

SOUTH EAST WATER
**ANNUAL
REPORT
2010-11**

INCLUDING THE FINANCIAL REPORT

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We are pleased to present South East Water's Annual Report for 2010-11. This report provides a summary of our performance, audited Financial Report, Corporate Governance Statement and other statutory information requested by the Department of Sustainability and Environment.

It has been a challenging year for the water industry with rising prices and extreme weather events. Against this backdrop, we have strived to provide value and high quality water and sewerage services to our 1.5 million customers.

Our drive for innovation and improvement, coupled with the increased demand from population growth in our service region, acts as a catalyst for our leadership in the development of an Integrated Water Management Strategy. This complements our ongoing work to support new residential developments in Melbourne's south east, as well as the connection of more than 6,400 homes to recycled water infrastructure within dual-pipe estates.

A key challenge is to ensure that the infrastructure needed to support this growth is in place. Projects underway, such as the Pakenham to Narre Warren Sewage Transfer Scheme, recycled water projects and ongoing renewal of existing assets, are fundamental to servicing our customers and community into the future.

Our backlog sewer program continues to improve water quality in local waterways in communities where waste from failing septic tanks poses risks to the environment and public health. During the year, we connected over 500 unsewered properties to our sewerage system and commenced construction of a reticulated sewerage system in Rye to enable connections in the coming year.

Central to this work has been extensive community and stakeholder engagement, and we are pleased to have been recognised for our approach at the 2010 International Association for Public Participation (IAP2) Awards.

We would like to take this opportunity to acknowledge the commitment and effort of our entire workforce in delivering first class water and sewerage services across Melbourne's south east. We also recognise the contribution of our former Managing Director, Shaun Cox, throughout his three years of service.

Financial performance

South East Water recorded an operating profit of \$95.4 million for the year ended 30 June 2011. This was below budget expectations but comparable with the previous financial year.

This result was largely due to the impact of abnormally high rainfall which reduced income from water consumption charges and increased sewage treatment costs. We were able to partly offset this through ongoing productivity and efficiency initiatives.

South East Water's investment of \$163.1 million in essential infrastructure was largely driven by growth-related capital expenditure related to network augmentation, sewage treatment plant upgrades and our backlog sewer and water recycling programs.

Our imperative is to drive customer value while continuing to provide valuable shareholder returns. To support our future financial sustainability, the Board and executive team will continue to seek productivity and efficiency gains and value-adding opportunities across the business.



Douglas Shirrefs
Chairman



Kevin Hutchings
Managing Director

29 August 2011

Customers

Customer service

South East Water's leadership position in operational performance, cost efficiency and customer service was recognised by a national benchmarking report in April 2011 (for 2009-10). The report, released by the National Water Commission, also showed South East Water's operating costs to be the lowest in Victoria for the fifth year in a row.

In 2010-11, South East Water maintained its track record for rapid call response times. Over 94 per cent of calls to the Customer Contact Centre were answered within 30 seconds, and almost 97 per cent of calls to the Faults and Emergencies Centre were also answered within this timeframe.

South East Water received ratings from its customers of 87 per cent for quality, 84 per cent for satisfaction and 79 per cent for value. Extensive insight work, and a range of system and service improvements, were rolled out to support the ongoing focus on building customer value. This work will progressively deliver new and improved service channels, faster response times and an increase in customer satisfaction and service quality.

The South East Water Assist program continued to support customers experiencing financial difficulty. The partnership between South East Water and Good Shepherd Youth and Family Service, now in its tenth year, provided financial assistance to around 2,500 new and existing customers.

Products and services

South East Water continued its focus on water efficiency programs to support its customers. South East Water exchanged 15,020 showerheads and replaced 1,605 inefficient single flush toilets with water efficient models. A new toilet replacement program for non-residential customers was launched during the year.

South East Water's Fire Service program identified almost 35 million litres of water savings during the year and won a national savewater! award for significantly reducing the amount of drinking water used to test fire sprinkler systems.

A food and oil interceptor installation service that prevents fats, oils and food particles from entering the sewerage system was introduced in 2010-11. In addition to supporting manufacturing and food service customers in meeting current regulations, the service also protects the environment and community infrastructure.

Water Management

Chapel Street Water Main Renewal

The renewal of 3.3 kilometres of water main pipeline along iconic Chapel Street was completed during the year. South East Water actively engaged with its customers throughout this project to minimise disruption to local businesses and residents. Across its entire service region, South East Water renewed 31.8 kilometres of water main pipeline to support the delivery of a reliable and high quality water supply.

Recycled water projects

During the year, South East Water connected a record number of residential properties at dual-pipe estates to recycled water. As at 30 June 2011, more than 6,400 properties were connected to Class A recycled water infrastructure, with recycled water flowing to 3,412 households for outdoor and toilet use.

In the coming year, Avenview Estate residents in Narre Warren North will receive recycled stormwater for their outdoor and toilet use from a purpose-built treatment facility. This facility will draw stormwater from the local Troups Creek wetlands. The project will provide valuable insights into large scale stormwater recycling.

The Boneo community was provided with access to 1,600 million litres of recycled water for the irrigation of crops and recreational areas. Communities in Frankston and Mornington were provided with access to 160 million litres of recycled water for the irrigation of recreational areas.

During the year, construction of the Pakenham and Somers recycled water treatment plants, which will support growing local urban recycled water schemes, were completed.

Commissioning of the sewage pump station on Thornhill Street in Hastings was underway as at 30 June 2011. This project has applied an innovative drilling technique as opposed to traditional 'shaft' excavation methods. This approach enhanced safety for employees, reduced construction time and minimised the impact on local plants and animals on the protected wetlands nearby.

Sewerage Management

Pakenham to Narre Warren Sewage Transfer Scheme

South East Water continued to expand its network capacity to meet the ongoing challenge of rapid population growth in Melbourne's south east. Commissioning of the Pakenham to Narre Warren Sewage Transfer Scheme commenced during the year.

This major project will provide capacity to service additional customers in the Cardinia growth corridor and alleviate potential operational and environmental risks associated with limited sewer capacities. It will also enable the Pakenham Sewage Treatment Plant to cease discharging to Deep Creek and Western Port, in accordance with Environment Protection Authority (EPA) requirements.

Backlog sewer program

In 2010-11, South East Water connected more than 500 properties to its sewerage network in Merricks Beach, Belgrave Heights, Belgrave South, Upper Beaconsfield, Nar Nar Goon and Tynong. This work is part of a program that protects the environment and public health from the impacts of failing household septic tanks.

The project in Belgrave Heights used leading edge technology to identify the location of critical rock formations, generating a never before seen 3D visual of the underground land form. This technology will enable pump stations and pipelines to be optimally located, reducing costs and delivering significant time efficiencies that will ultimately benefit South East Water's customers through faster connections.

Close to six kilometres of reticulation sewer pipes were installed in Rye to enable connections over the coming year.

Community and Stakeholder Engagement

South East Water continued to work with its customers and stakeholders to support the delivery of sustainable solutions using its community engagement framework. The framework was embedded in the planning, implementation and evaluation processes across key infrastructure projects.

The community engagement framework is aligned to the International Association for Public Participation (IAP2) model for engagement, and South East Water's approach has been recognised by IAP2 as best practice.

Integrated Water Management

South East Water and its partners, Melbourne Water and Southern Rural Water, further developed an Integrated Water Management (IWM) strategy.

A Stakeholder Reference Group made up of 26 representatives from across government, community, industry, development and environment sectors, met monthly to develop the strategy. It will be finalised in late 2011 following wider public consultation.

At its heart, the strategy is a local solutions model with a holistic approach to managing the end-to-end water cycle. The partnership seeks to deliver a mix of water solutions to maximise long term liveability, sustainability and productivity in Melbourne's south east.

A key IWM-related activity undertaken during the year was South East Water's work with the City of Melbourne, exploring innovative water and sewerage solutions for the growing Southbank precinct.

The IWM strategy ties in strongly with the roadmap under development for the Victorian Government's Living Melbourne, Living Victoria water strategy. South East Water contributed to the Ministerial Advisory Council's review to ensure the unique needs of Melbourne's south east were incorporated.

Industrial Ecology

In 2010-11, South East Water's Industrial Ecology program won the Program Innovation Award at the 2010 Australian Water Association (AWA) Victoria Water Industry awards.

During the year, South East Water and City West Water brought together Port Melbourne industrial customers to discuss mutually beneficial resource sharing. More than 100 business opportunities were generated from these discussions, ranging from customers sharing warehouse space to one business using the sludge by-product of another in its production process.

NuRON and BlokAid

During the year, South East Water filed a provisional patent for NuRON – a tool to monitor water supply in real-time to enable potential system failures to be identified and addressed before they occur.

The '**us**' – Utility Services alliance was awarded a significant contract to provide a sewer level overflow monitoring solution to the Singapore Public Utilities Board (PUB). The alliance supplied 1,000 BlokAid devices to be installed in PUB's network.

BlokAid is a fully self-contained overflow monitoring device for sewerage and stormwater networks and is currently the only intrinsically safe certified device of its kind in the world.

South East Water (“the Company”) is a corporation under the *Corporations Act 2001* (Cth). South East Water is also a State owned company under the *State Owned Enterprises Act 1993* (Vic). All of the issued shares in the Company are owned by a single shareholder on behalf of the State Treasurer.

As part of South East Water’s strategic framework, the Board has approved a governance strategy. The strategy comprises three supporting plans, a corporate governance plan (including legal and compliance), a procurement plan and an audit plan. The principal goal of this strategy is to ensure South East Water not only continues to observe all relevant laws and practices, but also strives to achieve best practice benchmarks in the areas of corporate governance, compliance, procurement and audit.

The governance strategy complies with the Governance Guide to the Victorian Water Industry. This provides an overview of the governance framework under which South East Water operates, including an economic regulator and a number of technical regulators.

The Company has been issued a Water and Sewerage Licence by the Minister for Water under the *Water Industry Act 1994* (Vic). The Minister for Water has also issued a Statement of Obligations to South East Water under the *Water Industry Act*.

The Board

Ultimate responsibility for the governance of the Company rests with South East Water’s Board. The key roles of the Board are to determine the vision, mission, values and strategic objectives of the Company and ensure compliance with these via:

- Determining all material policies governing the operations of the Company, including Delegations of Authority
- Ensuring key risks are identified and appropriately managed
- Regularly reviewing the progress and performance of the Company in meeting its strategic objectives, and ensuring that appropriate resources are available to achieve pre-determined performance targets.

Board Composition

As at 30 June 2011, the Board comprised six non-executive directors, including a Chairman. It should be noted that Mr Kevin Hutchings was Acting Chief Executive Officer from 28 February 2011 until this time. The directors come from diverse backgrounds and bring to the Board an appropriate mix of skills and experience. Directors are appointed by the shareholder.

Reporting to the Shareholder

The Board seeks to inform its shareholder of all major developments affecting the Company. This is accomplished through:

- Quarterly performance reports to the shareholder
- Annual and half-yearly reports (each containing information about operations and financial and non-financial performance against key indicators)
- A detailed, annual three-year Corporate Business Plan, as provided by the *State Owned Enterprises Act 1992* and consultation thereon
- Direct contact between the Chairman, Managing Director and shareholder representatives on key issues
- Frequent communication at executive level on performance, industry and policy issues
- Board performance evaluation.

Board Performance Evaluation

Over the first half of 2011, a comprehensive review of Board practices and processes was undertaken. The review was conducted by Mr John Harte (Integrity Governance) and included both quantitative (a detailed survey) and qualitative elements (one-on-one interviews and director debriefs, including with the Chairman).

In all, 18 key recommendations were made in the report and have been endorsed by the Board as part of its commitment to the continual improvement of Board practices and processes.

Board Attendance and Involvement

From 1 July 2010 until 30 June 2011, eleven board meetings were held to consider, among other things, the work of the Ministerial Advisory Council, development of an Integrated Water Management Strategy, funding for the Northern Victorian Irrigation Renewal Project and South East Water's vision, brand and customer strategy. A strategic corporate planning workshop was also held with the executive team in December 2010.

In addition to monthly reporting, the Board received regular detailed briefings from senior management on key issues during the year and undertook inspections of assets and facilities.

Board Committees

The Board has the following three committees: the Finance, Audit and Risk Management Committee; the Service Delivery, Capacity and Performance Committee; and the Remuneration Committee.

Each Committee operates under a written charter (contained on South East Water's website) and is chaired by a non-executive director.

Finance, Audit and Risk Management Committee

For the 2010-11 financial year, the Finance, Audit and Risk Management Committee comprised: Mr J Turcato (Committee Chairman from February 2011); Mr D Shirrefs; and Dr G Gentle.

Meetings are held at least quarterly or as requested by a committee member, or internal or external auditors. The committee reviews, monitors and, where necessary, recommends improvements to internal control processes, financial reporting, the internal audit function, the external audit process, health, environment, workplace safety, compliance and the Company's risk management process.

