors' Report

The directors present their report on the financial year ended 30 June 2015 on South East Water Corporation (the corporation).

The directors of the corporation in office for the reporting period 1 July 2014 to 30 June 2015 were:

Doug Shirrefs	Chairman
Kevin Hutchings	Managing Director
Lynda Cheng	Deputy Chairman
Tony Beach	Director
Megan Boston	Director
Geraldine Gentle	Director
Evy Papadopoulos	Director
Ross Passalaqua	Director

Particulars of the directors' and corporate secretary's qualifications, experience and special responsibilities (if any) are set out on pages 21 to 23 of the Annual Report.

New board appointments were effective from 1 October 2015. Directors of the corporation in office at the date of this report are:

Lucia Cade	Chair
Kevin Hutchings	Managing Director
Tony Beach	Director
Gabrielle Bell	Director
W. Peter Day	Director
Timothy Lyons	Director
Freya Marsden	Director
Kim McGrath	Director
Ross Passalaqua	Director

Directors' meetings

The number of board meetings and board committee meetings, and number of meetings attended by each of the directors of the corporation during the financial year are set out in the governance section of this Annual Report.

Principal activities

South East Water's fundamental business objective is to provide water, sewerage and integrated water cycle management (IWCM) services that our customers value, while providing strong financial returns to the government and community. Accordingly, the principal activities of the corporation during the financial year, within the State of Victoria, were, the provision of retail water supply and sewerage services (including recycled water) and collection of trade waste.

In addition, South East Water progressed with constructing a pressure sewerage network on behalf of South Gippsland Water to deliver a sewerage solution to the communities of Poowong, Loch and Nyora.

South East Water also progressed with the commercialisation of its innovations, engineering solutions and products through its wholly-owned subsidiary, iota.

Other than as previously referred to in the Annual Report, there were no other significant changes in the nature of the corporation's activities during the year.

Dividends

The corporation's profit after tax for the financial year was $82.7 million.

A final dividend of $35.6 million for the financial year ended 30 June 2014 was paid on 31 October 2014. As no interim dividend was paid, this amount represents the total full year dividend.

An interim dividend of $16.4 million for the financial year ended 30 June 2015 was paid on 29 June 2015.

The final dividend for the year ended 30 June 2015 will be determined after consultation between the Minister for Environment, Climate Change and Water, Treasurer of Victoria and South East Water's board.

Review of operations

A review of the operations of the corporation during the financial year and the results of those operations is set out in the main body of the Annual Report.

State of affairs

There were no significant changes to the state of affairs of the corporation during the financial year ended 30 June 2015.

Directors' Report

Likely developments

Certain likely developments in the operations of the corporation known at the date of this report have been covered generally within the main body of the Annual Report.

Environmental regulation performance

The corporation is subject to significant environmental regulations in respect of its operations. In particular, the corporation holds an amalgamated licence for its eight sewage treatment plants issued by the Environment Protection Authority (EPA) Victoria under the *Environment Protection Act 1970 (Vic)*.

The amalgamated licence imposes conditions about waste discharges, reporting obligations and other matters concerning the operation of the sewage treatment plants. In 2014–15, South East Water achieved 100 per cent discharge quality compliance at its treatment plants, with the exemption of Longwarry water recycling plant. South East Water engaged with EPA Victoria when discharging to King Parrot Creek at Longwarry water recycling plant under the appropriate clause of the amalgamated licence. Further particulars of specific environmental programs and performance are included through the main body of the Annual Report.

Directors' benefits

No director has received, or has become entitled to receive, a benefit (other than a remuneration benefit included in Note 19 of the Financial Report) because of a contract the director or a firm of which the director is a member or an entity in which the director has a substantial financial interest, has made (during the financial year ended 30 June 2015 or at any other time) with the corporation. The directors of iota Services Pty Ltd do not receive any additional remuneration. Additional information about director related disclosure is provided in Note 19 of the Financial Report.

Directors' and officers' liability insurance

During the financial year, the corporation paid insurance premiums in respect of directors' and officers' liability insurance. The policy does not specify a premium for individual directors and officers. The director and officer liability insurance policy provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the corporation) incurred in their position as director or officer unless the conduct involves a wilful breach of duty or an improper use of information or position to gain advantage.

The terms of the insurance policy prohibit the disclosure of the nature of the liabilities insured and the amount of the premium.

Dated at Melbourne this 19th day of October 2015.

Signed in accordance with a resolution of the directors.

Lucia Cade
Chair

Kevin Hutchings
Managing Director

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2015

Consolidated entity	Notes	2015 $'000	2014 $'000
Sales revenue	3	916,336	968,176
Other income	3	134	41
Total income		**916,470**	**968,217**
Expenses	4	(721,069)	(772,174)
Finance costs	4	(77,110)	(69,673)
Total expenses		**(798,179)**	**(841,847)**
Profit before income tax expense		**118,291**	**126,370**
Income tax expense	5 (c)	(35,573)	(33,247)
Net profit after income tax		**82,717**	**93,123**
Other comprehensive income			
Items that will not be reclassified to net result			
Increase/(decrease) from revaluation of infrastructure assets	9	332,300	(13,683)
Actuarial gains/(losses) on defined benefit fund	24	5,572	15,498
Deferred income tax relating to components of other comprehensive income	5(b)	(101,362)	(544)
Other comprehensive income after tax		**236,510**	**1,271**
Total comprehensive income for the year		**319,227**	**94,394**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 30 June 2015

Consolidated entity	Notes	2015 $'000	2014 $'000
Current assets			
Cash assets	7, 18	2,456	553
Receivables	8, 18	129,884	131,193
Inventories		4,126	2,914
Prepayments		1,183	1,747
Total current assets		**137,649**	**136,407**
Non-current assets			
Defined benefit superannuation asset	24	9,298	4,862
Infrastructure, property, plant and equipment	9	3,752,042	3,246,036
Intangible assets	10	123,664	122,048
Total non-current assets		**3,885,004**	**3,372,946**
Total assets		**4,022,653**	**3,509,353**
Current liabilities			
Payables	11, 18	112,545	115,218
Borrowings	13, 18	31,100	62,000
Provisions	14	16,094	15,280
Current tax payable		3,242	21,053
Deposits and advances	12	13,844	9,549
Total current liabilities		**176,825**	**223,100**
Non-current liabilities			
Borrowings	13, 18	1,290,000	1,100,000
Deferred tax liabilities	5	617,932	515,482
Provisions	14	1,697	1,799
Total non-current liabilities		**1,909,629**	**1,617,281**
Total liabilities		**2,086,454**	**1,840,381**
Net assets		**1,936,199**	**1,668,972**
Equity			
Contributed equity	15	443,608	443,608
Asset revaluation reserves	16	1,012,351	779,741
Retained profits	17	480,240	445,623
Total equity		**1,936,199**	**1,668,972**
Commitments for expenditure	23		
Contingent assets and contingent liabilities	22		

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2015

Consolidated entity	Notes	Contributed equity	Reserves	Retained profits	Total equity
		$'000	$'000	$'000	$'000
Balance at 1 July 2013		**443,608**	**789,319**	**357,651**	**1,590,578**
Total comprehensive income for the year					
Net profit after income tax	17	-	-	93,123	93,123
Other comprehensive income for the year after tax	17	-	(9,578)	10,849	1,271
Total comprehensive income for the year after tax		**-**	**(9,578)**	**103,972**	**94,394**
Transactions with equity holders in their capacity as equity holders					
Dividends paid	6	-	-	(16,000)	(16,000)
Balance at 30 June 2014		**443,608**	**779,741**	**445,623**	**1,668,972**
Total comprehensive income for the year					
Net profit after income tax	17	-	-	82,717	82,717
Other comprehensive income for the year after tax	16, 17	-	232,610	3,900	236,510
Total comprehensive income for the year after tax		**-**	**232,610**	**86,617**	**319,227**
Transactions with equity holders in their capacity as equity holders					
Dividends paid	6	-	-	(52,000)	(52,000)
Balance at 30 June 2015		**443,608**	**1,012,351**	**480,240**	**1,936,199**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement

for the year ended 30 June 2015

Consolidated entity	Note	2015 $'000	2014 $'000
Cash flows from/(used in) operating activities			
Receipts from customers		883,586	880,596
Payments to suppliers and employees		(657,152)	(712,296)
GST refunded from the ATO [(a)]		28,235	22,072
Income tax paid		(52,296)	(33,324)
Interest received/receivable		341	63
Interest and other costs of finance paid		(74,593)	(67,916)
Net cash inflow from operating activities	28	**128,121**	**89,195**
Cash flows from/(used in) investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		1,742	1,733
Payments for infrastructure, property, IT software, plant and equipment		(235,060)	(193,715)
Net proceeds for water entitlements		-	2,097
Net cash outflow from investing activities		**(233,318)**	**(189,885)**
Cash flows from/(used in) financing activities			
Proceeds from borrowings		289,575	231,175
Repayment of borrowings		(130,475)	(114,675)
Dividends paid		(52,000)	(16,000)
Net cash inflow from financing activities		**107,100**	**100,500**
Net increase/(decrease) in cash held		1,903	(190)
Cash at the beginning of the financial year		553	743
Cash at the end of the financial year	7	**2,456**	**553**

[(a)] GST refunded from the ATO is presented on a net basis.

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2015

1. Statement of significant accounting policies

The significant policies which have been adopted in the preparation of the Consolidated Financial Report are:

(a) Basis of preparation

The Consolidated Financial Report is a general purpose Financial Report that consists of a Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes accompanying these statements. This general purpose Financial Report has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations), the requirements of the *Financial Management Act 1994* and other mandatory professional reporting requirements.

The Consolidated Financial Report has been prepared on an accruals and going concern basis and is based on historical cost, except for infrastructure, property, plant and equipment and the defined benefit obligation, which have been measured at fair value. The Consolidated Financial Report is presented in Australian dollars.

The Consolidated Financial Report of South East Water Corporation (the corporation) for the year ended 30 June 2015 was authorised for issue in accordance with a resolution of the directors on 19 October 2015.

South East Water is a state government owned company which has been classified as a for-profit entity for the purposes of reporting. The State of Victoria is the sole shareholder.

Accounting standards not yet effective

The following relevant Australian Accounting Standards and interpretations have not been adopted for the annual reporting period ending 30 June 2015:

Standard/ interpretation	Summary	Applicable for annual reporting periods ending on or after	Impact on Consolidated Financial Report
AASB 9 – Financial instruments	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	The preliminary assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensiveincome (OCI) and no longer recycled to the profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.
AASB 15 – Revenue from contracts with customers	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 January 2017 (Potential deferral to 1 Jan 2018)	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. South East Water will be required to review its existing revenue contracts leading up to the proposed 2018 implementation date. Potential revenue contracts that may be affected include telco tower rentals, land sales, and commercial retail leases related to the Frankston office complex. The effective date of this standard is 1 January 2017.

Notes to the Financial Statements

for the year ended 30 June 2015

1. Statement of significant accounting policies *continued*

Standard/ interpretation	Summary	Applicable for annual reporting periods ending on or after	Impact on Consolidated Financial Report
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]	Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to: • establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset; • prohibit the use of revenue based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset.	1 January 2016	The assessment has indicated that there is no expected impact as the revenue-based method is not used for depreciation and amortisation.

In addition to the new standard above, the AASB has issued a list of amending standards that are not effective for the 2014–15 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on future reporting obligations.

- AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments
- AASB 2014-1 Amendments to Australian Accounting Standards [PART D – Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts only]
- AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15
- AASB 2014-6 Amendments to Australian Accounting Standards – Agriculture: Bearer Plants [AASB 101, AASB 116, AASB 117, AASB 123, AASB 136, AASB 140 & AASB 141]
- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) [AASB 9 (2009 & 2010)]
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049]
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality
- AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent [AASB 127, AASB 128]
- AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12, AASB 128]

Significant accounting judgements, estimates and assumptions

In the application of AIFRS, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period relate to the financial planning and valuation assumptions used to determine the fair value of infrastructure assets, land and building valuations, accrued revenue, provisions, actuarial assumptions used to determine the Group's defined benefit obligations, the useful life of fixed assets,

deferred tax balances, contingent assets and liabilities and the impairment of assets.

The assumptions and the related carrying amounts are discussed in Notes 1(c), (d), (i), (aa), 5, 8, 9, 22 and 24.

Rounding

Unless otherwise shown in the Consolidated Financial Report, amounts have been rounded to the nearest thousand dollars.

Accounting policies

Other than those stated in Note 1(ac), all accounting policies applied are consistent with those of the prior year.

(b) Principles of consolidation

These are the consolidated financial statements for South East Water Corporation and its controlled entity, iota Services Pty Ltd, collectively referred to as the Group. The Statement of Financial Position of the Parent is disclosed in Note 27.

Where control of an entity is obtained during the financial period, its results are included in the Statement of Comprehensive Income operating from the date on which control commenced. Where control ceases during a financial period, the entity's results are included for that part of the period in which control existed. Where dissimilar accounting policies are adopted by entities and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated where material.

For details regarding the consolidated entity, please refer to Note 26.

(c) Taxes

Income tax

The Group is subject to the National Tax Equivalent Regime (NTER) which is administered by the Australian Taxation Office (ATO). The essential difference between the NTER and the Commonwealth legislation is that the tax liability is paid to the State Government rather than the Commonwealth Government.

Income tax on the Consolidated Statement of Comprehensive Income for the year comprises current and deferred tax. Income tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes at balance date.

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

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled based on those tax rates which are enacted or substantially enacted at balance date. Deferred tax liabilities are reported net of any deferred tax assets.

Goods and services tax (GST)

Revenues, expenses, liabilities and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office, in which case the GST is recognised as part of the acquisition cost of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Consolidated Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Commitments and contingencies are disclosed inclusive of GST recoverable from, or payable to, the Australian Taxation Office.

Tax consolidation

The Group has formed an income tax consolidated group consisting of South East Water Corporation and iota Services Pty Ltd. South East Water Corporation is the head entity of the tax consolidated group.

Notes to the Financial Statements

for the year ended 30 June 2015

1. Statement of significant accounting policies *continued*

(d) Infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment losses where applicable.

Infrastructure, land and buildings

Freehold land and buildings are stated at fair value, being the amount which an asset could be exchanged between knowledgeable willing parties at an arm's length transaction.

All infrastructure assets are recognised initially at cost and subsequently revalued to fair value less accumulated depreciation and impairment losses. Fair value is determined using the 'income approach' (based on discounted cash flows). This approach has been adopted as there is no market-based evidence of 'fair value' due to the specialised nature of the Group's fixed assets. Furthermore, consistent with the Group's classification as a 'for profit' entity for financial reporting purposes, the future economic benefits of the infrastructure assets is primarily dependant on their ability to generate net cash inflows.

Revaluation increments are credited directly to equity in the revaluation reserve, except to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in the net result, the increment is recognised as revenue in determining the net result.

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

Plant and equipment

All plant and equipment (including leasehold improvements) are stated at fair value. The carrying amount of plant and equipment is reviewed annually to ensure it is not in excess of its recoverable amount. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows from its continued use and subsequent disposal. Recoverable amount is determined using net cash flows which are discounted to present values. At balance date, the carrying amount of plant and equipment was not in excess of its recoverable amount.

Assets acquired at no cost to the Group (developer contributed assets) are brought to account at fair value, being the actual or estimated cost of construction.

Depreciation and amortisation

Items of infrastructure, property, plant and equipment, excluding land, are depreciated over their expected useful lives to the Group on the following basis:

Buildings	Straight line	40 years
Leasehold improvements	Straight line	1—10 years
Infrastructure assets*	Straight line	5—99 years
Plant and equipment	Reducing balance	10—50%

* Average depreciation of infrastructure assets is approximately 50 years

Assets are depreciated from the date of acquisition or, in respect of constructed assets, from the time an asset is completed or held ready for use. Depreciation rates are reviewed annually and, in respect of 2014–15, are unchanged from the previous financial year.

Amortisation

Items of IT software are amortised over their useful lives to the Group on the following basis:

IT software	Diminishing value	2–5 years

IT software is amortised from the date of acquisition. Amortisation rates are reviewed annually.

Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its calculated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing for impairment, assets are grouped at a whole-of-business level which is considered to be the lowest level for which there are separately identifiable cash flows (cash generating unit).

Derecognition and disposal

The carrying amount of an item of infrastructure, property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any loss arising on derecognition of an item of property, plant and equipment is included in profit or loss in the year the asset is derecognised.

Revaluations

Revaluations are performed annually for infrastructure assets and for all other assets on a cyclical basis in accordance with FRD 103F–*Non financial physical assets* such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period.

A full revaluation normally occurs every five years, based upon the asset's government purpose classification but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations. Certain infrastructure assets are revalued using specialised advisors. Any interim revaluations are determined in accordance with the requirements of the FRD. Revaluation increases or decreases arise from differences between an asset's carrying value and fair value.

(e) Intangible assets

Intangible assets are comprised of IT software and water entitlements arising from the Group's investment in Stage 1 of the Goulburn-Murray Water Connections Project (formally Northern Victoria Irrigation Renewal Project). Intangible assets acquired separately are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Group.

(f) Revenue recognition

Water and sewerage

Water and sewerage service charges are brought to account evenly throughout the financial year in order to reflect how they are earned.

Water usage and sewage disposal charges are brought to account as revenue in the financial year the water is consumed and sewage disposed.

New customer contributions

Developers are required to make a contribution towards the cost of developing the Group's water supply distribution systems and sewage disposal systems. The level of these cash contributions are regulated by the Essential Services Commission and are recorded as new customer contributions.

Consistent with the requirements of applicable accounting standards, these cash contributions have been recognised as income in the Consolidated Statement of Comprehensive Income upon receipt.

Developer contributed assets

Developers are required to provide water supply and sewerage facilities and in some cases recycling facilities to new subdivisions which are subsequently gifted to, and maintained by, the Group.

In accordance with the requirements of Interpretation 18 'Transfers of Assets from Customers', and AASB 118 'Revenue', the fair value of these assets is recognised as income in the accounts when the Group gains control of the assets. This non-cash income is recorded as developer contributed assets.

(g) Bulk water and sewerage charges

Bulk charges are levied by Melbourne Water for the cost of water the Group purchases, and for sewage treated at Melbourne Water's eastern and western treatment plants. Variable charges are levied in arrears and are payable on a weekly basis.

Fixed charges are levied once a month, and are payable on the 15th of the month to which they refer. Any variable charges that remain outstanding at period end are accrued.

Notes to the Financial Statements

for the year ended 30 June 2015

1. Statement of significant accounting policies *continued*

(h) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed in the period in which they are incurred.

Finance costs include interest on short and long-term borrowings and the Victorian Government's financial accommodation levy.

(i) Employee benefits

Wages, salaries, annual leave and sick leave

In accordance with AASB 119 'Employee Benefits', liabilities for wages and salaries (including non-monetary benefits) which are expected to be settled within 12 months of the reporting date are measured using remuneration rates expected to apply when the obligation is wholly settled. All on-costs including payroll tax, workers compensation premiums and superannuation are included in the determination of these liabilities.

Annual leave meets the criteria of a long term employee benefit however the discounted value of leave expected to be taken greater than 12 months from balance date is not materially different from its nominal value.

Sick leave is a non-vesting benefit and is not expected to exceed current and future sick leave entitlements and, accordingly, no liability has been recognised.

Long service leave

The liability for employees' benefits to long service leave represents the present value of the estimated future cash outflows to be made by the Group resulting from employees' services provided up to the reporting date. Expected future cash outflows are discounted using interest rates attached to national government guaranteed securities as at reporting date with terms to maturity that closely match the estimated future long service leave cash outflows. Discount rates, probability factors and wage/salary growth assumptions are provided by the Department of Treasury and Finance as part of its long service leave financial model.

The current portion of long service leave liability represents the nominal amount expected to be taken within 12 months of balance date based on historical data and known commitments for the forthcoming financial year as well as the present value of long service leave entitlements for employees with seven or more years of continuous service. The non-current portion represents the present value of long service leave entitlements for employees with less than seven years' service.

Superannuation

The amount charged to the Consolidated Statement of Comprehensive Income in respect of superannuation represents the contributions made by the Group to superannuation funds for the current service of current staff. Contributions to superannuation plans are charged to the Consolidated Statement of Comprehensive Income as the contributions are paid or become payable. Actuarial gains and losses arising from the Group's defined benefit superannuation scheme are recognised immediately in other comprehensive income in the Consolidated Statement of Comprehensive Income in the year in which they occur.

(j) Cash assets

For the purposes of the Consolidated Cash Flow Statement, cash includes cash on hand and at bank.

(k) Receivables

Trade debtors are recorded at the amount of contracted sales proceeds less a provision for doubtful debts. Trade debtors are required to be settled within 14 days. Accrued earnings represent the estimated value of water consumed and sewage disposal charges earned but not yet billed at reporting date. Loans and receivables are classified financial instruments (refer to Note 1(v) for recognition and measurement).

(l) Bad and doubtful debts

Provision for doubtful debts is recognised to the extent that recovery of the outstanding receivable balance is considered no longer probable. The provision represents an estimate of bad debts to be written off and is made when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when determined uncollectable, subject to approval by the board or delegated officer.

(m) Inventories

Inventories are primarily used for the repair and maintenance of existing assets and for sale to external customers. All inventories are valued at the lower of cost and net realisable value.

(n) Prepayments

Prepayments represent payments in advance for goods and services yet to be provided at balance date.

(o) Payables

Payables represent the amounts to be paid in the future by the Group for goods and services received and accrued interest on borrowings. Trade creditors payable are normally settled within 30 days from the date of invoice. Accruals consist of charges for goods and services which have not been paid at 30 June 2015.

(p) Provision for insurance claims

The provision for insurance claims represents the value of outstanding insurance claims as advised by the Group's insurance claims manager. The value represents outstanding claims in respect of public liability, professional indemnity and motor vehicles.

(q) Provision for customer refunds

The provision for customer refunds represents amounts owing to customers for backlog sewerage connection fees. As a result of construction cost savings, the Group has decided to reduce charges for connection to the lower Mornington Peninsula backlog sewerage scheme (known as Peninsula ECO) on a retrospective basis. Refunds will be processed in the first quarter of 2015–16.

(r) Dividends

The Group is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the *Public Authorities (Dividend) Act 1983* , based on a prescribed methodology. An obligation to pay a dividend only arises after consultation with the relevant portfolio Minister for Environment, Climate Change and Water and the Treasurer and a formal determination is made by the Treasurer.