The Victorian Auditor-General has been appointed as the external auditor in accordance with the *Audit Act 1994*. Chartered accountants PricewaterhouseCoopers has acted as the Company's internal auditor for the 2010-11 financial year and reports directly to the Finance, Audit and Risk Management Committee.

Service Delivery, Capacity and Performance Committee

For the financial year 2010-11, the Service Delivery, Capacity and Performance Committee comprised: Mr A Beach (Committee Chairman); Dr J Slocombe; Mr R Passalaqua (from 1 October 2010); and Mr D Shirrefs.

Meetings are held at least quarterly or as requested by a committee member. The committee reviews, monitors and, where necessary, recommends improvements to current corporate strategies and plans for delivery of services to customers and other stakeholders, and monitors the effective performance of these services.

Remuneration Committee

For the financial year 2010-11, the Remuneration Committee comprised the non-executive directors of the Board: Mr A Beach; Dr G Gentle; Mr D Shirrefs; Dr J Slocombe; Mr J Turcato; and Mr R Passalaqua (appointed 1 October 2010), with the Managing Director attending by invitation where appropriate. The committee's responsibilities include establishing and reviewing the Managing Director's and senior management's remuneration packages, which must comply with the Government Sector Executive Remuneration Guidelines. Remuneration of non-executive directors is in accordance with government policy for State owned companies.

The committee annually assesses the performance of the Managing Director and senior executives by reference to specific company-wide and individual criteria. A portion of each executive's remuneration is performance-related.

Director Attendance at Board and Committee Meetings

	Board		Remuneration		Financial Audit & Risk Management		Service Delivery, Capacity & Performance	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
D Shirrefs ¹	11	10	4	3	4	4	4	4
A Beach	11	10	4	4	N/A	N/A	4	4
R Passalacqua ²	8	8	2	2	N/A	N/A	3	3
S Cox ³	7	7	3	3	3	3	3	3
G Gentle	11	11	4	4	4	4	N/A	N/A
J Slocombe	11	10	4	3	N/A	N/A	4	4
J Turcato	11	11	4	4	4	4	N/A	N/A
K Hutchings ⁴	5	5	1	1	1	1	1	1

1 Mr Douglas Shirrefs was appointed Chairman on 1 October 2010.

2 Mr Ross Passalacqua was appointed as Director on 1 October 2010.

3 Mr Shaun Cox resigned as Managing Director from South East Water effective 25 February 2011.

4 Mr Kevin Hutchings was appointed Acting Chief Executive Officer on 28 February 2011 and therefore his attendance at the Board and committee meetings was in an ex-officio capacity.

Risk Identification and Management

The Board has taken an active role in ensuring risk management is integrated into the management systems and culture of the Company. The Board has approved a comprehensive risk management framework that articulates the risk management responsibilities of the Board, its committees, and management.

The framework provides a methodology for the identification, analysis, evaluation, treatment, reporting and auditing of risk and is supplemented by post implementation project reviews. An assessment of key business risks (including their inherent and residual risk ranking) is incorporated in the Company's Business Risk Profile and is reported quarterly to the Finance, Audit and Risk Management Committee and annually to the Board.

The Company has extensive risk control systems in place, including documentation of key processes through integrated and externally certified Quality, Environmental Management, Occupational Health and Safety, and Hazard Analysis and Critical Control Point (HACCP) systems.

Risk management is fully integrated with asset management, water quality and security management systems. Specific controls are in place for financial management and treasury functions. Audit programs cover financial and operational matters and are aligned to the Company's high-risk areas. A comprehensive insurance program and emergency response plans complement other risk mitigation programs.

To further enhance adherence to key legal and associated obligations, a Compliance Committee, which was established in 2007, meets at least twice a year to drive a renewed awareness and commitment among staff to these duties.

Furthermore, the Managing Director and the General Manager Corporate Services (in his capacity as Chief Financial Officer) declared in writing to the Board that, in their opinion:

- (a) The financial records of the Company have been properly maintained in accordance with the *Corporations Act 2001*.
- (b) The financial statements and notes of the Company:
 - (i) Comply with the *Corporations Act 2001* and Australian Accounting Standards
 - (ii) Give a true and fair view of the Company's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.
- (c) With regard to the risk management and internal compliance and control systems of the Company as they relate to financial reporting:
 - (i) The statements made in (a) and (b)(i) and (ii) above, regarding the integrity of the financial reports, are founded on a sound system of risk management and internal compliance and control systems which implement the policies adopted by the Board
 - (ii) The systems are operating efficiently and effectively in all material aspects.

Occupational Health and Safety (OH&S)

The Board of South East Water is fully committed to ensuring it continually improves the safety of its people, contractors, visitors and the community.

Our Safety Management System has recognised processes for the continual analysis of objectives and targets to identify areas in need of improvement, thereby raising the level of the organisation's performance. The system is based on best practice and incorporates the requirements of legislation, with key objectives centred on:

- Risk management
- Health and wellbeing
- Culture
- Compliance

This will ensure an overall improvement to safety at South East Water, with responsibilities appropriately aligned to South East Water's goals.

Corporate Governance Principles and Recommendations

The second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations was published in August 2007. Unlike an Australian listed company, South East Water is not required to report on the extent of compliance with the Recommendations.

Nevertheless, as a matter of good corporate governance, South East Water has assessed its practice against the Principles and Recommendations and analysis confirms that South East Water satisfies those principles, save that:

- There is no nomination board committee as set out in Recommendation 2.4. As the Company's constitution provides for the shareholder to appoint the directors (and the Board to appoint a Managing Director), and as the Victorian Government is the sole shareholder, it is not considered appropriate to establish such a committee.

Director Independence

South East Water has adopted the following definition of 'independence':

"A director who does not have a relationship where there are, or are perceived to be, matters that could materially interfere with the director:

- Making decisions on matters that regularly come before the Board or its committees
- Objectively assessing information and advice given or obtained by management
- Setting policy for general application across the Company
- Generally, carrying out the performance of his or her role as a director."

This definition needs to be read in the context of the Company, which is a company registered under the *Corporations Act 2001* and declared to be a 'State owned company' under the *State Owned Enterprises Act 1992*, being wholly-owned by the State of Victoria. In assessing whether a particular director meets the definition of independence adopted by the Company, the Board considers all business, professional or personal relationships of that director which may be relevant. The Board considers that prior employment by government or the holding of a directorship with another State owned or controlled entity does not, of itself, constitute a lack of independence.

Applying the definition on this basis, and after considering the status of each non-executive director during the financial year, the Board 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 encouraged and expected to raise all matters with the Board, with a view to resolving any difference of opinion. Should an issue arise warranting a director to seek independent advice, this may be obtained with the prior approval of the Chairman or the Board, in which case all reasonable costs will be reimbursed.

Ethical Standards

The directors acknowledge the need for, and continued maintenance of, the highest standards of corporate governance practice and ethical conduct by all directors, employees and contractors. The Board seeks to ensure high standards of ethical behaviour through adoption of a Board Code of Ethics, an Employee Code of Conduct and appropriate policies, supported by specific awareness and compliance programs in areas such as equal employment opportunity and trade practices.

Code of Conduct

The Code of Conduct provides a framework to guide all South East Water employees in relation to the professional, ethical and social aspects of their working lives. The code highlights expectations regarding performance, behaviours, legal compliance and a range of work-related matters regardless of where the employee is located or what they are working on.

The standards set within the code apply to full-time, part-time, fixed term and casual employees of South East Water and also to contractors and consultants working for South East Water on a temporary basis.

Whistleblowers Protection Act 2001 Procedures

South East Water (South East Water Limited ABN 89 066 902 547) has established these procedures (procedures) under the *Whistleblowers Protection Act 2001 (Vic) (Act)*. The procedures are to be read together with the Act and the Ombudsman's Guidelines issued in November 2001 (guidelines). A separate 'Explanation of the Procedures' document is available on request from South East Water. The procedures relate to disclosures which could be made under the Act to the Ombudsman or South East Water in relation to activities of certain employees of South East Water.

Three key concepts are improper conduct, corrupt conduct and detrimental action (see the Act for definitions). A member of the public or an employee of South East Water can make a disclosure under the Act if he or she believes on reasonable grounds that a public officer of South East Water has engaged in such conduct or action.

Improper conduct or detrimental action by South East Water or its employees may be disclosed to the following officers:

Protected Disclosure Coordinator

John Robertson
Manager, Customer Regulation and Advocacy
20 Corporate Drive, Heatherton
Victoria 3202
Ph: (03) 9552 3674
Fax: (03) 9552 3771
Email: whistleblowers@sewl.com.au

Protected Disclosure Officer

Leanne Wiebenga
Manager, People and Culture
20 Corporate Drive, Heatherton
Victoria 3202
Ph: (03) 9552 3209
Fax: (03) 9552 3001
Email: leanne.wiebenga@sewl.com.au

The Protected Disclosure Officer or Coordinator decides if the disclosure falls under the Act (i.e. it is a protected disclosure). Any protected disclosure must be made by a natural person on reasonable grounds, must relate to South East Water or its public officer and must allege improper conduct or detrimental action (section 5 of the Act). If it is a protected disclosure, the Protected Disclosure Coordinator will appoint a welfare manager to look after the general welfare of the whistleblower. If it is concluded that the disclosure shows or tends to show that a public officer has or will engage in improper conduct or has or will take detrimental action, then the Protected Disclosure Officer or Coordinator refers the matter to the Ombudsman as a public interest disclosure. The Ombudsman then decides if the matter is a public interest disclosure. If it is, in most cases the Ombudsman will refer the matter back to South East Water for investigation. South East Water would then investigate the matter in accordance with the Act, Ombudsman's Guidelines and these procedures. South East Water will appoint an investigator to collect information and make a report to the Protected Disclosure Coordinator. The report will include what South East Water should do to remedy loss or prevent similar conduct in the future. The Protected Disclosure Coordinator will then report in writing to the Ombudsman and whistleblower, and if there was disclosed conduct they would report in writing to the Managing Director and the Minister as well, including reporting on what South East Water should do.

If the matter is not a protected disclosure, South East Water may still investigate it in line with the normal complaints management process.

Where a protected disclosure has been made, the whistleblower has protections under the Act. Their identity is kept confidential as far as possible and they are protected from detrimental action. The whistleblower (unless anonymous) will receive regular reports on the progress of the matter.

Improper conduct or detrimental action by South East Water or its employees may also be disclosed directly to the Ombudsman:

The Ombudsman Victoria

Level 9, 459 Collins Street
Melbourne Victoria 3000
(DX 210174)

Internet: www.ombudsman.vic.gov.au
Email: ombudvic@ombudsman.vic.gov.au
Ph: (03) 9613 6222
Toll Free: 1800 806 314

The Act requires any person who receives information due to the handling or investigation of a protected disclosure, not to disclose that information except in certain limited circumstances. Disclosure of information in breach of this Act is an offence.

There were no disclosures, disclosed matters, requests, recommendations or investigations described in section 104(b)-(j) of the Act during the year.

Freedom of Information

South East Water is a prescribed authority under the *Freedom of Information Act 1982*. During 2010-11, South East Water received nine (9) requests for access to documents under the *Freedom of Information Act 1982*. Access to documents was granted in full in all cases.

Requests for access to South East Water documents under the *Freedom of Information Act 1982* are to be made and addressed to:

John Robertson
Manager, Customer Regulation and Advocacy
South East Water Limited
Locked Bag 1
Moorabbin Victoria 3189

Each application must be accompanied by a \$24.40 application fee and clearly identify the documents sought. General enquiries relating to Freedom of Information can be made by contacting the Manager, Customer Regulation and Advocacy on telephone (03) 9552 3674 between 8:30am and 4:30pm, Monday to Friday, or via foi@sewl.com.au

Disability Act 2006

In 2009, South East Water introduced a Disability Action Plan (DAP) for the period 2009-2012.

South East Water's DAP addresses the four outcome areas as set out in section 38 of the *Disability Act 2006* (Vic):

- (a) Reducing barriers to persons with a disability accessing goods, services and facilities
- (b) Reducing barriers to persons with a disability obtaining and maintaining employment
- (c) Promoting inclusion and participation in the community of persons with a disability
- (d) Achieving tangible changes in attitudes and practices which discriminate against persons with a disability.

Our achievements to date include: access audits conducted at our offices in Heatherton and Lynbrook and at our Mt Martha Sewage Treatment Plant. We have also provided disability awareness training to our employees and supported people with disabilities to enter the workforce through employment.

Human Rights

New laws which came into effect on 1 January 2008 required South East Water, as a public authority, to have human rights in mind when dealing with our customers and in our decision making. Our contractors too, as representatives of a public authority, are required to follow our charter (available on our intranet), to enhance a culture which supports and respects these human rights.