(s) Borrowings

Borrowings are recognised at fair value being the nominal value of funds drawn at balance date. Interest is expensed as incurred. The Group has classified borrowing which mature within 12 months as non-current liabilities on the basis that the entity will, and has the discretion to, refinance or rollover these loans with the Treasury Corporation of Victoria, pursuant to section 8 of the *Borrowings and Investment Powers Act 1987*. Borrowings known as 11am debt are classified as current borrowings.

(t) Deposits and advances

Deposits and advances represent monies held by the Group as security for capital works and unearned revenue.

(u) Developer reimbursements

In accordance with the Group's land development policy, the Group will reimburse developers, subject to the nature of the works involved, for all or part of their costs incurred in constructing water, sewerage and/or recycling assets. Reimbursements are generally paid on completion of the works, however, in cases where reimbursements are to be paid at an agreed date in the future, a liability is recognised.

Developer reimbursements are capitalised and recognised as infrastructure, property, plant and equipment in the balance sheet.

(v) Financial instruments

A financial instrument is recognised when the corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when contractual rights to the cash flows from the assets expire. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets

Financial assets are comprised of cash and loans and receivables, excluding statutory receivables. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, cash and receivables are measured at amortised cost using the effective interest method, less any impairment. Loans category includes inter-group loans between South East Water Corporation as Parent with its controlled entity, iota Services Pty Ltd.

Financial liabilities

Financial liabilities are comprised of payables, excluding statutory payables, borrowings and deposits and advances. These liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial measurement these financial liabilities are measured at amortised cost using the effective interest method.

Notes to the Financial Statements

for the year ended 30 June 2015

1. Statement of significant accounting policies *continued*

Impairment of financial assets

The Group assesses at each balance date whether there is objective evidence that a financial asset is impaired i.e. when the amount outstanding will not be recovered in full.

Fair value

Financial assets and liabilities are measured at amortised cost and not fair value as they have not been classified as held for trading or designated as such upon initial recognition.

(w) Contributed equity

Additions to net assets have been designated as contributed equity when approved by the Minister for Finance and have met the requirements of FRD119A *Transfers through Contributed Capital*.

(x) South East Recycled Water Alliance (SERWA)

Established in May 2009, the SERWA alliance is a partnership between South East Water, Transfield Services (Australia) Pty Ltd and AECOM to deliver a program of works to meet the Victorian Government's Central Region Sustainable Water Strategy. This includes upgrading and operating key South East Water sewage treatment plants. The alliance operates on a cost plus 'at risk' margin basis and includes incentives for enhanced service and performance. Operating costs are expensed as incurred, while costs which create or enhance an asset are capitalised.

(y) Smart Water Fund

The Smart Water Fund was established in 2002 by Melbourne's four water businesses and the Victorian Government for the purpose of providing grant funding to support the development of sustainable water use projects. Contributions made to the Smart Water Fund are initially recognised as prepayments in the Group's Consolidated Balance Sheet. Expenses are subsequently recognised by the Group when incurred by the fund.

The Group's share of the fund's expenses for 2014–15 was $362,825 ($570,755 for 2013–14) and is included in the Consolidated Statement of Comprehensive Income. As at 30 June 2015, the Group's Consolidated Balance Sheet reflects its share of prepaid fund expenditure totalling $37,341 ($174,139 for 2013–14).

In May 2013, the Group notified the board of the Smart Water Fund of its intention to withdraw from the fund. As at 30 June 2015, the Group is no longer a part of the fund.

(z) Environmental contribution

The Water Industry (Environmental Contributions) Act 2004 (the Act) amended the *Water Industry Act 1994* to make provision for environmental contributions to be paid by water supply authorities. The Act establishes an obligation for authorities to pay into the consolidated fund annual contributions for the first period from 1 October 2004 to 30 June 2008 in accordance with a pre-established schedule of payments, which sets out the amounts payable by each corporation. The contribution period has been extended to cover the period 1 July 2012 to 30 June 2016.

The purpose of the environmental contribution is set out in the Act, and the funding may be used for the purpose of funding initiatives that seek to promote the sustainable management of water or address water-related activities.

The Group has a statutory obligation to pay an environmental contribution to the Department of Environment, Land, Water and Planning. This contribution is recognised as an expense during the reporting period as incurred.

(aa) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Consolidated Balance Sheet, but are disclosed in Note 22. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(ab) Commitments

Commitments are for future expenditure including operating and capital commitments arising from contracts. These commitments are disclosed by way of a note (refer to Note 23) at their nominal value and inclusive of the goods and services tax (GST) payable. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the Consolidated Balance Sheet.

(ac) Change in accounting policies

With the incorporation of iota Services Pty Ltd as a wholly-owned subsidiary of South East Water Corporation, the following accounting standards have been adopted in the Consolidated Financial Report prepared by the Group for the first time:

AASB 10 Consolidated Financial Statements

AASB 10 *Consolidated Financial Statements* provides a new approach to determine whether an entity has control over an entity, and therefore must present consolidated financial statements. The new approach requires the satisfaction of all three criteria for control to exist over an entity for financial reporting purposes:

(a) The investor has power over the investee;

(b) The investor has exposure, or rights to variable returns from its involvement with the investee; and

(c) The investor has the ability to use its power over the investee to affect the amount of investor's returns.

Prior to the incorporation of iota Services Pty Ltd on 29 October 2014, iota operated as an unregulated business division of South East Water Corporation. As iota is a wholly-owned subsidiary of South East Water Corporation, South East Water Corporation has prepared a Consolidated Financial Report as required by AASB 10.

Due to iota Services Pty Ltd being incorporated on 29 October 2014 and commencing trading on 1 January 2015, adjustments to the financial statements for the comparative period is not applicable.

AASB 12 Disclosure of Interests In Other Entities

AASB 12 *Disclosure of Interests in Other Entities* prescribes the disclosure requirements for an entity's interests in subsidiaries, associates, joint arrangements and extends to the entity's association with unconsolidated structured entities.

South East Water Corporation has disclosed information about its interests in subsidiaries in Note 26, including any significant judgements and assumptions used in determining control over the entity.

2. Financial risk management objectives and policies

The Group's principal financial instruments are loans sourced from the Treasury Corporation of Victoria. The loans include overnight borrowings and fixed rate loans which are used to meet working capital requirements and fund capital expenditure programs.

The Group has other financial assets and liabilities such as receivables and payables which arise directly from its operating activities.

The main risks arising from the Group's financial instruments are market interest rate risk, liquidity risk and credit risk. The board reviews and endorses policies for managing these risks, which are summarised below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is limited.

With respect to receivables, the Group has a broad customer base with in excess of 90 per cent being residential customers dispersed across the Group's area of responsibility. Receivable balances are monitored on an ongoing basis and as such, the Group is not exposed to significant bad debts.

An ageing of the Group's receivables at reporting date has been provided in Note 8.

At 30 June 2015, the Group had no credit risk arising from investments.

Liquidity risk

Liquidity risk refers to the risk of not being able to meet short term working capital needs and the financing of new and maturing debt as they fall due.

The Group manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Group obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

A contractual maturity analysis of financial liabilities is disclosed in Note 18(a).

Notes to the Financial Statements

for the year ended 30 June 2015

2. Financial risk management objectives and policies *continued*

Interest risk

The Group's exposure to market risk is primarily through interest rate risk. The Group's exposure to the risk of adverse movements in interest rates relates primarily to its debt obligations with terms to maturity or next interest rate reset of less than one year.

In managing this risk, the Group has adopted a policy of maintaining its debt portfolio consistent with the following target bands:

Term to maturity or next interest rate reset	Target
0 to less than 1 year	0–35%
1 to less than 3 years	7–25%
3 to less than 5 years	7–25%
5 to less than 7 years	7–25%
9 to less than 11 years	0–20%
11 years and over	0–20%

The Group's exposure to interest rate risk is set out in Note 18(b) and (c).

Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts and management's knowledge and experience of the financial markets, the Group believes that a movement of 0.5 per cent is reasonably possible over the next 12 months (0.5 forecast in 2013–14). The impact on the Group's profit and equity is disclosed in Note 18(b).

Fair value

The Group considers that the carrying amount of financial assets and financial liabilities (excluding borrowings) recorded in the Consolidated Financial Report to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

Borrowings are valued by discounting the expected future cash flows at yields offered by the Treasury Corporation of Victoria at balance date.

The carrying amounts and fair value of financial assets and liabilities at balance date are disclosed in Note 18(c).

Capital management

The Group has adopted a long-term capital structure that targets a gearing ratio of between 40 per cent to 45 per cent and funds from operations (FFO) net interest coverage of 2.5 to 4.0 times. These targets are used to ensure the Group is financially sustainable in the medium to long term.

The gearing and interest coverage ratios for the years ended 30 June 2015 and 30 June 2014 were as follows:

	2015	2014
Gearing [net debt/(net debt+equity)]	40.5%	41.0%
FFO net interest cover (times)	2.7	2.3

3. Income

Consolidated entity	2015 $'000	2014 $'000
Sales revenue		
Water service charges (fixed)	74,103	79,217
Water usage charges	352,921	353,890
Sewerage service charges (fixed)	250,062	240,375
Sewage disposal charges	161,518	159,775
Trade waste charges	22,234	20,640
Recycled water charges	4,718	4,226
New customer contributions	31,875	22,283
Developer contributed assets	36,726	50,932
Other services rendered	22,071	16,770
Interest received/receivable	341	63
Rent	1,942	2,061
Grants	16	18
Government Water Rebate provided to customers[a]	(64,676)	-
Miscellaneous	22,485	17,926
	916,336	**968,176**
Other income		
Gain from sale of property, plant and equipment	134	41
	134	**41**
Total income	**916,470**	**968,217**

[a] Government Water Rebate (formerly known as the Fairer Water Bills initiative) represents a rebate back to customers provided by South East Water on behalf of the State Government on water bills of residential water customers. It was first issued in 2014–15 on the first quarter bill (July, August, September), and is due to be provided each year until 2017–18. The rebate was provided through initiatives including lower interest costs of debt, innovative use of technology and efficient scheduling of maintenance and capital works.

Notes to the Financial Statements

for the year ended 30 June 2015

4. Expenditure

Consolidated entity	2015 $'000	2014 $'000
Expenses		
Bulk water and sewerage charges	521,289	533,167
Government Water Rebate received from Melbourne Water Corporation[a]	(48,535)	-
Employee benefits cost	49,238	52,019
Operating contracts	69,646	63,231
Depreciation	70,272	66,850
Amortisation	10,565	8,356
Environmental contribution	27,860	27,860
Asset write-offs	949	3,792
Taxes, fees and charges	5,636	4,509
Computer costs	1,499	1,795
Rental expense on operating leases	2,824	2,820
Bad and doubtful debts	2,221	2,274
Transport	932	1,143
Other expenses	6,673	4,358
	721,069	**772,174**
Finance costs		
Interest expense	60,998	56,456
Financial accommodation levy	16,089	13,135
Other finance costs	23	82
	77,110	**69,673**
Total expenditure	**798,179**	**841,847**

[a] Government Water Rebate (formerly known as the Fairer Water Bill initiative) represents a rebate back to customers provided by South East Water on behalf of the state government on water bills of residential water customers. It was first issued in 2014–15 on the first quarter bill (July, August, September), and is due to be provided each year until 2017–18. The rebate was provided through initiatives including lower interest costs of debt, innovative use of technology and efficient scheduling of maintenance and capital works.