Bulk Entitlements

The three metropolitan retail water businesses (the Retailers) hold Bulk Entitlements to the water resources of the Yarra River, Thomson River, Tarago and Bunyip Rivers, and Silver and Wallaby Creeks (Goulburn River Basin). The entitlements have been established as a collective 'pool'.

On 8 October 2010, the Minister for Water added to the 'pool' by granting the Retailers Bulk Entitlements up to 150,000 ML per year of water from the Victorian Desalination Project. The Desalinated Water Bulk Entitlements also imposed obligations to supply Barwon Water, Western Water, Westernport Water and South Gippsland Water with water from the Melbourne 'pool'. As part of imposing the obligations to supply Western Water from the Melbourne 'pool', the Minister removed existing obligations in the Retailers' Yarra River Bulk Entitlements to supply Western Water.

Compliance with the Retailers' Bulk Entitlements

Melbourne Retail Water Business's reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River ²	Silver and Wallaby Creeks ⁷	Thomson River ⁹	Tarago and Bunyip Rivers ¹²	Victorian Desalination Project ¹⁵
The volume of water taken by the Retailers in 2010-11	Clause 15.1 (a) 469,300 ML	Clause 15.1 (a) 456,400 ML	Clause 13.1 (a) 11,300 ML	Clause 15.1 (a) 1,600 ML	Clause 14.1 (a) 13,900 ML (Tarago) 2,200 ML (Bunyip)	Clause 11.1 (a) 0 ML ¹⁶
Compliance with the long term average Bulk Entitlement diversion limit	Clause 15.1 (b) 427,800 ML ¹	Clause 15.1 (b) 289,100 ML ³	Clause 13.1 (b) 17,700 ML ⁸	Clause 15.1 (b) 133,400 ML ¹⁰	Clause 14.1 (f) 13,900 ML (Tarago) ¹³ 2,200 ML (Bunyip) ¹⁴	Clause 11.1 (e) 0 ML
The total annual consumption in 2010-11	343,600 ML	N/A	N/A	N/A	N/A	N/A
The Retailers' share of flow in 2010-11	N/A	Clause 15.1 (a) 436,500 ML	Clause 13.1 (a) N/A	Clause 15.1 (a) 194,000 ML	Clause 14.1 (a) 33,200 ML	Clause 11.1 (a) N/A
The Retailers' share of storage volume at 30/06/11	N/A	Clause 15.1 (a) 528,000 ML	N/A	Clause 15.1 (a) 406,100 ML	Clause 14.1 (a) 21,000 ML	N/A
Volume supplied to Primary Entitlement Holders	N/A	Clause 15.1 (a) N/A ⁴	N/A	N/A	Clause 14.1 (a) 235 ML (Gippsland Water) 0 ML (Southern Rural Water)	Clause 11.1 (a) 7,881 ML ¹⁷ (Western Water)
Any assignment of water allocation or temporary/permanent transfers of the Bulk Entitlement	N/A	Clause 15.1 (c) Nil	Clause 13.1 (c) Nil	Clause 15.1 (c) Nil	Clause 14.1 (b) Nil	Clause 11.1 (b) Nil

Melbourne Retail Water Business's reporting obligation	Combined Yarra River, Silver and Wallaby Creeks, Thomson River	Yarra River²	Silver and Wallaby Creeks⁷	Thomson River⁹	Tarago and Bunyip Rivers¹²	Victorian Desalination Project¹⁵
Any temporary or permanent transfer of the Bulk Entitlement which may alter the flow in the waterway	N/A	Clause 15.1 (d) Nil	Clause 13.1 (d) Nil	Clause 15.1 (d) Nil	Clause 14.1 (a) Nil	N/A
Any amendment to the Bulk Entitlement	N/A	Clause 15.1 (e) Yes ⁵	Clause 13.1 (e) Nil	Clause 15.1 (e) Nil	Clause 14.1 (d) Nil	Clause 11.1 (c) Nil
Any new Bulk Entitlement granted to the Retailers	N/A	Clause 15.1 (f) Nil	Clause 13.1 (f) Nil	Clause 15.1 (f) Nil	Clause 14.1 (e) Nil	Clause 11.1 (d) Nil
Any failures to comply with any provision of the Bulk Entitlement	N/A	Clause 15.1 (g) Nil	Clause 13.1 (g) Nil	Clause 15.1 (g) Nil	Clause 14.1 (g) Nil	Clause 11.1 (f) Nil
Any difficulty experienced in complying with the Bulk Entitlement and, if so, any remedial action taken or proposed	N/A	Clause 15.1 (h) Yes ⁶	Clause 13.1 (h) Nil	Clause 15.1 (h) Yes ¹¹	Clause 14.1 (h) Nil	Clause 11.1 (g) Nil

Notes to compliance with Bulk Entitlements

Combined Yarra River, Silver and Wallaby Creeks, Thomson River

- (1) Compliance with the long term average diversion limit of 555,000 ML is assessed using a 15-year rolling average annual diversion.

Yarra River

- (2) The Retailers hold the following Bulk Entitlements on the Yarra River:
- Bulk Entitlement (Yarra River – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049364
 - Bulk Entitlement (Yarra River – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049363
 - Bulk Entitlement (Yarra River – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049362
- (3) Compliance with the long term average diversion limit of 400,000 ML is assessed using a 15-year rolling average annual diversion.
- (4) Water supplied to Western Water in 2010-11 is reported against the Retailers' Desalinated Water Bulk Entitlements.
- (5) On 24 October 2010, the Minister for Water revoked obligations for the Melbourne Retailers to supply Western Water from their Yarra River Bulk Entitlements.
- (6) One qualification of the Yarra River's Environmental Entitlement continued to supplement Melbourne's water supplies from the Yarra River in response to the continuing water shortage. It expired on 12 October 2010 when Melbourne's restriction levels were reduced to Stage 2. Melbourne Water continued to implement the water quality monitoring program and Yarra River Environmental Contingency Plan to monitor and manage the environmental impacts of the qualification. Melbourne Water and the Retailers fully complied with the terms of the qualification and Bulk Entitlements.

Silver and Wallaby Creeks

- (7) The Retailers hold the following Bulk Entitlements on the Silver and Wallaby Creeks:
- Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for City West Water Limited) Conversion Order 2006 – BEE049475
 - Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for South East Water Limited) Conversion Order 2006 – BEE049474
 - Bulk Entitlement (Silver & Wallaby Creeks – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2006 – BEE049473
- (8) Compliance with the 3-year total diversion limit of 66,000 ML is assessed using a 3-year rolling total diversion.

Thomson River

- (9) The Retailers hold the following Bulk Entitlements on the Thomson River:
- Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to City West Water Limited 2006 – BEE049361
 - Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to South East Water Limited 2006 – BEE049360
 - Transfer of Bulk Entitlement (Thomson River – Melbourne Water Corporation) Conversion Order 2001 to Yarra Valley Water Limited 2006 – BEE049359
- (10) Compliance with the long term average diversion limit of 171,800 ML is assessed using a 15-year rolling average annual diversion.
- (11) Two qualifications of the Thomson River Environment Bulk Entitlement continued to retain water in Thomson Reservoir for Melbourne in response to the continuing water shortage. Both qualifications expired on 12 October 2010 when Melbourne's restriction levels were reduced to Stage 2. The Retailers funded the development and implementation of an emergency management plan, overseen by West Gippsland Catchment Management Authority, to monitor and manage the environmental impacts of the qualifications. Melbourne Water and the Retailers fully complied with the terms of the qualifications and Bulk Entitlements.

Tarago and Bunyip Rivers

(12) The Retailers hold the following Bulk Entitlements on the Tarago and Bunyip Rivers:

- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for City West Water Limited) Conversion Order 2009 – BEE049358
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for South East Water Limited) Conversion Order 2009 – BEE049357
- Bulk Entitlement (Tarago and Bunyip Rivers – Melbourne Water for Yarra Valley Water Limited) Conversion Order 2009 – BEE049356

(13) Compliance with the long term average diversion limit of 24,950 ML is assessed using a five-year rolling average annual diversion.

(14) Compliance with the long term average diversion limit of 5,560 ML is assessed using a five-year rolling average annual diversion.

Victorian Desalination Project

(15) The Retailers hold the following Bulk Entitlements to the Victorian Desalination Project:

- Bulk Entitlement (Desalinated Water – City West Water Limited) Order 2010 – BEE050814
- Bulk Entitlement (Desalinated Water – South East Water Limited) Order 2010 – BEE050815
- Bulk Entitlement (Desalinated Water – Yarra Valley Water Limited) Order 2010 – BEE050816

(16) The Victorian Desalination Project is expected to provide water to the Melbourne Retailers by June 2012.

(17) In October 2010, the Retailers' obligation to supply Western Water was transferred from their Yarra River Bulk Entitlements to their Desalinated Water Bulk Entitlements. In the event that water is not being taken from these Bulk Entitlements, Western Water must be supplied from the Retailers' other Bulk Entitlements. This figure represents the total volume supplied to Western Water in 2010-11, including the water supplied under the Yarra River Bulk Entitlements.

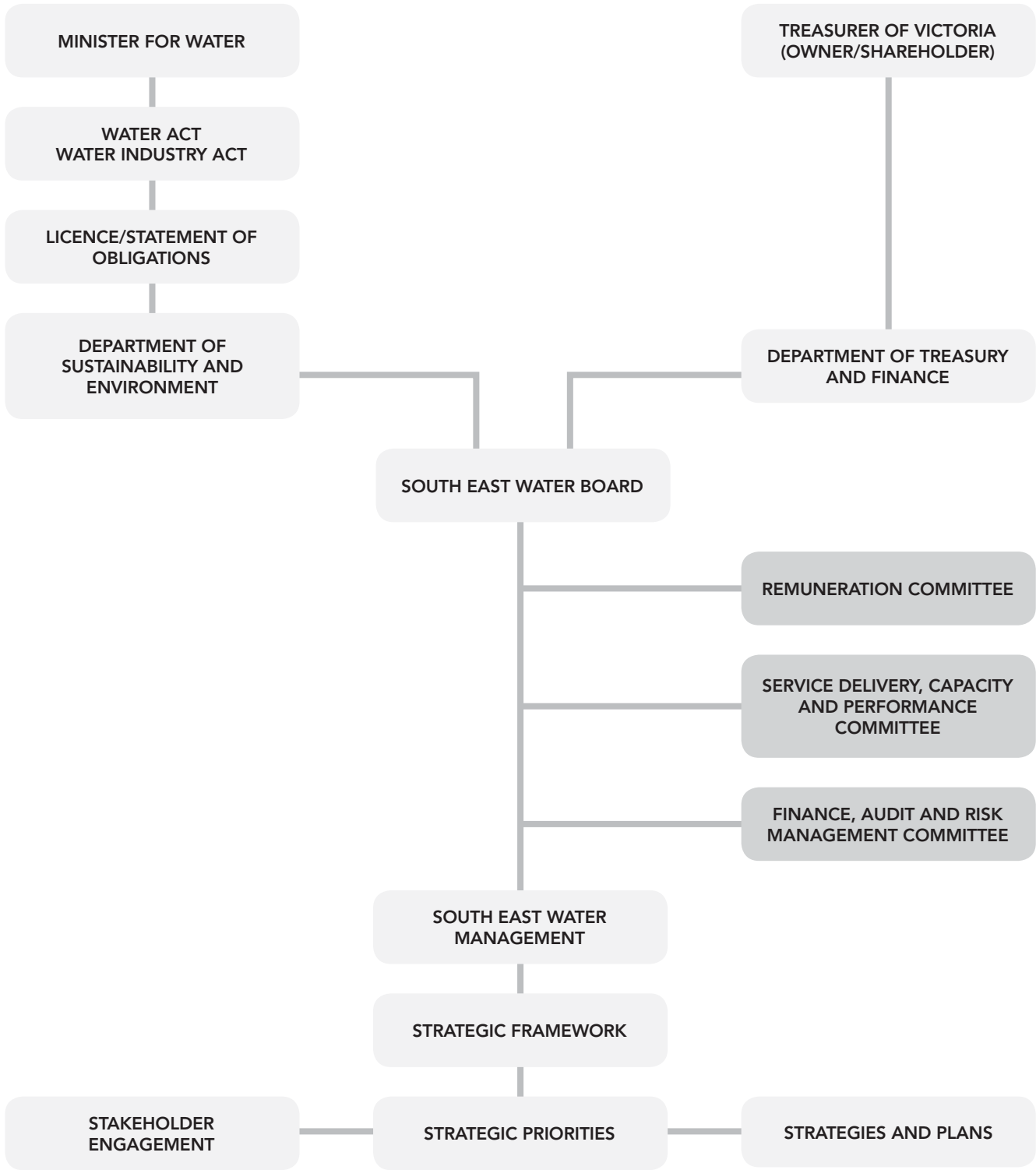
Non-Compliance in Goulburn System Bulk Entitlement 2009-10

A correction to the Melbourne Retailers' 2009-10 compliance reporting for the Goulburn System Bulk Entitlements is required for a non-compliance with daily pumping rate conditions which was experienced on 30 April 2010.