5. Income tax

Consolidated entity	2015 $'000	2014 $'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	34,485	46,521
Deferred tax expense/(income) relating to timing differences	1,088	(8,570)
Deferred tax income relating to a change in assessability of accrued revenue	-	(4,704)
	35,573	**33,247**
(b) Deferred income tax recognised in other comprehensive income		
Gain/(loss) on revaluation of infrastructure	99,690	(4,105)
Defined benefit superannuation plan actuarial gain/loss	1,672	4,649
	101,362	**544**
(c) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	**118,291**	**126,370**
Income tax calculated at 30%	35,487	37,911
Add		
Non-deductible depreciation	5	-
Non-assessable income	-	(4,704)
Non-deductible expenses	81	40
Income tax expense	**35,573**	**33,247**
(d) Deferred tax items		
Deferred tax liabilities		
Defined Benefit Superannuation	2,790	1,459
Infrastructure, property, plant and equipment	622,479	520,990
Total deferred tax liabilities	**625,269**	**522,449**
Recognised directly in equity	382,108	279,287
Recognised directly in net profit	243,161	243,162
Total deferred tax liabilities	**625,269**	**522,449**
Deferred tax assets		
Provisions	(979)	(929)
Employee benefits	(4,915)	(4,914)
Buildings future deductible amounts	(710)	(608)
Other	(733)	(516)
Total deferred tax assets	**(7,337)**	**(6,967)**
Recognised directly in equity	-	-
Recognised directly in net profit	(7,337)	(6,967)
Total deferred tax assets	**(7,337)**	**(6,967)**
Net deferred tax liabilities	**617,932**	**515,482**

Notes to the Financial Statements

for the year ended 30 June 2015

6. Dividends

Consolidated entity	2015	2014
The Group, under the National Taxation Equivalent Regime, is not required to maintain a franking account.	$'000	$'000
Final dividend paid 2012–13	-	16,000
Final dividend paid 2013–14	35,600	-
Interim dividend paid 2014–15	16,400	-
	52,000	16,000

7. Cash assets

Consolidated entity	2015 $'000	2014 $'000
Cash at bank and on hand	2,456	553

8. Receivables

Consolidated entity	2015 $'000	2014 $'000
Trade debtors	63,253	71,011
Less: Provision for doubtful debts (Note 8B)	(2,600)	(2,400)
	60,653	**68,611**
Accrued revenue	69,210	62,541
Other debtors	21	41
Total receivables	**129,884**	**131,193**
Note 8A: Past due but not impaired		
At 30 June 2015, trade debtors of $26.6 million (2014 $25 million) were past due but not impaired. This amount relates largely to outstanding water and sewerage charges by residential, commercial and industrial customers for whom there is no recent history of default.		
Receivables not past due and not impaired	103,284	106,193
Receivables past due and not impaired	26,600	25,000
Receivables past due and impaired	-	-
	129,884	**131,193**
The ageing of receivables past due and not impaired is as follows:		
Less than 30 days	16,300	15,300
30 to 90 days	4,300	4,000
Greater than 90 days	6,000	5,700
	26,600	**25,000**
Note 8B: Movement in the provision for doubtful debts		
Movements in the provision for doubtful debts during the financial year are set out below:		
Balance at the beginning of the year	2,400	2,400
Amounts written off during the year	2,063	2,318
Amounts recovered during the year	(42)	(44)
Increase/(decrease) in provision recognised in Statement of Comprehensive Income	(2,021)	(2,274)
Increase/(decrease) in provision	200	-
Balance at the end of the year	**2,600**	**2,400**

Notes to the Financial Statements

for the year ended 30 June 2015

9. Infrastructure, property, plant and equipment

Consolidated entity	2015 $'000	2014 $'000
Land		
At fair value	143,166	142,298
	143,166	**142,298**
Buildings		
At fair value	233	266
Less: Accumulated depreciation	(25)	(22)
	208	**244**
Leasehold improvements		
At fair value	5,476	5,462
Less: Accumulated depreciation	(5,113)	(4,677)
	363	**785**
Plant and equipment		
At fair value	28,929	28,049
Less: Accumulated depreciation	(18,747)	(17,023)
	10,182	**11,026**
Infrastructure assets		
At independent valuation 2015	3,359,895	-
At independent valuation 2014	-	2,915,788
	3,359,895	**2,915,788**
Capital works in progress at cost	**238,228**	**175,895**
Total infrastructure, property, plant and equipment	**3,752,042**	**3,246,036**

9. Infrastructure, property, plant and equipment *continued*

Reconciliations

Reconciliations of the carrying amounts of each class of infrastructure, property, plant and equipment between the beginning and the end of the current financial year are set out below:

2015	Infrastructure assets	Plant and equipment	Leasehold improvements	Land	Buildings	Capital works in progress	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	2,915,788	11,026	785	142,298	244	175,895	3,246,036
Additions	-	4,375	14	1,219	-	240,827	246,435
Transfers	178,875	-	-	(351)	(30)	(178,494)	-
Disposals	(815)	(1,642)	-	-	-	-	(2,457)
Revaluations – Asset Revaluation Reserve	332,300	-	-	-	-	-	332,300
Depreciation expense	(66,253)	(3,577)	(436)	-	(6)	-	(70,272)
Closing balance	**3,359,895**	**10,182**	**363**	**143,166**	**208**	**238,228**	**3,752,042**

2014	Infrastructure assets	Plant & equipment	Leasehold improvements	Land	Buildings	Capital works in progress	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	2,774,452	11,600	1,552	140,105	251	154,306	3,082,266
Additions	-	4,880	25	2,193	-	242,194	249,292
Transfers	220,605	-	-	-	-	(220,605)	-
Disposals	(2,863)	(1,763)	(362)	-	-	-	(4,988)
Revaluations	(13,684)	-	-	-	-	-	(13,684)
Depreciation expense	(62,722)	(3,691)	(430)	-	(7)	-	(66,850)
Closing balance	**2,915,788**	**11,026**	**785**	**142,298**	**244**	**175,895**	**3,246,036**

Notes to the Financial Statements

for the year ended 30 June 2015

9. Infrastructure, property, plant and equipment *continued*

Fair value hierachy

Consolidated entity	Carrying amount as at 30 June 2015	Fair value measurement at end of reporting period using:		
		Level 1 (i)	Level 2 (i)	Level 3 (i)
	$'000	$'000	$'000	$'000
Land at fair value [(a)]				
Non-specialised land	73,336	-	73,336	-
Specialised land	69,830	-	-	69,830
Total of land at fair value	**143,166**	**-**	**73,336**	**69,830**
Buildings at fair value [(a)]				
Non-specialised buildings	208	-	208	-
Total of buildings at fair value	**208**	**-**	**208**	**-**
Leasehold improvements at fair value				
Leasehold improvements	363	-	-	363
Total of leasehold improvements at fair value	**363**	**-**	**-**	**363**
Plant and equipment at fair value				
Plant and equipment	10,182	-	-	10,182
Total of plant and equipment at fair value	**10,182**	**-**	**-**	**10,182**
Infrastructure at fair value [(b)]				
Infrastructure	3,359,895	-	-	3,359,895
Total of infrastructure at fair value	**3,359,895**	**-**	**-**	**3,359,895**

Refer to page 63 for Notes (a) and (b) and (i), (ii) and (iii)

9 . Infrastructure, property, plant and equipment *continued*

Fair value hierachy

	Carrying amount as at 30 June 2014	Fair value measurement at end of reporting period using:		
		Level 1 (i)	Level 2 (i)	Level 3 (i)
	$'000	$'000	$'000	$'000
Land at fair value [a]				
Non-specialised land	72,468	-	72,468	-
Specialised land	69,830	-	-	69,830
Total of land at fair value	**142,298**	**-**	**72,468**	**69,830**
Buildings at fair value [a]				
Non-specialised buildings	244	-	244	-
Total of buildings at fair value	**244**	**-**	**244**	**-**
Leasehold improvements at fair value				
Leasehold improvements	785	-	-	785
Total of leasehold improvements at fair value	**785**	**-**	**-**	**785**
Plant and equipment at fair value				
Plant and equipment	11,026	-	-	11,026
Total of plant and equipment at fair value	**11,026**	**-**	**-**	**11,026**
Infrastructure at fair value [b]				
Infrastructure	2,915,788	-	-	2,915,788
Total of infrastructure at fair value	**2,915,788**	**-**	**-**	**2,915,788**

(i) Quoted prices (unadjusted) in active markets for identical assets.
(ii) Inputs based on observable market data (either directly using prices or indirectly derived from prices).
(iii) Inputs not based on observable market data.

(a) Land and buildings were independently valued by the Valuer-General Victoria in 2011. The valuation of land and buildings is at fair value, being market value based on highest and best use permitted by relevant land planning provisions. Where land use is restricted through existing planning provisions, the valuation is reduced to reflect this limitation. This adjustment is an unobservable input into the valuation. The adjustment has no impact on the Consolidated Comprehensive Income Statement. Any significant movements in the unobservable inputs for land will have a significant impact on the fair value of these assets. Fair value assessments have been performed at 30 June 2015 for land and buildings based on indexation factors published by the Valuer-General Victoria. This assessment demonstrated that fair value was materially similar to carrying value, and therefore, a full revaluation was not required this year. The next scheduled full revaluation for this purpose will be conducted in 2015–16.

If land and buildings were measured at historical cost, the carrying amount would be $19.4 million.

(b) The valuation of infrastructure assets has been determined in accordance with an independent valuation undertaken by Deloitte Touche Tohmatsu (Deloitte). The valuation is at fair value based on the income approach (discounted cash flow). For the purpose of the opinion provided by Deloitte, fair market value is defined as the amount at which an asset would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell.

Deloitte considers this definition to be consistent with the definition of fair value as set out in AASB 13: Fair Value Measurement, which defines fair value as the 'price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date'.

Further, Deloitte has indicated that fair value, as defined in AASB 13, is a concept of value which may or may not equal the 'purchase/sale price' that could be obtained if the asset was sold to a special purchaser in an actual transaction in the open market. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Deloitte's valuation of infrastructure assets is not to be premised on the existence of a special purchaser.

Notes to the Financial Statements

for the year ended 30 June 2015

9. Infrastructure, property, plant and equipment *continued*

Level 3 valuation techniques

Non-specialised land and buildings

Non-specialised land and buildings are valued using the market approach. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value. For non-specialised land and buildings, an independent valuation was performed by independent valuers, Valuer-General Victoria in 2010–11 to determine the fair value using the market approach. The valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. From the sales analysed, an appropriate rate per square metre has been applied to the subject asset. The effective date of the valuation is 30 June 2011.

Based on indexation factors published by the Valuer-General Victoria, management has confirmed that non-specialised land and buildings as at 30 June 2015 are carried at fair value.

To the extent that non-specialised land and buildings do not contain significant, unobservable adjustments, these assets are classified as Level 2 under the market approach.

Specialised land

The market approach is also used for specialised land, although it is adjusted for the community service obligation (CSO) to reflect the specialised nature of the land being valued.

The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible, and financially feasible. As adjustments for CSOs are considered as significant unobservable inputs, specialised land is classified as Level 3 assets. An independent valuation of the Group's specialised land, based on the market approach, was performed by the Valuer-General Victoria. The effective date of the valuation is 30 June 2011.

Based on indexation factors published by the Valuer-General Victoria, management has confirmed that specialised land as at 30 June 2015 is carried at fair value.