The Melbourne Retailers' Bulk Entitlements for the Goulburn System, Clause 11.3 (c), states that the daily diversion rate from the Goulburn River may not change by more than 180 ML/day when the river flows at the Killingworth gauge are 1,500 ML/day or greater. On 30 April 2010, the river flows were 2,335 ML/day, and the daily change in the diversion rate exceeded the maximum diversion rate by 10 ML/day.

The non-compliance occurred while the pipeline was being regulated manually due to problems with the outlet control valve. The valve was replaced in August 2010 which has enabled the pipeline's automatic control systems to be used and prevent this type of non-compliance in future.

Key Governance Instruments and Entities



Directors' Biographies

Mr Douglas Shirrefs

BAG and Res Eco, LLB, MAICD

Chairman

Mr Shirrefs is a barrister, economist and professional company director. He practices at the Bar in commercial law with a particular interest in franchising, competition and public law.

Before commencing practice as a lawyer he held senior positions as a regulatory economist for both the Commonwealth and Victorian governments. He has had extensive experience in public policy and public administration, in particular in relation to the utilities and infrastructure sectors.

As well as his position at South East Water Limited, Mr Shirrefs is a Director of Watermove Pty Ltd and the Tintern Schools. Mr Shirrefs was appointed to the Board of South East Water Limited in August 2005 and to the role of Chairman in October 2010.

Mr James Turcato

Dip. Business Studies (Accounting), Grad.Dip.Ed, Grad.Dip.Computer Ed, Dip. Training & Assessment, CPA, AIMM, GAICD

Director

Mr Turcato is a business consultant and professional facilitator with extensive corporate experience in financial management, strategic financial decision-making and business case development. He has facilitated management development programs for some of Australia's leading organisations including BHP Billiton, Mercedes Benz, SCA Hygiene, ANZ, Infosys, Programmed Group, Marsh and many others.

His professional interests include the development of financial skills for directors and he is an accredited Company Directors Course facilitator for the Australian Institute of Company Directors.

Mr Turcato was appointed to the Board of South East Water Limited in January 2007.

Mr Tony Beach

BEng (Civil), MIE Aust, MAICD

Director

Mr Beach has extensive experience in asset intensive industries such as electricity, gas, water, rail and ports. He has held senior executive roles in the Hydro-Electric Commission (Tasmania), Powercor Australia, AGL, Pacific National, Asciano and Jemena.

He has worked in the international sector with the Snowy Mountains Engineering Corp and as a consultant to the World Bank.

Mr Beach was appointed to the Board of South East Water Limited in January 2007.

Dr Judith Slocombe

BVSc, Post Grad Dip Mgt, MBA, FAICD, FAIM

Director

Dr Slocombe has extensive experience in business, running her own veterinary diagnostic company and then moving on to a career in executive management within a public company. She is currently CEO of The Alannah and Madeline Foundation and holds Directorships on numerous Boards.

In 2001, Dr Slocombe was named the Telstra Australian Business Woman of the Year. In 2003, she was awarded a Centenary Medal for service to Australian society in business leadership.

Dr Slocombe was appointed to the Board of South East Water Limited on 1 July 2008.

Dr Geraldine Gentle

BEcon (Hons), PhD, GAICD

Director

Dr Gentle is an economist with 35 years of experience in economic analysis and public policy particularly of issues relating to industry, trade and natural resources and environmental management.

Dr Gentle has held senior positions with the Australian, Victorian and Queensland governments and was a Commissioner of the Murray Darling Basin Commission. She has also worked in the private sector as a consultant, and currently runs her own consulting business.

Dr Gentle was appointed to the Board of South East Water Limited on 1 September 2008.

Mr Ross Passalaqua

Dip. Eng (Civil), MAICD

Director

Mr Passalaqua has broad commercial, operational, and technical experience gained across multiple business sectors including services, logistics and petrochemicals. Mr Passalaqua worked with consulting engineers in the water supply and sewerage field before gaining diversified experience in Australia and internationally with Shell, the Mayne Group, and a Victorian Government Statutory Authority. Mr Passalaqua holds other Board roles with the North East Victoria Tourism Board and with Disabled Wintersport Australia.

Mr Passalaqua was appointed to the Board of South East Water on 1 October 2010.

Executive Biographies

Mr Kevin Hutchings

GAICD

Acting Chief Executive Officer

Mr Hutchings was appointed as Acting Chief Executive Officer of South East Water Limited in February 2011. Prior to this appointment, Mr Hutchings was General Manager of 'us' – Utility Services, an alliance between South East Water, Thiess Services and Siemens. The alliance oversees the design, construction, operation and maintenance of South East Water's \$3 billion infrastructure network including eight sewage treatment plants. Before joining South East Water in 1995, Mr Hutchings worked for 19 years at Email Electronics, which specialised in the development of new hardware and software technologies in both retail and distribution markets for major oil companies.

Mr Rex Dusting

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

General Manager Infrastructure

Mr Dusting leads the Infrastructure Group, which is responsible for ensuring our pipes, pumps and treatment plants meet the ongoing service needs of our customers. The group uses its technical expertise to review asset performance, develop master plans and budgets while arranging delivery of programs. Before joining South East Water in 1996, Mr Dusting worked for other water authorities and engineering consultants. His roles included planning, design, operation and construction of water industry infrastructure.

Dr Hamish Reid

BSc (Hons), PhD, MAICD

General Manager Strategy

Dr Reid leads the Strategy Group, which provides strategic direction to South East Water through the development of the Corporate Plan, the five yearly price review submission to the Essential Services Commission and business performance monitoring and analysis. The group also leads a number of strategic areas including Integrated Water Management, Water Resource Policy, Environment, Sustainability and Greenhouse Gas Management. Dr Reid joined South East Water Limited in 2005, working for four years as Manager Research and Technology. He has held a range of previous water industry and government roles with Melbourne Water, the Victorian Environment Protection Authority and the New Zealand Ministry for the Environment.

Ms Julia Oxley

BA, MBus (Marketing)

General Manager Customer and Community

Ms Oxley joined South East Water Limited in August 2010 in the role of General Manager Customer and Community. She is responsible for managing South East Water's relationship with its customers, stakeholders and community. Key priorities include harnessing customer insights and understanding to deliver the very best customer experience across all customer touch-points, delivered by best practice customer support operations. Ms Oxley has a broad range of business, management and leadership expertise including extensive experience in marketing, brand management, customer engagement, contact centre management, business development and business improvement. Over a career spanning 25 years, Ms Oxley has worked for high profile customer-driven organisations including Mitre 10, Pacific Brands, National Australia Bank, Kmart, Mattel and BP. Before joining South East Water, she was the National Manager Customer Support and Change at Mitre 10.

Ms Leonie Walsh

BSc, MSc, MBA (Exec), GAICD

Acting General Manager Business Growth

Ms Walsh leads the Business Growth Group, which is responsible for developing new products and services to meet the needs of our residential customer base and delivering commercial solutions for our business customers. Ms Walsh joined South East Water Limited in October 2010 and has broad experience in business management and technology commercialisation, spanning a range of industries, markets and business functions. Recent experience includes driving business value through marketing, innovation and environment initiatives for Visy's packaging divisions, increasing business performance of a national sales organisation within Henkel and leading global product development and delivery initiatives in the plastics business for The Dow Chemical Company in Australia and New Zealand, the Pacific and North America. Additional experience includes participation on a range of government and non-government technology advisory boards and grant review panels and a current role as President of the Australasian Industrial Research Group.

Mr Philip Johnson

B.Bus (Acc), CPA, MAICD

Acting General Manager Corporate Services and Acting Chief Financial Officer

Mr Johnson's portfolio encompasses Finance, Risk and Business Services, Information Technology, People and Culture, Major Projects, Quality Systems, and Company Secretariat. Mr Johnson joined South East Water in 1995. Prior to his current appointment, he was Group Manager Commercial and Technical Services for the 'us' – Utility Services alliance where he was also a member of the Alliance Governance Board. Previous experience includes Chief Finance Officer for South East Water from 2000 to 2004, Director of Water Industry Super Fund (now Equisuper) and other senior finance and administration roles.

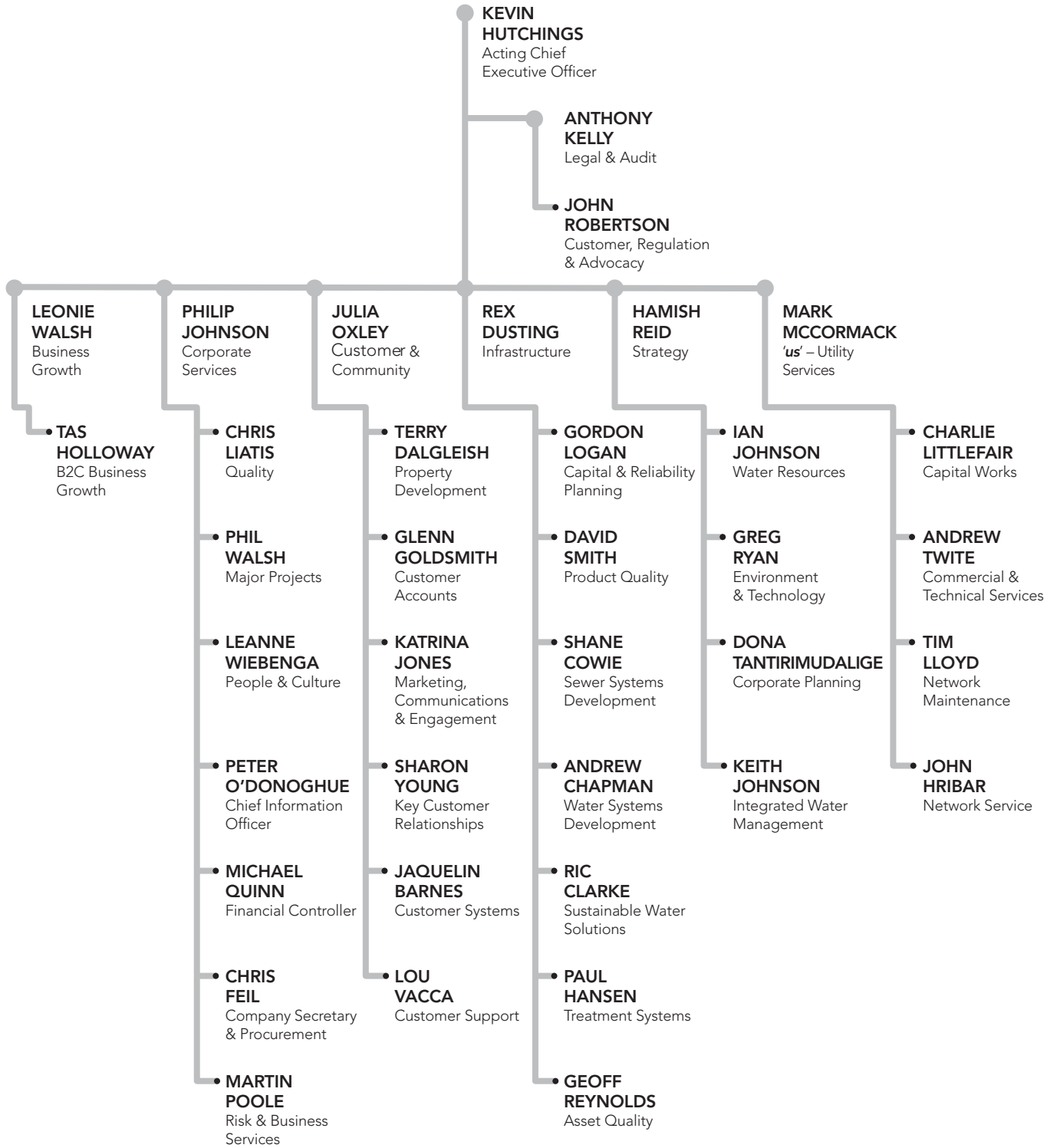
Mr Mark McCormack

BEng (Civil), EWS

Acting General Manager of 'us' – Utility Services

Mr McCormack is the Acting General Manager of 'us' – Utility Services, which oversees the design and construction of South East Water's capital delivery and renewal programs together with the operation and maintenance of water, sewerage, treatment and recycled water infrastructure. Commencing his career with State Rivers and Water Supply Commission in 1984, he has more than 20 years of experience in the water industry having held roles encompassing water quality, operations and maintenance, design, construction and contract management. Mr McCormack joined South East Water Limited in 1995. Prior to his current appointment, Mr McCormack was Manager Operations and Maintenance at 'us' – Utility Services.