Plant and equipment

Plant and equipment is held at fair value being depreciated cost. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for plant and equipment (or any such evidence does not indicate a fair value significantly different from depreciated cost), depreciated cost is the fair value for these types of assets. The valuation of plant and equipment is based on significant unobservable inputs and accordingly is classified as Level 3 assets.

Due to their non-specialised nature, management has confirmed that the carrying value of plant and equipment, based on depreciated cost, is consistent with fair value as at 30 June 2015.

Leasehold improvements

Leasehold improvements are held at fair value being depreciated cost. As there is no evidence of a reliable market-based fair value (or other relevant fair value indicators) for leasehold improvements (or any such evidence does not indicate a fair value significantly different from depreciated cost), depreciated cost is the fair value for these types of assets. The valuation of leasehold improvements is based on significant unobservable inputs and accordingly, is classified as Level 3 assets.

Due to their non-specialised nature, management has confirmed that the carrying value of leasehold improvements, based on depreciated cost, is consistent with fair value as at 30 June 2015.

Infrastructure assets

The Group has adopted the income approach (i.e. discounted cash flows) to measure the fair value of infrastructure assets. This approach is in accordance with the revaluation method outlined in AASB 116 Property, Plant and Equipment and FRD 103F *Non-financial physical assets*.

The 'income approach' can be used to determine the fair value of property, plant and equipment in circumstances where there is no market-based evidence of 'fair value' because of the specialised nature of the asset(s). As the Group is classified as a 'For Profit' entity for financial reporting purposes, the future economic benefits of the business's infrastructure assets are primarily dependent on their ability to generate net cash inflows. Accordingly, valuing infrastructure assets based on 'discounted cash flows' reflects their economic value. The 'income approach' is based on an assessment of the future free cash flows of the business consistent with the organisation's long-term financial plans. Projected free cash flows after the planning period are determined using standard terminal valuation methodology. The significant unobservable inputs are discount rate (WACC), inflation and useful life of the infrastructure.

The rate used to discount free cash flows to their present value is based on assumptions that market participants would reasonably be expected to use in determining the fair value of the business after taking into account the market cost of debt and equity.

The valuation estimate is also cross-checked against the earnings and regulated asset value multiples at which comparable companies are trading and recent transactions in comparable assets.

The valuation of infrastructure assets is derived from the valuation estimate after allowing for working capital, non-infrastructure assets, deferred tax liabilities and borrowings.

An independent valuation of the Group's infrastructure assets based on the income approach (discounted cash flow) was performed by Deloitte Touche Tohmatsu. This independent valuation resulted in a valuation increment of $332.3 million. The effective date of the valuation is 30 June 2015.

As the assumptions used to determine the value of infrastructure assets are considered significant, unobservable inputs, infrastructure assets are classified as Level 3 fair value measurements.

There were no changes in valuation techniques throughout the period to 30 June 2015.

For all assets measured at fair value, their current use is considered to be their highest and best use.

Notes to the Financial Statements

for the year ended 30 June 2015

9. Infrastructure, property, plant and equipment *continued*

Reconciliation of level 3 fair value

2015	Specialised land	Leasehold improvements	Plant and equipment	Infrastructure	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	69,830	785	11,026	2,915,788	2,997,429
Purchases/sales/transfers into class from work in progress	-	14	4,375	178,875	183,264
Transfers in/(out) of level 3	-	-	-	-	-
Disposals	-	-	(1,642)	(815)	(2,457)
Depreciation	-	(436)	(3,577)	(66,253)	(70,266)
Write-offs	-	-	-	-	-
Impairment loss	-	-	-	-	-
Sub total	**69,830**	**363**	**10,182**	**3,027,595**	**3,107,970**
Gains or losses recognised in other comprehensive income	-	-	-	332,300	332,300
Sub total	**-**	**-**	**-**	**3,359,895**	**3,440,270**
Closing balance	**69,830**	**363**	**10,182**	**3,359,895**	**3,440,270**

Reconciliation of level 3 fair value

2014	Specialised land	Leasehold improvements	Plant and equipment	Infrastructure	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	69,830	1,552	11,600	2,774,452	2,857,434
Purchases/sales	-	25	4,880	220,605	225,510
Transfers in/(out) of level 3	-	-	-	-	-
Disposals	-	(362)	(1,763)	(2,863)	(4,988)
Depreciation	-	(430)	(3,691)	(62,722)	(66,843)
Write-offs	-	-	-	-	-
Impairment loss	-	-	-	-	-
Sub total	**69,830**	**785**	**11,026**	**2,929,472**	**3,011,113**
Gains or losses recognised in other comprehensive income	-	-	-	(13,683)	(13,683)
Sub total	**-**	**-**	**-**	**2,915,789**	**2,997,430**
Closing balance	**69,830**	**785**	**11,026**	**2,915,789**	**2,997,430**

Description of significant unobservable inputs to level 3 valuations

Consolidated entity	Valuation technique [i]	Significant unobservable inputs	Range (weighted average)	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised land	Market approach	Community Service Obligation (CSO) adjustment	7–20% (19%) [i]	A significant increase/(decrease) in the CSO adjustment would result in a significantly lower (higher) fair value
Leasehold improvements	Depreciated cost (deemed fair value)	Cost per unit	$500–$2,837,700 ($87,000)	A significant increase/(decrease) in cost per unit would result in a significantly higher or lower fair value
		Useful life of leasehold improvements (lease term)	1–20 years (7 years)	A significant increase/(decrease) in the lease term would result in a significantly higher or lower valuation
Plant and equipment	Depreciated cost (deemed fair value)	Cost per unit	$390–$390,440 ($11,850)	A significant increase/(decrease) in cost per unit would result in a significantly higher or lower fair value
		Useful life of plant and equipment	1–20 years (7 years)	A significant increase/(decrease) in the estimated useful life of the plant and equipment would result in a significantly higher or lower valuation
Infrastructure	Income approach (discounted cash flow)	Discount rates (WACC)	6.00–6.25% 6.13%	A significant increase/(decrease) in discount rates would result in a significant higher or lower fair value
		Inflation	2.0–3.0% 2.5%	A significant increase/(decrease) in inflation would result in a significantly higher or lower fair value
		Useful life of infrastructure	5–99 years (50 years)	A significant increase/(decrease) in the estimated useful life of infrastructure assets would result in a significantly higher or lower valuation

[i] CSO adjustments ranging from 7 per cent to 20 per cent were applied to reduce the market approach value for the Groups' specialised land, with the weighted average 19 per cent reduction applied.

Notes to the Financial Statements

for the year ended 30 June 2015

10. Intangible assets

Consolidated entity IT software	2015 $'000	2014 $'000
Cost	74,387	62,584
Less: Accumulated amortisation	(50,550)	(40,510)
	23,837	**22,074**
IT software works in progress at cost	2,678	2,779
	26,515	**24,853**
Water entitlements at cost	**96,916**	**96,916**
Other		
Cost	373	373
Less: Accumulated amortisation	(140)	(94)
	233	**279**
Total intangible assets	**123,664**	**122,048**

Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets between the beginning and the end of the current financial year are set out below:

2015	IT Software	Works in progress	Water entitlements	Other	Total
Consolidated entity	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	22,074	2,779	96,916	279	122,048
Additions	-	12,253	-	-	12,253
Transfers	12,354	(12,354)	-	-	-
Disposals	(72)	-	-	-	(72)
Amortisation	(10,519)	-	-	(46)	(10,565)
Closing balance	**23,837**	**2,678**	**96,916**	**233**	**123,664**

2014	IT software	Works in progress	Water entitlements	Other	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Opening balance	17,488	1,877	96,916	326	116,607
Additions	-	13,915	-	-	13,915
Transfers	13,013	(13,013)	-	-	-
Disposals	(118)	-	-	-	(118)
Amortisation	(8,309)	-	-	(47)	(8,356)
Closing balance	**22,074**	**2,779**	**96,916**	**279**	**122,048**

11. Payables

Consolidated entity Current	2015 $'000	2014 $'000
Trade creditors	21,983	8,519
Accruals	90,562	106,699
	112,545	**115,218**

12. Deposits and advances

Consolidated entity Current	2015 $'000	2014 $'000
Unearned revenue	6,021	2,709
Advances	7,823	6,840
Total deposits and advances	**13,844**	**9,549**

13. Borrowings

In accordance with the *Borrowing and Investment Powers Act (1987)* borrowings are sourced from the Treasury Corporation of Victoria and secured by the Treasurer in the form of a government guarantee.

Consolidated entity Current	2015 $'000	2014 $'000
11am borrowings	31,100	62,000
Non-current		
Fixed/floating rate loans	1,290,000	1,100,000
	1,321,100	**1,162,000**

Notes to the Financial Statements

for the year ended 30 June 2015

14. Provisions

Consolidated entity Current	2015 $'000	2014 $'000
Employee benefits (Notes 14A, 14C)	14,687	14,583
Insurance claims (Notes 1(p), 14B)	662	697
Provision for customer refunds (Notes 1(q))	745	-
	16,094	**15,280**

Non-current		
Employee benefits	**1,697**	**1,799**

Note 14A: Employee benefits

Employee benefits are comprised of:		
Annual leave	4,047	4,260
Long service leave measured at:		
Nominal value	116	213
Present value	10,524	10,110
Total current employee benefits	**14,687**	**14,583**

Note 14B: Insurance claims

Movements in the provision for insurance claims during the financial year are set out below:		
Carrying amount at the beginning of the period	697	436
Additional provisions recognised	672	897
Provisions used during the period	(439)	(387)
Unused amounts reversed	(268)	(249)
Carrying amount at the end of the period	**662**	**697**

Note 14C: Employee benefits

Movements in the provision for employee benefits during the financial year are set out below:		
Carrying amount at the beginning of the period	16,383	15,910
Additional provisions recognised	1,585	1,849
Provisions used during the period	(1,584)	(1,376)
Unused amounts reversed	-	-
Carrying amount at the end of the period	**16,384**	**16,383**

15. Contributed equity

Additions to net assets which have been designated as contributions by owners are recognised as contributed equity.

Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

Consolidated entity	2015 $'000	2014 $'000
Contributed equity	443,608	443,608
Closing balance at 30 June	**443,608**	**443,608**

16. Asset revaluation reserves

Consolidated entity	2015 $'000	2014 $'000
Land and buildings revaluation reserve [(a)]	122,882	122,882
Infrastructure assets revaluation reserve [(a)]	889,469	656,859
	1,012,351	**779,741**
16A: Movements in the asset revaluation reserve		
Opening balance	779,741	789,319
Revaluation of infrastructure assets, net of tax effect	232,610	(9,578)
Closing balance	**1,012,351**	**779,741**

(a) The asset revaluation reserve relates to infrastructure assets and land and building measured at fair value in accordance with the applicable Australian Accounting Standards and FRD 103F *Non-financial physical assets*.