Organisational Chart



MAJOR NON-RESIDENTIAL WATER USERS

Customer by volume range

Volumetric range – ML per year	No of customers
Equal to or greater than 200ML and less than 300 ML	4
Equal to or greater than 300ML and less than 400 ML	1
Equal to or greater than 400ML and less than 500 ML	1
Equal to or greater than 500ML and less than 750 ML	1
Equal to or greater than 750ML and less than 1000 ML	0
Greater than 1000 ML	0
Total number of customers	7

Names of major customers and their participation in water conservation programs

Name of customer	Information as to customer's participation in water conservation program
Alfred Health (The Alfred)	Yes, implementing water management plan
BlueScope Steel Limited	Yes, implementing water management plan
Coca-Cola Amatil (Australia) Pty Ltd. (Moorabbin)	Yes, implementing water management plan
Crown Melbourne Limited	Yes, implementing water management plan
G. & K. O'Connor Pty Ltd	Yes, implementing water management plan
Inghams Enterprises Pty Ltd	Yes, implementing water management plan
Symex Holdings Limited	Yes, implementing water management plan

Financial Performance Indicators

Performance Indicator	Notes	2009-10 Result	2010-11 Result	2010-11 Target	Variance
F1 Internal Financing Ratio (Net operating cash flow – dividends)/Capital expenditure	1	35.5%	60.0%	43.8%	37.0%
F2 Gearing Ratio Total debt (including finance leases)/Total assets	2	25.2%	26.4%	29.7%	-11.1%
F3 Interest Cover (EBIT) Earnings before net interest and tax expense/Net interest expense	3	3.3 times	2.8 times	3.3 times	-15.2%
F4 Interest Cover (Cash) Cash flow from operations before net interest and tax/Average total assets	4	3.9 times	3.9 times	4.1 times	-4.9%
F5 Return on Assets Earnings before net interest and tax/Average total assets	5	N/A	5.00%	6.20%	-19.4%
F6 Return on Equity Net profit after tax/Average total equity	6	N/A	4.30%	6.00%	-28.3%

Notes:

1. More favourable result due to the deferred interim dividend and lower than budgeted capital expenditure.
2. Lower gearing mainly due to the deferred interim dividend.
3. Mainly due to lower earnings derived from lower sales revenue, higher bulk charges and depreciation.
4. Mainly due to lower earnings derived from lower sales revenue, higher bulk charges and depreciation.
5. Mainly due to lower earnings combined with an increase in the fair value of infrastructure assets. Prior year result not included due to average assets distorted by asset revaluation at 30 June 2010.
6. Mainly due to lower earnings combined with an increase in the fair value of infrastructure assets. Prior year result not included due to average assets distorted by asset revaluation at 30 June 2010.

Service Performance Indicators

Performance Indicator		Notes	2009-10 Result	2010-11 Result	2010-11 Target	Variance
S1	Water supply interruptions					
S1.1	Number of customers receiving 5 unplanned interruptions in the year	7	0.008%	0.038%	0.023%	65.2%
S2	Interruption time indicators					
S2.1	Average duration of unplanned water supply interruptions	8	82.3 minutes	88.4 minutes	87.8 minutes	0.7%
S3	Restoration of water supply					
S3.1	Unplanned water supply interruptions restored within 5 hours	9	99.7%	99.4%	99.7%	-0.3%
S4	Reliability of sewage collection services					
S4.1	Sewer spills from reticulation and branch sewers (priority 1 and 2)	10	663 spills	516 spills	529 spills	-2.5% Outperformed target
S5	Containment of sewer spillages					
S5.1	Sewerage spills contained within 5 hours	11	99%	100%	100%	0.0% Met target
S6	Customer complaints indicators					
S6.1	Water quality complaints per 1,000 customers	12	1.3	2.0	1.5	33.3%
S6.2	Sewerage service quality and reliability complaints per 1,000 customers	13	0.002	0.000	0.000	0.0% Met target
S6.3	Billing complaints per 1,000 customers	14	0.42	0.32	0.40	-20.0% Outperformed target
S6.4	Sewage odours complaints per 1,000 customers	15	0.05	0.05	0.08	-37.5% Outperformed target

Notes:

7. Higher than expected unplanned interruptions in streets already identified for renewal. Further monitoring of burst water main data will be undertaken to ensure renewal priorities meet customer expectations.
8. Variance not material.
9. Variance not material.
10. The favourable result was mainly due to a fall in sewer blockages caused by the flushing effect of widespread heavy rains from September until March.
11. Variance not material.
12. The result for drinking water quality complaints was primarily due to an increase in shutdowns for major pipeline alterations/connections and increased effect of burst mains on the supply system.
13. Variance not material.
14. Variance not material.
15. Favourable result compared to target due to ongoing maintenance of existing odour treatment units and implementation of new units.

Environmental Performance Indicators

Performance Indicator	Notes	2009-10 Result	2010-11 Result	2010-11 Target	Variance
E1 Reuse Indicators					
E1.1 Effluent reuse (volume)	16	24%	12%	31%	-61.3%
E1.2 Biosolids reuse (dry mass)	17	145%	111%	105%	3.8% Outperformed target
E2 Sewage Treatment Standards					
E2.1 Number of analyses complying with licence agreements as % of samples	18	100%	100%	100%	0.0% Met target

Notes:

16. Due to wetter than average winter and spring in 2010, and mild summer in 2011, recycled water volumes were significantly less than the annual target.
17. The result is in line with the target however lower than last year. The high result for 2009-10 was due to a one-off application of biosolids from the Boneo Sewage Treatment Plant which were applied at the South East Water owned Caldermeade site.
18. Variance not material.

Performance against Corporate KPIs

Our Customers and Community

	2009-10 Actual	2010-11 Actual	2010-11 Target
Customer satisfaction (%)*	80	84	80
Customer and community experience KRA	70	90	65
Reputation survey (residential customers) (index score out of 100)	55.2	-	-
Account calls answered within 30 seconds (%)	94.9	94.1	93.0
Fault calls answered within 30 seconds (%)	97.2	96.9	96.0
Complaints to EWOV (per 1,000 customers)	0.220	0.309	0.164

* The target was to achieve a customer satisfaction rating of 6+ on a scale of 0-10 with 80 per cent of our customers, with 5 being neither satisfied or dissatisfied. Please note that in prior years we only surveyed bill payers (as opposed to both bill payers and non bill payers in 2010-11).

We were pleased to exceed our target for answering account and fault calls within 30 seconds. We achieved a rate of 94.1 per cent and 96.9 per cent respectively, despite the challenging weather conditions experienced throughout the year. Complaints to the Energy and Water Ombudsman (EWOV) exceeded our target. This was primarily due to an increase in the price of water services and increased customer awareness of water usage. We undertake reputation surveys every two years, with the most recent held (and reported) for 2009-10.

Service Delivery

	2009-10 Actual	2010-11 Actual	2010-11 Target
Compliance with drinking water quality regulations (the Safe Drinking Water Regulations include <i>E.coli</i> , chemical and turbidity parameters) (%)	100	100	100
Drinking water quality complaints (per 1,000 customers)	1.3	2.0	1.5
Unmet customer demand due to out of specification (health criteria) recycled water (ML per annum)	0	2.7	63
Recycled water quality complaints (per 1,000 customers)	1.9	2.3	6.0
Customer time off supply (minutes)	22.9	21.4	25.3
Spills within buildings from sewerage system (spills per annum)	17	24	22
Total volume of sewage spilled to waterways due to sewer system failure (kL per annum)	3,478	8,391	5,000
Ammonia loads to waterways (tonnes per annum)	7.5	5.0	14.0
Treatment plant compliance (%)	100	100	100
Greenhouse gas emissions (net tonnes)*	34,470	31,494	39,200
Total energy consumed (GJ)	108,121	103,474	103,248

* Tonnes of CO₂ equivalent per annum. Includes Scope 1 and 2 emissions as reported to the National Greenhouse and Energy Reporting System, less offsets.

The result for drinking water quality complaints was primarily due to an increase in shutdowns for major pipeline alterations/connections and increased effect of burst mains on the supply system. Our performance relative to our target for spills was adversely affected by the extreme weather events experienced in December 2010 and February 2011. These events put pressure on our sewer infrastructure when the overloaded stormwater system flowed into our network.

Business Growth

	2009-10 Actual	2010-11 Actual	2010-11 Target
Portfolio EBIT	-	2.7	4.0
Customer satisfaction – used a product or service (%)	-	90	87
Reputation study – residential and commercial customers	60.4	-	-

For explanation of financial performance, refer to the Financial Report.

Integrated Water Management

	2009-10 Actual	2010-11 Actual	2010-11 Target
Total per capita consumption (l/p/d)	231	222	229
Total potable substitution (ML)	272	172	300

The actual total potable substitution was significantly less than target due to a wetter than average winter and spring in 2010, and mild summer in 2011.

Organisational Capability

	2009-10 Actual	2010-11 Actual	2010-11 Target
Lost Time Injury Frequency Rate	1.37	1.63	0
Culture survey (% improvement in survey outcomes) (Humanistic, Encouraging, Achievement and Self Actualisation behaviours)	52/40/33	-	-
Operating profit before tax (\$M)	95.4	95.4	116.7
Gearing (%)	32.2	33.6	37.7
FFO Net Interest Cover (Times)	3.2	3.3	3.5

Four lost time incidents occurred in 2010-11, one more than in 2009-10. These incidents were investigated and strategies were put in place to mitigate the risk of further incidents.

For explanation of financial performance, refer to the Financial Report.

Influence and Leadership

	2009-10 Actual	2010-11 Actual	2010-11 Target
Reputation survey (government stakeholder focus) (%)	78.05	-	-

We undertake reputation surveys every two years, with the most recent held (and reported) for 2009-10.

FINANCIAL REPORT 2010-11



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DIRECTORS' STATUTORY REPORT

The directors present their report on the financial year ended 30 June 2011 on South East Water Limited ("the Company").

Directors

The directors of the Company in office at the date of this report are:

Mr Douglas Shirrefs	Chairman
Mr Kevin Hutchings	Managing Director
Mr Tony Beach	Director
Dr Geraldine Gentle	Director
Mr Ross Passalacqua	Director
Dr Judith Slocombe	Director
Mr James Turcato	Director

As at the date of the report, no director has any interests in the shares of the Company.

Particulars of the directors' qualifications, experience and special responsibilities (if any) are set out on page 17 of the Annual Report.

Directors' meetings

The number of directors' meetings and Board committee meetings, and number of meetings attended by each of the directors of the Company during the financial year are set out in the Corporate Governance section of the Annual Report.

Principal activities

The core principal activities of the Company during the financial year were, within the State of Victoria, to:

- Treat, distribute and supply potable water
- Provide, manage and operate systems for the conveyance, treatment and disposal of sewage, and trade waste
- Treat, distribute and supply recycled water.

The non-core activities of the Company during the financial year include the tankered supply of ground and recycled water to commercial and local government authorities, the supply and installation of water tanks to residential customers, business consulting services, property leasing and the provision of products and services, through 'us' – Utility Services, such as traffic management, major construction, hydrographic services, pipe relining, air scouring, plumbing works and flow/level monitoring products for commercial and institutional customers. The Company is also involved in the provision of civil maintenance services to a water utility in New Zealand for which it receives a management fee.

There was no significant change in the nature of the Company's activities during the financial year.

Dividends

A final dividend of \$16.7 million for the year ended 30 June 2010 was paid on the 29 October 2010.

The payment of an interim dividend for the year ended 30 June 2011 was deferred by the Treasurer and will be incorporated into the final dividend payment for the 2010-11 financial year.

The amount of the dividend for the year ended 30 June 2011 will be determined after consultation between the Board, the Minister for Water and the Treasurer of Victoria.

Review of operations

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

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Company that occurred during the financial year not otherwise disclosed in this report or the main body of the Annual Report.

Events subsequent to balance date

In August 2011, Australian and overseas equity markets declined in value due to the possibility of a recession in the United States and concerns over the European sovereign debt crisis.

The Company has exposure to domestic and international equity markets through its defined benefit superannuation scheme. Based on movements in unit prices since 30 June 2011, management has estimated that the Company's defined benefit superannuation liability has increased from \$2.0 million to approximately \$4.9 million.

The Company is seeking further advice from the Fund's actuary on the likely impact of this situation on South East Water's long term funding obligations. Refer to note 23 for more detailed information about the defined benefit superannuation scheme and the actuarial assumptions that have been made relating to the balance of the liability as at 30 June 2011.

On 22 August 2011, BlueScope Steel announced a major restructure of its Australian operations including the closure of the Western Port Hot Strip Mill and Metal Coating Line 5 at its Hastings plant. This development is not expected to have a material financial impact on South East Water. This said, the potential impact on South East Water's investment in the Somers Recycled Water Project will be closely monitored and regular updates will be provided to the Board.

No other matter or circumstance has arisen that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in financial years after the financial year.

Likely developments

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

Environmental regulation performance

The Company is subject to significant environmental regulation in respect of its operations. In particular, the Company holds a Corporate Licence for its eight sewage treatment plants issued by the Victorian Environment Protection Authority (EPA) under the *Environment Protection Act 1970 (Vic)*.