17. Retained profits

Consolidated entity	2015 $'000	2014 $'000
Opening balance	445,623	357,651
Net profit after income tax	82,717	93,123
Defined benefit superannuation actuarial gain/(loss), net of tax effect	3,900	10,849
Dividends paid (Notes 1(r), 6)	(52,000)	(16,000)
Closing balance	**480,240**	**445,623**

Notes to the Financial Statements

for the year ended 30 June 2015

18. Financial instruments

(a) Interest rate details and maturity analysis on financial instruments

Consolidated entity	Weighted average interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Total
30 June 2015		**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash	2.02%	2,456	-	-	2,456
Receivables – non interest bearing [i]		123,698	-	-	123,698
Total financial assets		**126,154**	**-**	**-**	**126,154**
Financial liabilities					
Payables – non interest bearing [i]		(107,786)	-	-	(107,786)
Borrowings – floating interest rate	2.17%	(31,100)	-	-	(31,100)
Borrowings – fixed interest rate	4.76%	(122,500)	(542,775)	(624,725)	(1,290,000)
Deposits and advances – non interest bearing		(13,844)	-	-	(13,844)
Total financial liabilities		**(275,230)**	**(542,775)**	**(624,725)**	**(1,442,730)**
30 June 2014					
Financial assets					
Cash – interest bearing		553	-	-	553
Receivables – non interest bearing [i]		124,892	-	-	124,892
Total financial assets		**125,445**	**-**	**-**	**125,445**
Financial liabilities					
Payables – non interest bearing [i]		(111,191)	-	-	(111,191)
Borrowings – floating interest rate	2.62%	(77,000)	-	-	(77,000)
Borrowings – fixed interest rate	5.11%	(84,575)	(517,775)	(482,650)	(1,085,000)
Deposits and advances – non interest bearing		(9,549)	-	-	(9,549)
Total financial liabilities		**(282,315)**	**(517,775)**	**(482,650)**	**(1,282,740)**

Note

[i] The amounts disclosed exclude statutory payables of $4.759 million (2013–14 $4.027 million) and statutory receivables of $6.186 million (2013–14 $6.301 million).

18. Financial instruments *continued*

(b) Sensitivity analysis

As at 30 June 2015, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, post-tax profit would have been $1.0 million higher/lower (2012–13: $0.9 million) as a result of higher/lower interest expense from variable interest rate borrowings.

(c) Fair value

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:

Level 1 – the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;

Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and

Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Group considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid in full.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including levels within the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value e.g. trade receivables and payables.

Notes to the Financial Statements

for the year ended 30 June 2015

18. Financial instruments *continued*

Fair value hierachy

Consolidated entity	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
30 June 2015	$'000	$'000	$'000	$'000
Financial assets				
Cash	2,456	-	-	-
Receivables [1]	123,698	-	-	-
Total financial assets	126,154	-	-	-
Financial liabilities				
Payables [1]	(107,786)	-	-	-
Borrowings	(1,321,100)	-	(1,410,846)	-
Deposits and advances	(13,844)	-	-	-
Total financial liabilities	(1,442,730)	-	(1,410,846)	-
30 June 2014				
Financial assets				
Cash	553	-	-	-
Receivables [1]	124,892	-	-	-
Total financial assets	125,445	-	-	-
Financial liabilities				
Payables [1]	(111,191)	-	-	-
Borrowings	(1,162,000)	-	(1,234,189)	-
Deposits and advances	(9,549)	-	-	-
Total financial liabilities	(1,282,740)	-	(1,234,189)	-

[1] The amounts disclosed exclude statutory payables of $4.759 million (2013–14 $4.027 million) and statutory receivables of $6.186 million (2013–14 $6.301 million).

There have been no transfers between levels during the period.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair value:

Borrowings

In the absence of an active market, the fair value of the Group's borrowings are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Group categorises these borrowings as Level 2 within the fair value hierarchy.

19. Responsible persons and executive officer disclosures

(a) Responsible persons

The relevant ministers and directors of the Group are deemed to be the responsible persons by ministerial direction pursuant to the provisions of the *Financial Management Act 1994*.

The relevant ministers during the reporting period were the Minister for Water, the Hon Peter Walsh MLA (1 July 2014 – 3 December 2014) and the Minister for Environment, Climate Change and Water, the Hon Lisa Neville MP (4 December 2014 – 30 June 2015). Remuneration paid to the respective ministers is shown in the financial statements of the Department of Premier and Cabinet. Other relevant interests are declared in the Register of Members' Interests which each member of the parliament completes.

The names of persons who were directors of South East Water at any time during the financial year are as follows:

D Shirrefs, K Hutchings (Managing Director and Accountable Officer), G Gentle, T Beach, R Passalaqua, L Cheng, M Boston and E Papadopoulos (1 July 2014 – 30 June 2015).

The number of directors of the Group whose remuneration from the Group or any related parties was within the specified bands are as follows:

	2015	2014
	No	No
$10,000–$19,999	-	1
$30,000–$39,999	-	1
$40,000–$49,999	6	5
$90,000–$99,999	1	1
$390,000–$399,999	-	1
$410,000–$419,999	1	-
Total	8	9
	$'000	$'000
Total amount	795	774

(b) Related party transactions

Related party transactions involving directors were as follows:

	2015 $'000	2014 $'000
(i) Mr D Shirrefs Mr D Shirrefs is a director of the Victorian Water Industry Association, to which the Group paid membership fees and other charges.	267	66
(ii) Mr R Passalaqua Mr R Passalaqua is a member of the Parks Victoria Board to which the Group paid fees and other charges.	39	39

Notes to the Financial Statements

for the year ended 30 June 2015

19. Responsible persons and executive officer disclosures *continued*

(c) Remuneration of executive officers

Total remuneration for each executive officer is inclusive of salary, performance pay entitlements, superannuation and other benefits. Base remuneration is exclusive of performance pay entitlements, long-service leave payments, redundancy payments and retirement benefits. The number of executive officers of South East Water, excluding responsible persons, whose (total and base) remuneration falls within the specified bands above $100,000 are as follows:

	Total remuneration		Base remuneration	
	2015	2014	2015	2014
	No	No	No	No
$200,000–$209,999	-	-	-	1
$210,000–$219,999	-	-	1	-
$220,000–$229,999	-	-	-	1
$230,000–$239,999	-	1	1	1
$240,000–$249,999	-	-	1	2
$250,000–$259,999	1	1	2	-
$260,000–$269,999	-	-	-	2
$270,000–$279,999	1	1	2	-
$280,000–$289,999	1	2	-	-
$290,000–$299,999	2	-	-	-
$300,000–$309,999	-	2	-	-
$310,000–$319,999	2	-	-	-
Total numbers	7	7	7	7
Total annualised employee equivalent (AEE)*	7.0	7.0	7.0	7.0
	$'000	$'000	$'000	$'000
Total amount	2,028	1,949	1,754	1,677

* Annualised employee equivalent (AEE) is based on working 38 ordinary hours per week over the reporting period.

(d) Other personnel – contractors with significant management experience

During the year the Group had no other personnel, by way of contractors, charged with significant management responsibility.

(e) Key management personnel compensation

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) including the Managing Director and executive who have the authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly, during the financial year.

	2015 $'000	2014 $'000
Short-term employee benefits	2,432	2,380
Post-employment benefits	340	293
Other long-term benefits	51	49
	2,822	2,722

(f) Other transactions with key management personnel

Water and sewerage services were provided to key management personnel and their related parties for properties within South East Water's boundaries on an arm's length basis and under normal commercial terms and conditions.

There were no other transactions, including loan related transactions with key management personnel or their related parties, during the reporting period other than the payments for services referred to in Note 19(b).

20. Remuneration of auditors

	2015 $'000	2014 $'000
Amounts received, or due and receivable, by the Victorian Auditor-General's Office for auditing the Consolidated Financial Report of the Group.	141	128
Closing balance	**141**	**128**

21. Ex-gratia expenses (i)

	2015 $'000	2014 $'000
Forgiveness or waiver of debt (ii)	83	97
Payments to charity organisation (iii)	-	25
Closing balance	**83**	**122**

(i) Includes ex-gratia expenses greater than or equal to $5,000 or those considered material in nature.
(ii) Forgiveness or waiver of customer debt due to financial hardship or not economical to pursue – recognised in Note 4 under bad and doubtful debts.
(iii) Payments to charity organisation – recognised in Note 4 under operating expenses.

22. Contingent assets and liabilities

Contingent assets

In the ordinary course of business, developers often provide a commitment to the Group to construct water and sewerage assets. The assets are constructed within an agreed timeframe, generally 12 months, and upon completion are transferred to the Group at no charge.

As at 30 June 2015, various developers have agreed to construct assets to the value of $48.3 million (2013–14 $41.3 million). This value relates to $43.6 million of assets which are under construction (2013–14 $33.7 million) and $4.7 million of assets which have not commenced construction (2013–14 $7.6 million).

Contingent liabilities

Contingent on the construction of these assets, the Group is liable to reimburse developers a total amount of $20.4 million (2013–14 $20.9 million) for additional works constructed at the Group's request. This reimbursement together with future investment for urban growth by the Group or developers will be recovered through a combination of new customer contributions, plus service and usage charges from all customers. This is consistent with the Essential Services Commission's final determination for water and sewerage prices in June 2015 (for the 2015–16 year). In addition, the Group has a contingent liability of approximately $0.1 million in respect of the finalisation of the South East Recycled Water Alliance (SERWA).

Notes to the Financial Statements

for the year ended 30 June 2015

23. Commitments

Consolidated entity (a) Contracted commitments	2015 $'000	2014 $'000
Total capital expenditure contracted for at balance date but not provided for in the financial statements, payable:		
Not later than 1 year	32,397	102,368
Later than 1 year and not later than 5 years	-	-
Total capital expenditure (inclusive of GST)	32,397	102,368
Less GST recoverable from Australian Taxation Office	2,945	9,306
Total capital expenditure (exclusive of GST)	**29,452**	**93,062**
Other expenditure contracted for at balance date not subject to GST and not provided for in the financial statements, payable:		
Not later than one year	27,860	27,860
Later than 1 year and not later than 5 years	-	27,860
Total other expenditure	**27,860**	**55,720**
These commitments are GST free and consist of the payment of an environmental contribution of $27.9 million per annum payable until 2015–16.		
Other expenditure contracted for at balance date and subject to GST and not provided for in the financial statements, payable:		
Not later than one year	1,814	1,653
Later than 1 year and not later than 5 years	3,408	2,269
Total expenditure (inclusive of GST)	5,222	3,922
Less GST recoverable from Australian Taxation Office	475	357
Total expenditure (exclusive of GST)	**4,747**	**3,565**

23. Commitments *continued*

(b) Lease commitments	2015 $'000	2014 $'000
Total lease expenditure contracted for at balance date but not provided for in the financial statements, payable:		
Not later than 1 year	1,911	2,855
Later than 1 year and not later than 5 years	4,056	1,373
Later than 5 years	1,914	131
Total lease expenditure (inclusive of GST)	7,881	4,359
Less GST recoverable from Australian Taxation Office	716	396
Total lease expenditure (exclusive of GST)	**7,165**	**3,963**
These commitments represent non-cancellable operating leases which have an average lease term of up to 10 years. Assets that are subject to operating leases include property, motor vehicles and office equipment.		
Non-cancellable operating lease receivable:		
Not later than 1 year	1,678	1,554
Later than 1 year and not later than 5 years	4,788	4,787
Later than 5 years	3,846	4,542
Total lease receivables (inclusive of GST)	10,312	10,883
Less GST payable to Australian Taxation Office	937	989
Total lease receivables (exclusive of GST)	**9,375**	**9,894**
These commitments represent mobile telephone tower rental income on South East Water's land and infrastructure.		

Notes to the Financial Statements

for the year ended 30 June 2015

24. Defined benefit superannuation asset/liability

(a) Superannuation plan

Defined benefit members receive lump sum benefits on retirement, death, disablement and withdrawal. Some defined benefit members are also eligible for pension benefits in some cases. The defined benefit section of the plan is closed to new members. All new members receive accumulation only benefits.

The Superannuation Industry (Supervision) (SIS) legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS Regulations require an actuarial valuation to be performed for each defined benefit superannuation plan every three years, or every year, if the plan pays defined benefit pensions.

The plan's trustee is responsible for the governance of the plan. The trustee has a legal obligation to act solely in the best interests of plan beneficiaries. The trustee has the following roles:

- administration of the plan and payment to beneficiaries from plan assets when required, in accordance with the plan rules;
- management and investment of the plan assets; and
- compliance with superannuation law and other applicable regulations.

The prudential regulator, the Australian Prudential Regulation Authority (APRA), licenses and supervises regulated superannuation plans.

There are a number of risks to which the plan exposes the Group. The more significant risks relating to the defined benefits are:

- **Investment risk** – The risk that investment returns will be lower than assumed and the Group will need to increase contribution to offset this shortfall.
- **Salary growth risk –** The risk that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk –** The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- **Pension risks –** The risk is firstly that pensioner mortality will be lighter than expected, resulting in pensions being paid for a longer period. Secondly, that a greater proportion of eligible members will elect to take a pension benefit, which is generally more valuable than the corresponding lump sum benefit.
- **Inflation risk –** The risk that inflation is higher than anticipated, increasing pension payments, and thereby requiring additional employer contributions.

The plan assets are invested by the trustee in a pool of assets with plans providing defined benefits for other employers. The assets have a benchmark weighting to equities of 50 per cent and therefore the plan has a significant concentration of equity market risk. However, within the equity investments, the allocation both globally and across sectors is diverse.

Description of significant events

There were no plan amendments affecting the defined benefits payable, curtailments or settlements during the year.

24. Defined benefit superannuation asset/liability *continued*

Consolidated entity
(b) Reconciliations

Reconciliation of the assets net defined benefit liability/asset	2015 $'000	2014 $'000
Net defined benefit liability/(asset at start of year)	(4,862)	8,884
Current service costs	1,299	1,736
Net interest	(163)	226
Past service cost	-	-
Gain/loss on settlements	-	-
Actual return on plan assets less interest income	(3,478)	(6,891)
Actuarial (gains)/losses arising from changes in demographic assumptions	-	(1,564)
Actuarial (gains)/losses arising from changes in financial assumptions	2,271	(6,512)
Actuarial (gains)/losses arising from liability experience	(4,365)	(531)
Adjustment for effect of asset ceiling	-	-
Employer contributions	-	(210)
Net defined benefit liability/(asset at end of year) recognised on the consolidated balance sheet	**(9,298)**	**(4,862)**

Reconciliation of fair value of plan assets Financial year ending 30 June		
Fair value of plan assets at the beginning of the year	61,088	58,843
Interest income	2,247	1,825
Actual return on plans assets less interest income	3,478	6,891
Employer contributions	-	210
Contributions by plan participants	542	577
Benefits paid	(4,652)	(6,917)
Taxes, premiums and expenses paid	(318)	(341)
Transfers in	-	-
Contributions to accumulation section	-	-
Settlements	-	-
Exchange rate changes	-	-
Fair value of plan assets at end of the year	**62,385**	**61,088**

Notes to the Financial Statements

for the year ended 30 June 2015

24. Defined benefit superannuation asset/liability *continued*

Reconciliation of the defined benefit obligation	2015 $'000	2014 $'000
Present value of defined benefit obligations at the beginning of the year	56,226	67,727
Current service cost	1,299	1,736
Interest cost	2,084	2,051
Contribution by plan participants	542	577
Actuarial (gains)/losses arising from changes in demographic assumptions	-	(1,564)
Actuarial (gains)/losses arising from changes in financial assumptions	2,271	(6,512)
Actuarial (gains)/losses arising from liability experience	(4,365)	(531)
Benefits paid	(4,652)	(6,917)
Taxes, premiums and expenses paid	(318)	(341)
Transfers in	-	-
Contributions to accumulation section	-	-
Past service cost	-	-
Gain/loss on settlements	-	-
Settlements	-	-
Exchange rate changes	-	-
Present value of defined benefit obligation at the end of the year	53,087	56,226

Reconciliation of the defined benefit obligation

The asset ceiling has no impact on the net defined benefit liability/(asset).

24. Defined benefit superannuation asset/liability *continued*

Fair value of plan assets

Consolidated entity As at 30 June 2015	Total $'000	Quoted prices in active markets for identical assets – Level 1 $'000	Significant observable inputs – Level 2 $'000	Unobservable inputs – Level 3 $'000
Asset category				
Cash and cash equivalents	-	-	-	-
Equity instruments	-	-	-	-
Debt instruments	-	-	-	-
Derivatives	-	-	-	-
Real estate	-	-	-	-
Investment funds	62,385	-	62,385	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**62,385**	**-**	**62,385**	**-**

The percentage invested in each asset class at the reporting date is:

As at	30 June 2015	30 June 2014
Australian equity	29%	30%
International equity	25%	24%
Fixed income	11%	11%
Property	9%	9%
Growth alternatives	9%	8%
Defensive alternatives	9%	10%
Cash	8%	8%

Fair value of entity's own financial instruments

The fair value of plan assets includes no amounts relating to:

- any of Group's own financial instruments
- any property occupied by, or other assets used by, the Group.

Assumptions to determine defined benefit cost	30 June 2015	30 June 2014
Discount rate	3.8% p.a.	3.2% p.a.
Expected salary increase rate	3.0% p.a.	4.0% p.a.
Expected pension increase rate	3.0% p.a.	3.0% p.a.
Assumptions to determine defined benefit obligation		
Discount rate	3.2% p.a.	3.8% p.a.
Expected salary increase rate	3.0% p.a.	3.0% p.a.
Expected pension increase rate	2.5% p.a.	3.0% p.a.

Notes to the Financial Statements

for the year ended 30 June 2015

24. Defined benefit superannuation asset/liability *continued*

Sensitivity analysis

The defined benefit obligation as at 30 June 2015 under several scenarios is presented below.

Scenario A and B relate to discount rate sensitivity. Scenario C and D relate to salary increase rate sensitivity. Scenario E and F relate to pension indexation assumptions.

Scenario A: 0.5% p.a. lower discount rate assumption
Scenario B: 0.5% p.a. higher discount rate assumption
Scenario C: 0.5% p.a. lower salary increase rate assumption
Scenario D: 0.5% p.a. higher salary increase rate assumption
Scenario E: 0.5% p.a. lower pension indexation assumption
Scenario F: 0.5% p.a. higher pension indexation assumption

	Base case	Scenario A -0.5% p.a. discount rate	Scenario B +0.5% p.a. discount rate	Scenario C -0.5% p.a. salary increase rate	Scenario D +0.5% p.a. salary increase rate	Scenario E -0.5% p.a. pension indexation	Scenario F 0.5% p.a. pension indexation
Discount rate	3.2% p.a.	2.7% p.a.	3.7% p.a.	3.2% p.a.	3.2% p.a.	3.2% p.a.	3.2% p.a.
Salary increase rate	3.0% p.a.	3.0% p.a.	3.0% p.a.	2.5% p.a.	3.5% p.a.	3.0% p.a.	3.0% p.a.
Pension indexation	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.0% p.a.	3.0% p.a.
Defined benefit obligation^ A$'000	53,087	56,104	50,300	51,372	54,894	52,014	54,272

^ includes contributions tax provision.

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other assumptions.

Asset liability matching strategies

We are not aware of any asset and liability matching strategies adopted by the plan.

Funding arrangements

The Equipsuper Contribution and Funding Policy provides for a review of the financial position of the plan each six months, as at 30 June and 31 December, with the Group's contribution rate comprising a long-term contribution rate and an adjustment to meet the financing objective of a funding ratio of 105%.

The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past membership benefits.

Where the funding ratio is greater than 100%, the financing objective is to achieve a funding ratio of 105% over five years. Where the funding ratio is less than 100%, the primary financing objective is to achieve 100% over three years and 105% over five years.

In the most recent review of the financial position as at 31 December 2014, the actuary recommended a Group contribution rate of nil. The next actuarial review of the plan will be required as at 30 June 2015.

The Group continues to contribute salary sacrifice contributions at the required rates for accumulation members.

Expected contributions

	30 June 2016 $'000
Expected employer contributions	-

Maturity profile of defined benefit obligation

The weighted average duration of the defined benefit obligation as at 30 June 2015 is nine years.

Expected benefit payments for the financial year ending on	$'000
30 June 2016	4,124
30 June 2017	4,672
30 June 2018	5,043
30 June 2019	5,470
30 June 2020	5,489
Following 5 years	34,588

The weighted average duration of the defined benefit obligation as at 30 June 2014 was nine years.

Notes to the Financial Statements

for the year ended 30 June 2015

25. Related party disclosures

Department of Environment, Land, Water and Planning

The Department of Environment, Land, Water and Planning leads and directs the Group for implementing the framework for achieving the Victorian Government's responsibilities for sustainability of the natural and built environment.

The Group, under normal commercial agency agreement, bills and collects charges relating to Parks Victoria services on behalf of the department. In addition, the Group is required to make and receive various payments to the department (including the Environmental Levy).

Entities with significant influence

Department of Treasury and Finance

The Department of Treasury and Finance administers the *Water Act 1989* and the *Financial Management Act 1994* with which the Group is required to comply. The Department of Treasury and Finance also collects income taxes, the financial accommodation levy and dividend payments from the Group.

Related parties with significant transactions

Melbourne Water Corporation

Melbourne Water Corporation has the same controlling entities as the Group, and is therefore considered to be a related party. The Group transacts solely with Melbourne Water Corporation for the purchase of bulk potable water and sewage treatment. The Group, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water Corporation. As part of the Government Water Rebate (formerly known as Fairer Water Bills), the Group also receives rebates from Melbourne Water Corporation which represents its contribution to the rebate program.

Treasury Corporation of Victoria

The Group borrows from, and invests with, the Treasury Corporation of Victoria with transactions based on market interest rates. Treasury Corporation of Victoria also provides advisory and administrative services under normal commercial terms (these services are included in the interest rate).

State Revenue Office

The State Revenue Office is the Victorian Government's major tax collection agency. The State Revenue Office is a service agency of the Department of Treasury and Finance, which falls within the portfolio responsibilities of the Treasurer of Victoria. The State Revenue Office administers Victoria's taxation legislation and collects a range of taxes, duties and levies in addition to providing rebates to not for profit organisations.

Department of Health and Human Services

The Department of Health and Human Services provides a number of services to the community including the provision of rebates and grants to concession holders.

Other related parties

Other related parties relate to other wholly owned state government entities with whom the Group has financial dealings.

(a) Water and sewerage services

Water and sewerage services were provided to related parties for properties within the Group's boundary on the same terms and conditions that apply to all other customers.

(b) Other transactions

All other transactions with Victorian Government related party entities were made on normal commercial terms and conditions.