The Corporate Licence imposes conditions about waste discharges, sustainability commitments, reporting obligations and other matters concerning the operation of the sewage treatment plants. The Corporate Licence combines regulatory requirements with projects that will assist South East Water to realise its longer-term business sustainability goals.

In 2010-11, the environmental performance conditions for effluent discharge stated within the Corporate Licence were met at each of the Company's sewage treatment plants.

No enforcement action was taken against South East Water regarding non-compliance with the Corporate Licence. However, South East Water is implementing an Enforceable Undertaking that was approved by the EPA in July 2010 for an incident that occurred in September 2008.

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, 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 2011 or at any other time) with the Company.

Additional information about director-related disclosure is provided in Note 19 of the Financial Report.

Insurance and indemnity

The Company's Constitution provides that every person who is, or has been, an officer or auditor of the Company, will be indemnified out of the property of the Company to the extent allowed by the *Corporations Act 2001*. No amount has been paid pursuant to this indemnity during, or since, the end of the financial year.

During or since the financial year, the Company has paid or contributed to the premium in respect of a contract or contracts insuring against certain liabilities of each of the directors, whose names appear earlier in this report, and certain officers of the Company.

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

Auditor's Independence Declaration to the directors of South East Water

The Company has obtained an independence declaration from the Victorian Auditor-General's Office as required under section 307C of the *Corporations Act*, a copy of which is provided on page 31.

Rounding of amounts to the nearest thousand dollars

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the Directors' Statutory Report and Financial Report. Amounts have been rounded off in the Directors' Statutory Report and Financial Report in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Dated at Melbourne this 29th day of August 2011.

Signed in accordance with a resolution of the directors.



Douglas Shirrefs
Chairman



Kevin Hutchings
Managing Director

VAGO

Victorian Auditor-General's Office

AUDITOR-GENERAL'S INDEPENDENCE DECLARATION

To the Board of Directors, South East Water Limited

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General, an independent officer of parliament, is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised.

Under the *Audit Act 1994*, the Auditor-General is the auditor of each public authority and for the purposes of conducting an audit has access to all documents and property, and may report to parliament any matters which the Auditor-General considers appropriate.

Independence Declaration

As auditor for South East Water Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

MELBOURNE
29 August 2011

For 
D D R Pearson
Auditor-General

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Sales revenue	3	620,055	531,524
Other income	3	-	3,894
Total income		620,055	535,418
Expenses	4	(472,864)	(398,505)
Finance costs		(51,767)	(41,487)
Profit before income tax expense		95,424	95,426
Income tax expense	5	(28,747)	(29,167)
Net profit after income tax		66,677	66,259
Other comprehensive income			
Gain on revaluation of infrastructure assets	10	26,962	977,450
Gain/(loss) on revaluation of land and buildings	10	30,054	19,735
Transfer from asset revaluation reserve to retained earnings	17	1,399	-
Income tax relating to components of other comprehensive income		(9,420)	(294,569)
Other comprehensive income after tax		48,995	702,616
Total comprehensive income for the year		115,672	768,875

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

BALANCE SHEET

as at June 2011

	Notes	2011 \$'000	2010 \$'000
Current Assets			
Cash assets	7,18	663	1,942
Receivables	8,18	66,873	51,636
Inventories		517	545
Prepayments		1,378	1,563
Non-Current asset classified as held for sale	9	-	5,072
Total Current Assets		69,431	60,758
Non-Current Assets			
Defined benefit superannuation asset	23	-	588
Infrastructure, property, plant and equipment	10	2,896,905	2,724,135
Intangible assets	11	98,190	67,253
Total Non-Current Assets		2,995,095	2,791,976
Total Assets		3,064,526	2,852,734
Current Liabilities			
Payables	12,18	73,944	67,226
Borrowings	13,18	35,400	43,879
Provisions	14	17,706	13,749
Income tax payable		8,084	5,774
Deposits and advances		7,697	9,129
Total Current Liabilities		142,831	139,757
Non-Current Liabilities			
Borrowings	13,18	774,750	675,975
Deferred tax liabilities	5	542,175	533,494
Defined benefit superannuation liability	23	2,001	-
Provisions	14	1,303	1,034
Total Non-Current Liabilities		1,320,229	1,210,503
Total Liabilities		1,463,060	1,350,260
Net Assets		1,601,466	1,502,474
Equity			
Contributed equity	15	121,509	121,509
Reserves	16	1,148,069	1,103,737
Retained profits	17	331,888	277,228
Total Equity		1,601,466	1,502,474

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	Notes	Attributable to equity holders of the Company			Total Equity \$'000
		Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	
Balance at 1 July 2009		121,509	401,121	248,619	771,249
Total comprehensive income for the year					
Net profit after income tax	17	-	-	66,259	66,259
Other comprehensive income for the year after tax	16	-	702,616		702,616
Total comprehensive income for the year after tax		-	702,616	66,259	768,875
Transactions with equity holders in their capacity as equity holders					
Dividends paid	6	-	-	(37,650)	(37,650)
Balance at 30 June 2010		121,509	1,103,737	277,228	1,502,474
Total comprehensive income for the year					
Net profit after income tax	17	-	-	66,677	66,677
Other comprehensive income for the year after tax	16,17	-	44,332	4,663	48,995
Total comprehensive income for the year after tax		-	44,332	71,340	115,672
Transactions with equity holders in their capacity as equity holders					
Dividends paid	6	-	-	(16,680)	(16,680)
Balance at 30 June 2011		121,509	1,148,069	331,888	1,601,466

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

CASH FLOW STATEMENT

for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers		581,327	513,398
Payments to suppliers and employees		(415,912)	(384,509)
GST refunded		26,344	24,657
GST paid		(2,400)	(2,573)
Income tax paid		(25,777)	(26,057)
Interest received		71	67
Interest and other costs of finance paid		(49,149)	(38,376)
Net cash inflow from operating activities	25	114,504	86,607
Cash flows from investing activities			
Proceeds from sale of infrastructure, property, plant and equipment		4,763	8
Payments for infrastructure, property, IT software, plant and equipment		(167,496)	(131,281)
Payments for water entitlements		(26,666)	(41,666)
Net cash outflow from investing activities		(189,399)	(172,939)
Cash flows from financing activities			
Proceeds from borrowings		173,725	209,000
Repayment of borrowings		(83,429)	(83,150)
Dividends paid		(16,680)	(37,650)
Net cash inflow/(outflow) from financing activities		73,616	88,200
Net increase/(decrease) in cash held		(1,279)	1,868
Cash at the beginning of the financial year		1,942	74
Cash at the end of the financial year	7	663	1,942

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

The Financial Report of South East Water (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 29 August 2011.

The Financial Report is a general purpose Financial Report that has been prepared in accordance with the requirements of Australian Accounting Standards (including Australian Interpretations) and the *Corporations Act 2001*. The Financial Report has also been prepared on a historical cost basis, except for infrastructure, property, plant and equipment which have been measured at fair value.

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid. The Financial Report is presented in Australian dollars.

Compliance with AIFRS

The Financial Report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the Financial Report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Accounting standards not yet effective

The following Australian Accounting Standards and interpretations have not been adopted for the annual reporting period ending 30 June 2011:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Applicable for annual reporting periods ending on or after	Impact on South East Water Financial Report
AASB 124	Related party disclosures	The amendment removes the requirement for Government-related entities to disclose details of all transactions with Government and other Government-related entities and clarifies and simplifies the definition of a related party.	1 January 2011	This change will reduce the related party transaction reporting requirements for the Company from 2011-12.
AASB 1053	Application of Tiers of Australian Accounting Standards	Entities that are Tier 2 entities will be able to apply reduced disclosures within their financial statements.	1 July 2013	Detail of impact is still being assessed.
AASB 9	Financial Instruments	Introduces new requirements for the classification and measurement of financial assets. These amendments use a single approach to determine whether a financial asset is measured at amortised cost or fair value, and remove the impairment requirement for financial assets held at fair value.	1 January 2013	This change is expected to be minor on the Company as it does not intend to hold financial assets at fair value.

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 and the actuarial assumptions used to determine the Company's defined benefit obligations. The assumptions and the related carrying amounts of the Company's defined benefit obligation are discussed in Note 23.

(b) Taxes

Income Tax

South East Water is subject to the National Tax Equivalent Regime pursuant to Section 88(3D) of the *State Owned Enterprises Act 1992*. The Act requires the Company to pay the Victorian Government its tax liability based on the rules of the *Income Tax Assessment Act 1936* (as amended).

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the 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 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 net of the amount of GST recoverable from, or payable to, the Australian Taxation Office.

(c) Land Held for Resale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the asset's sale is expected to be completed within one financial year from the date of classification. These assets are measured at the lower of their carrying amount and fair value less costs to sell and are not subject to depreciation.

(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 business's fixed assets. Furthermore, consistent with the business'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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 Company (developer contributed assets) are brought to account at fair value, being the actual or estimated cost of construction.

Depreciation

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

Buildings	Straight Line	40 years
Leasehold improvements	Straight Line	The lease term
Infrastructure assets*	Straight Line	10-99 years
Plant and equipment	Reducing Balance	20-40%

* 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 2010-11, are unchanged from the previous financial year.

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 with sufficient regularity 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.

(e) Intangible Assets

Intangible assets are comprised of IT software and water entitlements arising from the Company's investment in Stage 1 of the 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 Company.

(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 Company'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 AASB 118 'Revenue', these cash contributions have been recognised as income in the Statement of Comprehensive Income upon receipt.

Developer Contributed Assets

Developers are required to provide water supply and sewerage facilities to new subdivisions which are subsequently gifted to, and maintained by, the Company.

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 Company gains control of the assets. This non-cash income is recorded as 'Developer Contributed Assets'.

(g) 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) and annual leave entitlements 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 settled. All on-costs including payroll tax, workers compensation premiums and superannuation, are included in the determination of these liabilities.

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 Company 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

Contributions to superannuation plans are charged to the Statement of Comprehensive Income as the contributions are paid or become payable. Actuarial gains and losses arising from the Company's defined benefit superannuation scheme are recognised immediately in the Statement of Comprehensive Income in the year in which they occur.

(h) Cash

For the purposes of the Cash Flow Statement, cash includes cash on hand and at bank. Bank overdrafts are shown as current liabilities in the Balance Sheet.

(i) 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.

(j) 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 Company 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.

(k) Prepayments

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

(l) Payables

Payables represent the amounts to be paid in the future by the Company for goods and services received. Trade accounts payable are normally settled within 30 days from the date of invoice.

(m) Provision for Insurance Claims

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

(n) Provision for Customer Refunds

The provision for customer refunds represents the value of refunds (including interest) yet to be paid to customers as a result of the overcharging of single titled properties since 1 January 1998. An expense has been recognised in the Statement of Comprehensive Income for these refunds. It is anticipated that all customer refunds provided for at 30 June 2011 will be paid during 2011-12.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(o) Dividends

An obligation to pay a dividend only arises after consultation between the Board, the relevant portfolio Minister and the Treasurer. Following this consultation, an agreement on the dividend payable is passed by the members at the general meeting. Although this process has not yet been completed at the reporting date, the estimated final dividend in respect of 2010-11 is \$33.9 million (\$16.7 million for 2009-10). The interim dividend has been deferred from April 2011 and will be paid as part of the final dividend payment in October 2011.

(p) Borrowings

Borrowings are recognised at fair value being the nominal value of funds drawn at balance date. Interest is expensed as incurred.

The Company has classified borrowings which mature within 12 months as non-current on the basis that the entity will, and has the discretion to, refinance or rollover these loans under a Government-approved financing facility.

(q) Deposits and Advances

Deposits and advances represent monies held by the Company as security for capital works.

(r) Developer Reimbursements

In accordance with the Company's Land Development Policy, the Company will reimburse developers, subject to the nature of the works involved, for all or part of their costs incurred in constructing water and/or sewerage assets. Reimbursements are generally paid upon 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.

(s) Financial Instruments

A financial instrument is recognised when the Company 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 Company's obligations specified in the contract expire or are discharged or cancelled.

Financial instruments are initially measured at fair value. Subsequent to recognition, the financial instruments are measured as set out next:

Receivables

Trade receivables and other receivables are recorded at amortised cost less impairment.

Financial Liabilities

All financial liabilities including borrowings and payables are measured at cost.

Impairment

The Company 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.

(t) Alliances

'us' – Utility Services

This alliance contract was established between South East Water, Thiess Services Pty Ltd and Siemens Ltd in April 2005. Under the contract, Thiess and Siemens provide civil maintenance and mechanical and electrical services to South East Water on a cost plus 'at risk' margin basis. Repairs and maintenance costs are expensed as incurred, while costs which create or enhance an asset are capitalised. The alliance also provides maintenance and construction services to external parties on a commercial basis. South East Water is entitled to a 50 per cent share of the operating profit from these external services, which is recognised as income progressively as works are completed. The alliance also receives a management fee for external contracts.

During 2009-10, 'us' – Utility Services established a sub-alliance with Montgomery Watson to provide design services in respect to South East Water's capital works program. This sub-alliance operates on a similar cost plus 'at risk' margin basis.

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 over the next two years. 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.

(u) 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 South East Water's Balance Sheet. Expenses are subsequently recognised by the Company when incurred by the Fund.

South East Water's share of the Fund's expenses for 2010-11 was \$1,057,189 (\$721,175 for 2009-10) and is included in the Statement of Comprehensive Income. As at 30 June 2011, the Company's Balance Sheet reflects its share of prepaid Fund expenditure totalling \$261,944 (\$304,185 for 2009-10).

(v) Environmental Contribution

South East Water has a statutory obligation to pay an environmental contribution to the Department of Sustainability and Environment. This contribution is used to address adverse water-related environmental impacts within Victoria by promoting the sustainable management of water. These contributions are recognised as an expense as incurred.

(w) Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognised in the Balance Sheet, but are disclosed in Note 21. Contingent assets and liabilities are presented exclusive of GST receivable or payable respectively.

(x) Commitments

Commitments are disclosed at their nominal value exclusive of GST payable.

(y) Comparative Figures

Where necessary, comparative amounts have been reclassified to ensure consistency with the current year's presentation. During the financial year, accounting policies related to the recognition of 11am at call borrowings as cash within the Cash Flow Statement were changed. Borrowings of this nature are now reported as 'Financing Flows' rather than cash. This has resulted in the following amendments to comparatives in the Cash Flow Statement:

- Repayment of borrowings – increased by \$27.3 million to reflect the reduction in 11am at call borrowings in 2009-10.
- Cash at end of financial year – improved by \$43.9 million as the 11am borrowings at 30 June 2010 is now excluded from the determination of cash.
- Cash at beginning of financial year – opening balance improved by \$71.1 million due to the exclusion of the 11am borrowings as at 30 June 2009.

(z) Rounding

Unless otherwise shown in the financial statements, amounts have been rounded to the nearest thousand dollars.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Credit Risk

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

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

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

At 30 June 2011, the Company had no credit risk arising from investments. Exposure to credit risk from other financial assets is represented in the carrying amount of these assets in the Balance Sheet.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company 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 Company 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).

Market Risk

The Company's exposure to market risk is primarily through interest rate risk. The Company'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 Company adopts a policy of maintaining a debt portfolio consistent with the following target bounds:

Term to Maturity or Next Interest Rate Reset	Target Bounds
0 to less than 1 year	10 – 35%
1 to less than 4 years	20 – 50%
4 to less than 8 years	20 – 50%
Equal to or greater than 8 years	0 – 20%

The Company'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 Company believes that a movement of 0.5 per cent is reasonably possible over the next 12 months. The impact on the Company's profit and equity is disclosed in Note 18(c).

Fair Value

The Company considers that the carrying amount of financial assets and financial liabilities (excluding borrowings and deferred reimbursements) recorded in the 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. Deferred reimbursements are determined by discounting the expected future cash flows at current interest rates.

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

Capital Management

The Company has a Capital Management Plan in place to guide and inform the Board and executives on the long term capital structure for the business.

The Board has adopted a long term capital structure that targets a gearing ratio of between 35 per cent to 50 per cent and funds from operations (FFO) net interest coverage of 2.5 to 4.0 times. The gearing ratio reflects a change from 2009-10 (previously 50 per cent to 65 per cent) following a review undertaken in conjunction with external consultants in 2010-11. The review assessed the effect of the move to fair value accounting for infrastructure assets on gearing and interest cover.

The Plan is subject to annual review as part of the development of the Company's annual Corporate Plan which is subsequently approved by the Board and shareholder. The review takes account of projected internal financing requirements, shareholder expectations around returns and changes in financial markets.

The gearing and interest coverage ratios for the years ended 30 June 2011 and 30 June 2010 were as follows:

	2011	2010
Gearing [Net Debt/(Net Debt+Equity)]	33.6%	32.2%
FFO Net Interest Cover (Times)	3.3	3.2

In respect to measuring working capital efficiency, the Company uses a number of metrics that are reported to the Board and Executive on a monthly or quarterly basis.

3 INCOME	2011 \$'000	2010 \$'000
Sales Revenue		
Water service charges (fixed)	47,825	41,608
Water usage charges	187,078	154,296
Sewerage service charges (fixed)	177,061	142,090
Sewage disposal charges	114,287	103,947
Trade waste charges	19,287	15,612
Recycled water	1,310	1,127
New customer contributions	23,596	19,973
Developer contributed assets	21,057	23,335
Other services rendered	13,199	13,835
Interest received/receivable	71	67
Rent	1,823	1,791
Grants	324	1,550
Miscellaneous	13,137	12,293
	620,055	531,524
Other Income		
Actuarial gain on defined benefit fund (refer Note 23)	-	3,894
	-	3,894
Total Income	620,055	535,418

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

4 EXPENSES	2011 \$'000	2010 \$'000
Bulk water and sewerage charges	(250,532)	(206,042)
Employee benefits cost	(47,465)	(45,130)
Operating contracts	(68,236)	(69,107)
Customer refunds	(4,131)	-
Depreciation	(61,658)	(37,412)
Amortisation	(3,657)	(3,840)
Environmental contribution (refer Note 1(v))	(16,573)	(16,573)
Actuarial loss on defined benefit fund (refer Note 23)	(2,589)	-
Asset write-offs	(1,017)	(814)
Asset write downs	(504)	-
Taxes, fees and charges	(4,193)	(5,451)
Computer costs	(3,611)	(3,598)
Rental expense on operating leases	(3,466)	(4,886)
Bad and doubtful debts	(1,481)	(1,180)
Transport	(719)	(534)
Loss on disposal of property, plant and equipment	(653)	(22)
Other expenses	(2,379)	(3,916)
	(472,864)	(398,505)

5 INCOME TAX	2011 \$'000	2010 \$'000
(a) Income tax expense		
The major components of income tax expense are:		
Current tax	28,087	23,400
Deferred tax	660	5,993
Amounts (over)/under provided in prior years	-	(226)
	28,747	29,167
(b) Reconciliation of income tax expense to prima facie tax payable		
Accounting profit before tax	95,424	95,426
Income tax calculated at 30%	28,627	28,627
Tax effect of amounts not assessable/deductible for income tax purposes		
Non-deductible depreciation and amortisation	-	823
Non-deductible expenses	120	64
Non-assessable income	-	(90)
Amounts (over)/under provided in prior years	-	(257)
Income tax expense	28,747	29,167
(c) Deferred income tax		
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Provisions	(494)	(422)
Accrued revenue	7,695	5,354
Post employment defined benefit superannuation surplus	(600)	176
Infrastructure, property, plant and equipment	540,371	533,238
Employee benefits	(530)	(509)
Other	(4,267)	(4,343)
	542,175	533,494

6 DIVIDENDS	2011 \$'000	2010 \$'000
Interim dividend paid	-	21,950
Final dividend paid	16,680	15,700
	16,680	37,650

No final dividend has been provided for in the financial statements as at 30 June 2011. Refer Note 1(o).

7 CURRENT ASSETS – CASH ASSETS	2011 \$'000	2010 \$'000
Cash at bank and on hand	663	1,942

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

8 CURRENT ASSETS – RECEIVABLES

	2011 \$'000	2010 \$'000
Trade debtors	42,246	34,792
Less: Provision for doubtful debts (Note 8A)	(1,200)	(1,100)
	41,046	33,692
Accrued earnings	25,649	17,848
Other debtors	178	96
	66,873	51,636

Note 8A: 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	1,100	1,100
Amounts written off during the year	1,446	1,229
Amounts recovered during the year	(65)	(49)
Increase/(decrease) in provision recognised in profit or loss	(1,381)	(1,180)
Increase/(decrease) in provision	100	-
Balance at the end of the year	1,200	1,100

Note 8B: Past due but not impaired

At 30 June 2011, trade debtors of \$12.4 million (2010 \$11.5 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. The ageing analysis of these trade receivables is as follows:

Less than 30 days	6,500	6,500
30 to 90 days	2,200	2,100
Greater than 90 days	3,700	2,900
	12,400	11,500

**9 CURRENT ASSETS – NON-CURRENT
ASSET CLASSIFIED AS HELD FOR SALE**

	2011 \$'000	2010 \$'000
Land	-	5,072

The June 2010 value related to a parcel of land in Pakenham which was sold in 2010-11.

10 NON-CURRENT ASSETS – INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT	2011 \$'000	2010 \$'000
Land (a)		
At independent valuation 2011	134,472	-
At independent valuation 2010	-	104,014
	134,472	104,014
Buildings (a)		
At independent valuation 2011	266	-
At independent valuation 2007	-	313
Less: Accumulated depreciation	-	(26)
	266	287
Leasehold Improvements		
At fair value	5,963	5,789
Less: Accumulated depreciation	(3,883)	(3,609)
	2,080	2,180
Plant and Equipment		
At fair value	23,872	23,164
Less: Accumulated depreciation	(11,506)	(13,041)
	12,366	10,123
Infrastructure Assets (b) (c)		
At fair value 2011	2,629,839	-
At fair value 2010	-	2,497,882
	2,629,839	2,497,882
Capital Works in Progress	117,882	109,649
Total Infrastructure, Property, Plant and Equipment	2,896,905	2,724,135

Note: (a) The basis of valuation of land and buildings is estimated at fair market value based on existing use. During 2010-11, land and buildings were independently valued by the Valuer-General using fair market values as at 30 June 2011. Comparative valuations relate to 2007 valuations carried out by the Valuer-General Victoria, revalued in 2010 using Valuer-General Victoria vacant land indexation factors. If land and buildings were measured at historical cost, the carrying amount would be \$10.8 million.

(b) Infrastructure Assets are comprised of water and sewerage mains, pump stations and treatment plants.

(c) The 30 June 2011 valuation of infrastructure assets to fair value was estimated by discounting the Company's future cash flows to their present value. The discount rate selected represents the rate that market participants would reasonably expect to use in determining the fair value of the Company. Future estimated cash flows were based on the Essential Services Commission's pricing determination and updated management forecasts. The fair market value of infrastructure assets along with the advice on relevant assumptions and discount factors has been independently provided by Deloitte Touche Tohmatsu. If infrastructure assets had continued to be measured at historical cost, the carrying amount would be \$1,645.7 million.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

10 NON-CURRENT ASSETS – INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT (CONT.)

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:

2011	Infrastructure Assets \$'000	Plant & Equipment \$'000	Leasehold Improvements \$'000	Land \$'000	Buildings \$'000	Capital Works in Progress \$'000	Total \$'000
Opening Balance	2,497,882	10,123	2,180	104,014	287	109,649	2,724,135
Additions	-	6,044	174	893	-	171,881	178,992
Transfers	163,648	-	-	-	-	(163,648)	-
Held for Sale	-	-	-	-	-	-	-
Disposals	(891)	(187)	-	-	-	-	(1,078)
Revaluations – ARR	26,962	-	-	29,061	(13)	-	56,010
Revaluations – P&L	-	-	-	504	-	-	504
Depreciation	(57,762)	(3,614)	(274)	-	(8)	-	(61,658)
Closing Balance	2,629,839	12,366	2,080	134,472	266	117,882	2,896,905

2010	Infrastructure Assets \$'000	Plant & Equipment \$'000	Leasehold Improvements \$'000	Land \$'000	Buildings \$'000	Capital Works in Progress \$'000	Total \$'000
Opening Balance	1,440,353	6,153	1,436	89,332	295	73,462	1,611,031
Additions	-	6,434	962	19	-	151,758	159,173
Transfers	115,571	-	-	-	-	(115,571)	-
Held for Sale	-	-	-	(5,072)	-	-	(5,072)
Disposals	(643)	(129)	-	-	-	-	(772)
Revaluations – ARR	977,450	-	-	19,735	-	-	997,185
Depreciation	(34,849)	(2,335)	(218)	-	(8)	-	(37,410)
Closing Balance	2,497,882	10,123	2,180	104,014	287	109,649	2,724,135

11 NON-CURRENT ASSETS – INTANGIBLE ASSETS	2011 \$'000	2010 \$'000
IT Software		
Cost	34,667	32,176
Less: Accumulated amortisation	(26,135)	(24,361)
	8,532	7,815
IT Software Works in Progress	6,325	2,771
	14,857	10,586
Water Entitlements (a)	83,333	56,667
Total Intangible Assets	98,190	67,253

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:

2011	IT Software \$'000	Works in Progress \$'000	Water Entitlements \$'000	Total \$'000
Opening Balance	7,815	2,771	56,667	67,253
Additions	-	7,997	26,666	34,663
Transfers	4,443	(4,443)	-	-
Disposals	(69)	-	-	(69)
Amortisation	(3,657)	-	-	(3,657)
Reclassification	-	-	-	-
Closing Balance	8,532	6,325	83,333	98,190

2010	IT Software \$'000	Works in Progress \$'000	Water Entitlements \$'000	Total \$'000
Opening Balance	7,650	1,496	-	9,146
Additions	-	5,353	41,667	47,020
Transfers	4,078	(4,078)	-	-
Disposals	(73)	-	-	(73)
Amortisation	(3,840)	-	-	(3,840)
Reclassification	-	-	15,000	15,000
Closing Balance	7,815	2,771	56,667	67,253

(a) Refer Note 22 (a).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

12 PAYABLES	2011 \$'000	2010 \$'000
Trade creditors	16,421	14,903
Accruals	57,523	52,323
	73,944	67,226

13 BORROWINGS

The Company's borrowings are sourced from the Treasury Corporation of Victoria and secured by the Treasurer in the form of Government guarantee.