25. Related party disclosures *continued*

Transactions with related parties

Consolidated entity	2015 $'000	2014 $'000
Receipts from related parties		
Parks Victoria (via Department of Environment, Land, Water and Planning)	2,379	2,149
Melbourne Water Corporation	53,754	3,879
Treasury Corporation of Victoria	159,108	116,513
State Revenue Office	907	848
Payments to related parties		
Department of Treasury and Finance	100,012	59,583
Department of Environment, Land, Water and Planning	30,015	29,895
Melbourne Water Corporation	612,785	619,249
Treasury Corporation of Victoria	60,998	56,481
State Revenue Office	2,647	2,818
Parks Victoria (via the Department of Environment, Land, Water and Planning)	55,348	52,805
Department of Health and Human Services	44,838	43,180
The following amounts remain payable/receivable at balance date:		
Receivables		
Department of Environment, Land, Water and Planning	402	429
Melbourne Water Corporation	57	234
State Revenue Office	231	246
Department of Health and Human Services	1,795	2,007
Payables		
Department of Treasury and Finance	8,094	25,133
Department of Environment, Land, Water and Planning	7	15
Melbourne Water Corporation	7,689	12,349
Treasury Corporation of Victoria (loans and accrued interest)	1,339,143	1,178,216
State Revenue Office of Victoria	504	231

No provision for doubtful debts has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

Loans to and from related parties

Apart from the loan transaction reported above and iota Services Pty Ltd (below), there were no other loan transactions with related parties.

Guarantees given/received

The State Government of Victoria has provided a guarantee on loans sourced from the Treasury Corporation of Victoria (*Borrowing and Investment Powers Act 1987*). There were no other guarantees given to or received from any related parties.

Transactions with controlled entities

During the financial year ended 30 June 2015, South East Water Corporation advanced loans, purchased goods and services and provided accounting and administrative assistance to its controlled entities.

All loans to controlled entities are unsecured and are on normal commercial terms and conditions.

Notes to the Financial Statements

for the year ended 30 June 2015

26. Controlled entities

The consolidated financial statements at 30 June 2015 include the following controlled entity.

The financial year of the controlled entities is the same as that of the parent entity.

Controlled entity	Place of incorporation	Book value of parent entity's investment in $		% of shares held		Contribution to the results in $'000	
		2015	2014	2015	2014	2015	2014
iota Services Pty Ltd	Australia	1	0	100	0	323	0

Prior to January 1 2015, iota Services Pty Ltd operated as an unregulated business division of South East Water corporation. The State of Victoria is South East Water corporation's ultimate parent.

The relevant activities of iota Services Pty Ltd include plumbing services, low pressure solutions, civil products and the sale of OneBox/EOne pumps.

27. Parent entity information – South East Water Corporation

Information relating to South East Water corporation	2015 $'000	2014 $'000
Current assets	135,150	136,407
Non-current assets	3,887,231	3,372,946
Total assets	**4,022,381**	**3,509,353**
Current liabilities	176,878	223,100
Non-current liabilities	1,909,628	1,617,281
Total liabilities	**2,086,506**	**1,840,381**
Contributed equity	443,607	443,608
Reserves	1,012,351	779,741
Retained earnings	479,917	445,623
Total shareholders' equity	**1,935,875**	**1,668,972**
Profit or loss of the parent entity	82,393	93,123
Total comprehensive income of the parent entity	318,904	94,394

28. Reconciliation of net profit after income tax to net cash inflow from operating activities

Consolidated entity	2015 $'000	2014 $'000
Net profit after income tax	82,717	93,123
Depreciation	70,272	66,850
Write-off of non-current assets	949	3,792
Net (profit)/loss on sale of assets	(134)	(41)
Amortisation	10,566	8,357
Asset write downs	-	-
Developer contributed assets	(36,726)	(50,932)
Defined benefit (income)/expenses	1,136	1,752
Changes in operating assets and liabilitieas		
(Increase)/decrease in receivables	1,308	(38,915)
(Increase) / decrease in inventories	(1,213)	(236)
(Increase) / decrease in prepayments	611	194
(Increase) / decrease in Def Ben Super Surplus	-	-
Increase in income tax payable	(17,811)	13,197
Increase in deferred tax liabilities	1,089	(13,274)
Increase in deposits and advances	4,295	2,498
Decrease in provisions	711	(1,818)
Decrease in trade creditors	7,836	2,890
Increase in accrued interest payable	2,515	1,758
Net cash flow used by operating activities	**128,121**	**89,195**

29. Economic dependence

The normal trading activities of the Group are dependent on the provision of bulk water and sewage treatment services from Melbourne Water Corporation. No alternative supplier exists and this is envisaged to continue into the foreseeable future.

As required by the State Government, the Group's borrowings are sourced solely from the Treasury Corporation of Victoria.

30. Events after reporting date

As at 30 June 2015, South East Water recorded the following events as subsequent to the financial year end.

Review of water sector board director positions

On 8 April 2015, the Minister for Environment, Climate Change and Water, the Hon Lisa Neville MP, announced a review of all 135 Victorian water corporation board director positions. Expressions of interest were invited during April and May 2015 with new boards to be in place by 1 October 2015. Water corporations remain governed by a properly constituted board of directors and will do so following 1 October 2015 when any new appointments are due to commence.

Head office relocation

The Group will transfer its operations from Heatherton to Frankston in the first half of 2015–16.

As at the time of signing this annual report the aforementioned events have occurred and concluded.

Directors' and Chief Financial Officer's Declaration

We certify that the attached Financial Statements for the Group have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards, Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2015 and the financial position of the Group as at 30 June 2015.

We are not aware of any circumstance which would render any particulars included in the Consolidated Financial Statements to be misleading or inaccurate.

Dated at Melbourne this 19th day of October 2015.

Lucia Cade
Chair

Kevin Hutchings
Managing Director

Phil Johnson
Chief Financial Officer

Independent Auditor's Report

VAGO

Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000
Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
Email comments@audit.vic.gov.au
Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Board Members, South East Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2015 of the South East Water Corporation which comprises the consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, notes comprising a statement of significant accounting policies and other explanatory information, and the directors and chief financial officer's declaration has been audited. The financial report is the consolidated financial statements of the consolidated entity, comprising the South East Water Corporation and the entity it controlled at the year's end as disclosed in Note 26 to the consolidated financial statements.

The Board Members' Responsibility for the Financial Report

The board members of the South East Water Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the board members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the South East Water Corporation's and the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the South East Water Corporation's and the consolidated entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the board members, as well as evaluating the overall presentation of the financial report.

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

Independent Auditor's Report

Independent Auditor's Report (continued)

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Basis for Qualified Opinion

As stated in Note 1(d) and Note 9, South East Water Corporation measures the fair value of its infrastructure assets using the income approach (discounted cash flow) method in accordance with the requirements of AASB 13 *Fair Value Measurement* and the Financial Reporting Direction 103F *Non-Current Physical Assets*.

My audit identified an error in the fair value of infrastructure assets because South East Water Corporation has inappropriately accounted for deferred tax benefits in their fair value calculation, which constitutes a departure from AASB 13 *Fair Value Measurement*.

The error in the fair value model overstates the fair value of infrastructure assets and the infrastructure assets revaluation reserve by an estimated $279.5 million as at 30 June 2015 (an estimated $248.0 million at 30 June 2014). This error has a consequential impact on the depreciation expense, income tax expense, current tax payable and net deferred tax liabilities for the year ending 30 June 2015. The effects of this error on these amounts have not been determined as it is not practicable to do so.

Qualified Opinion

In my opinion, except for the effect or possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report presents fairly, in all material respects, the financial position of the South East Water Corporation and the consolidated entity as at 30 June 2015, their financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
21 October 2015

Dr Peter Frost
Acting Auditor-General

Risk Management Attestation

Attestation of compliance with the Australian/New Zealand Risk Management Standard

I, Lucia Cade, certify that South East Water Corporation has complied with the Ministerial Standing Direction 4.5.5 – *Risk Management Framework and Processes*. The South East Water Board and Finance Assurance and Risk Management Committee has verified this assurance.

Lucia Cade
Chair

19 October 2015

Disclosure Index

South East Water's Annual Report 2014–15 is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to identify South East Water's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
Report of operations		
FRD 22F	Chair and Managing Director's report	2
FRD 22F, SD 4.2(g)	Corporation initiatives and key achievements	4
Charter and purpose		
FRD 22F	Manner of establishment and the relevant Minister	Inside cover
FRD 22F	Objectives, functions, powers and duties	Inside cover
FRD 22F	Nature and range of service provision	Inside cover
Management and structure		
FRD 22F	Organisational chart and board and committee members	20
FRD 22F	Corporate governance arrangements	25
Financial and other information		
FRD 8C	Performance reporting against targets	31
FRD 10	Disclosure index	96
FRD 22F, SD 4.2(g)	Five year financial summary	8
FRD 22F	Current year financial review	9
FRD 22F	Significant changes in financial position	9
FRD 22F	Significant changes or factors affecting performance	9
MRO	Capital projects	9
FRD 22F	Subsequent events	9
FRD 22F	Occupational health and safety management	27
FRD 22F	Public administration values and employment principles	28
FRD 22F	Workforce data disclosure	28
FRD 22F	Workforce inclusion policy	28
FRD 22F	Application of the *Carers Recognition Act 2012*	28
FRD 22F	Disclosure of consultancy expenditure	29
FRD 22F	Disclosure of government advertising expenditure	29
FRD 22F	Application of *Freedom of Information Act 1982*	29
FRD 22F	Additional information available on request	29
FRD 22F	Compliance with the *Protected Disclosure Act 2012*	29
FRD 22F	Compliance with *Building Act 1993*	30
FRD 22F	Statement on National Competition Policy	30
FRD25B	Victorian Industry Participation Policy disclosure	30
FRD 27C	Presentation and reporting of performance information	31
FRD 30B	Standard requirements for the design and print of annual reports	Entire report

Legislation	Requirement	Page reference
Ministerial reporting directions		
MRD 01	Performance reporting	31
MRD 02	Reporting on water consumption and drought response	10
MRD 03	Environmental and social sustainability reporting	11
MRD 04	Disclosure of information on bulk entitlements	16
MRD 05	Annual reporting of major non-residential water users	19
Financial Report		
Financial statements required under Part 7 of the *Financial Management Act 1994*		
SD4.2(a)	Compliance with Australian Accounting Standards, Financial Reporting Directions and business rules	48
SD4.2(b)	Compliance with inclusion of Income Statement, Balance Sheet; Statement of recognised income and expense; Cash Flows Statement; and Notes to the Financial Statements.	42-45
SD4.2(c)	Declaration of Directors, CFAO and Accountable Officer	92
SD4.2(d)	Compliance with financial statements expressed to the nearest dollar	42-91
SD4.2(e)	Compliance with financial statements reviewed and recommended by the audit committee	Yes
SD4.2(f)	Financial statements present fairly and in accordance with the requirements within the Model Financial Statements	42-91
Report of Operations requirements under part 7 of the *Financial Management Act 1994*		
SD4.2(g)	Qualitative and quantitative information consistent with the financial statements; operational highlights and future initiatives	Entire report
SD4.2(h)	Prepared in accordance with requirements of the Financial Reporting Directions	48
SD4.2(i)	Presented in accordance with guidelines of the Model Report of Operations	Entire report
SD4.2(j)	Report of operations signed and dated by Chair	3
Other requirements under Standing Directions		
SD 2.2(f) & (g)	Compliance with requirement for independent audit committee members	26
SD 4.5.5	Risk Management Attestation	95

Legislation

Water Act 1989, Water Industry Act 1994, Freedom of Information Act 1982, Building Act 1993, s.70(1) Protected Disclosure Act 2012, Victorian Industry Participation Policy Act 2003, Financial Management Act 1994, Carers Recognition Act 2012, Public Administration Act 2004

WatersEdge
101 Wells Street
Frankston VIC 3199

southeastwater.com.au

South East Water Corporation ABN 89 066 902 547