	2011 \$'000	2010 \$'000
Current		
11am borrowings	35,400	43,879
Non-Current		
Fixed/Floating rate loans	774,750	675,975
	810,150	719,854

14 PROVISIONS

	2011 \$'000	2010 \$'000
Current		
Employee benefits (Note 14A)	12,922	13,442
Insurance claims (refer Note 1(k) and Note 14B)	445	307
Provisions for customer refunds (refer Note 1 (n))	4,339	-
	17,706	13,749
Non-Current		
Employee benefits	1,303	1,034
Note 14A: Employee Benefits		
Employee benefits are comprised of:		
Annual leave	4,012	4,023
Long service leave measured at:		
Nominal value	409	483
Present value	8,501	8,936
	12,922	13,442
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	307	240
Additional provisions recognised	710	553
Provisions used during the period	(326)	(332)
Unused amounts reversed	(246)	(154)
Carrying amount at the end of the period	445	307

15 CONTRIBUTED EQUITY

	2011 \$'000	2010 \$'000
Opening balance	121,509	121,509

Ordinary shares of \$1 each fully paid. The shares are beneficially owned by the Victorian Government.

16 RESERVES

	2011 \$'000	2010 \$'000
Land and buildings revaluation reserve (b)(c)	122,882	97,423
Infrastructure assets revaluation reserve (b)(c)	703,088	684,215
	825,970	781,638
Capital reserve (a)	322,099	322,099
	1,148,069	1,103,737

(a) The capital reserve represents an amount equivalent to the net assets transferred to the Company following its formation and forms part of the Company's general reserves and is not part of its capital under the *Corporations Act 2001*.

(b) The revaluation reserve relates to infrastructure assets and land and buildings measured at fair value in accordance with applicable Australian Accounting Standards.

(c) Movements in the asset revaluation reserve:

Opening balance	781,638	79,022
Revaluation of infrastructure assets, net of tax effect (refer Note 10(c))	18,873	684,215
Revaluation of land, net of tax effect (refer Note 10(a))	28,723	18,401
Transfer to Retained Earnings – disposal of land, net of tax effect	(3,264)	-
Closing balance	825,970	781,638

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

17 RETAINED PROFITS	2011 \$'000	2010 \$'000
Opening balance	277,228	248,619
Net profit after income tax	66,677	66,259
Dividends paid (refer notes 1(o) and 6)	(16,680)	(37,650)
Transfers to and from reserves	4,663	-
Closing balance	331,888	277,228

18 FINANCIAL INSTRUMENTS

(a) Maturity Analysis of Financial Liabilities

30 June 2011	Carrying Amount \$'000	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	More than 5 years \$'000
Payables (a)	73,395	73,395	-	-	-
Borrowings	810,150	74,625	40,000	336,475	359,050
Deposits	7,697	250	7,447	-	-
	891,242	148,270	47,447	336,475	359,050

30 June 2010	Carrying Amount \$'000	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	More than 5 years \$'000
Payables (a)	64,605	64,605	-	-	-
Borrowings	719,854	87,604	31,225	299,475	301,550
Deposits	9,129	423	8,706	-	-
	793,588	152,632	39,931	299,475	301,550

Note: (a) The amount of payables disclosed excludes statutory payables.

(b) Interest Rate Risk

	Weighted Average Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate			Non-interest bearing \$'000	Total \$'000
			1 Year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
30 June 2011							
Financial Assets							
Cash	3.69%	661	-	-	-	2	663
Receivables (a)		-	-	-	-	63,068	63,068
Total Financial Assets		661	-	-	-	63,070	63,731
Financial Liabilities							
Payables (a)		-	-	-	-	(73,395)	(73,395)
Borrowings	5.87%	(50,400)	(79,225)	(321,475)	(359,050)	-	(810,150)
Deposits and advances		-	-	-	-	(7,697)	(7,697)
Total Financial Liabilities		(50,400)	(79,225)	(321,475)	(359,050)	(81,092)	(891,242)
30 June 2010							
Financial Assets							
Cash	3.80%	1,937	-	-	-	5	1,942
Receivables (a)		-	-	-	-	48,156	48,156
Total Financial Assets		1,937	-	-	-	48,161	50,098
Financial Liabilities							
Payables (a)		-	-	-	-	(64,605)	(64,605)
Borrowings	5.82%	(83,879)	(49,950)	(284,475)	(301,550)	-	(719,854)
Deposits and advances		-	-	-	-	(9,129)	(9,129)
Total Financial Liabilities		(83,879)	(49,950)	(284,475)	(301,550)	(73,734)	(793,588)

Note: (a) The amount of receivables and payables disclosed excludes statutory amounts.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

18 FINANCIAL INSTRUMENTS (CONT.)**(c) Sensitivity Analysis**

The following table summarises the sensitivity of the Company's financial assets and liabilities to interest rate risk.

	Interest rate risk				
	Carrying Amount \$'000	- 0.5% Result \$'000	- 0.5% Equity \$'000	+0.5% Result \$'000	+0.5% Equity \$'000
30 June 2011					
Financial Assets					
Cash	663	(7)	(7)	7	7
Financial Liabilities					
Borrowings	810,150	(794)	(794)	794	794
Total increase/(decrease)		(801)	(801)	801	801
30 June 2010					
Financial Assets					
Cash	1,942	(8)	(8)	8	8
Financial Liabilities					
Borrowings	719,854	(948)	(948)	948	948
Total increase/(decrease)		(956)	(956)	956	956

(d) Net Fair Value of Financial Assets and Liabilities

	2011 Carrying Amount \$'000	2011 Net Fair Value \$'000	2010 Carrying Amount \$'000	2010 Net Fair Value \$'000
Financial Assets				
Cash	663	663	1,942	1,942
Receivables (a)	63,068	63,068	48,156	48,156
Total Financial Assets	63,731	63,731	50,098	50,098
Financial Liabilities				
Payables (a)	73,395	73,395	(64,605)	(64,605)
Borrowings	(810,150)	(826,324)	(719,854)	(736,177)
Deposits and advances	(7,697)	(7,697)	(9,129)	(9,129)
Total Financial Liabilities	(744,452)	(760,626)	(793,588)	(809,911)

Note: (a) The amount of receivables and payables disclosed excludes statutory amounts.

Net market values of financial instruments are determined on the following basis:

Cash, receivables, payables, deposits and advances are valued at their carrying amounts as this approximates net market value.

Borrowings are valued by discounting the expected future cash flows at yields offered by the Treasury Corporation of Victoria at balance date. Deferred reimbursements are determined by discounting the expected future cash flows at current interest rates.

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Responsible Persons

The relevant Minister and directors of South East Water are deemed to be the responsible persons by ministerial direction pursuant to the provisions of the *Financial Management Act 1994*.

The relevant Minister for Water during the reporting period was the Hon. Tim Holding MP until 2 December 2010 when the Hon. Peter Walsh MP was appointed. Remuneration paid to the Minister for Water 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:

S Cox, G Gentle, T Beach, D Shirrefs, J Turcato, J Slocombe and R Passalaqua.

Mr D Shirrefs was acting Chairman during the reporting period (1 July 2010 to 30 September 2010) and was formally appointed as Chairman on 1 October 2010. Mr R Passalaqua was appointed Director on 1 October 2010. Mr S Cox resigned as a director on 25 February 2011. Mr K Hutchings was appointed Acting Chief Executive Officer from 28 February 2011 to 30 June 2011.

(b) Other Key Management Personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, at any time during the financial year:

Name	Position
R Dusting	General Manager – Infrastructure
R Eddington	General Manager – Corporate Services
J Oxley	General Manager – Customer and Community
K Hutchings	General Manager – 'us' - Utility Services/Acting Chief Executive Officer
A Kelly	General Manager – Legal and Audit
R Mittag	General Manager – Business Growth
H Reid	General Manager – Strategy
L Walsh	Acting General Manager – Business Growth (31/1/11 – 30/6/11)
P Johnson	Acting General Manager – Corporate Services (17/1/11 – 30/6/11)
M McCormack	Acting General Manager – 'us' - Utility Services (28/2/11 – 30/6/11)

Key management personnel also includes an additional 12 senior managers.

(c) Key Management Personnel Compensation	2011 \$'000	2010 \$'000
Short term employee benefits	3,853	3,972
Post-employment benefits	586	689
Other long term benefits	91	98
	4,530	4,759

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

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

	2011 No	2010 No
\$30,000 – \$39,999	1	-
\$40,000 – \$49,999	4	5
\$60,000 – \$69,999	-	1
\$100,000 – \$109,999	1	-
\$260,000 – \$269,999	1	-
\$370,000 – \$379,999	-	1
Total	7	7
	\$'000	\$'000
Total Amount	601	687

The number of executives of the Company, excluding the Managing Director, whose remuneration from the Company or related parties was within the specified bands are as follows:

	2011 No	2010 No
\$110,000 – \$119,999	1	-
\$120,000 – \$129,999	1	-
\$130,000 – \$139,999	1	2
\$140,000 – \$149,999	3	2
\$150,000 – \$159,999	3	2
\$160,000 – \$169,999	2	6
\$170,000 – \$179,999	2	-
\$180,000 – \$189,999	1	1
\$190,000 – \$199,999	-	3
\$200,000 – \$209,999	4	1
\$220,000 – \$229,999	1	1
\$230,000 – \$239,999	-	2
\$240,000 – \$249,999	2	-
\$250,000 – \$259,999	-	1
\$260,000 – \$269,999	1	1
Total	22	22
	\$'000	\$'000
Total Amount	3,929	4,072

(a) Total remuneration for each executive includes salary, performance pay entitlements, superannuation and other benefits.

(d) Other Transactions with Key Management Personnel

Water and sewerage services (including Priority Plumbing 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.

Mr S Cox was a member of the Board of Water Services Association of Australia to which the Company has paid \$298,554 (2009-10 \$224,611) for membership fees and research contributions. Mr S Cox was also Acting Chairman of the Smart Water Fund during the reporting period (1 July 2010 to 6 December 2010) and was formally appointed as Chairman of the Smart Water Fund on 7 December 2010 until 8 March 2011 (refer Note 1 (u)).

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 (c) above.

20 REMUNERATION OF AUDITORS

	2011 \$'000	2010 \$'000
Amounts received, or due and receivable, by the Victorian Auditor-General for auditing the accounts of the Company	118	116
	118	116

21 CONTINGENT ASSETS AND LIABILITIES

Contingent assets

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

As at 30 June 2011, various developers have agreed to construct assets to the value of \$25.5 million (2009-10 \$21.4 million). This value relates to \$21.8 million of assets which are under construction (2009-10 \$19.8 million) and \$3.7 million of assets which have not commenced construction (2009-10 \$1.6 million).

Contingent liabilities

Contingent on the construction of these assets, South East Water is liable to reimburse developers a total amount of \$9.8 million (2009-10 \$9.0 million) for additional works constructed at the Company's request. This reimbursement together with future investment for urban growth by the Company 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 2008 (for the 2010-11 year).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

22 COMMITMENTS

All commitments are disclosed exclusive of GST.

(a) Contracted Commitments:

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

	2011 \$'000	2010 \$'000
Not later than 1 year	59,791	65,519
Later than 1 year and not later than 5 years	40,800	16,670
	100,591	82,189

The June 2011 commitments include construction of Belgrave Heights backlog sewer project (\$19.1 million). The Company is required to make a contribution of \$100 million (excluding GST) to the Northern Victoria Irrigation Renewal Project and in return will receive an entitlement to annual water savings. At balance date, the Company had made a contribution of \$83.3 million (excluding GST) to the Melbourne Water Corporation (refer Note 11), for on forwarding to the Department of Sustainability and Environment. The Company has a commitment to pay a further \$16.7 million (excluding GST) over the next two years in line with an agreed payment schedule.

Other expenditure contracted for at balance date but not provided for in the accounts, payable:

	2011 \$'000	2010 \$'000
Not later than one year	21,862	22,718
Later than 1 year and not later than 5 years	-	30,162
	21,862	52,880

These contributions include statutory obligations such as the environmental contribution of \$16.7 million.

(b) Lease Commitments

Total lease expenditure contracted for at balance date but not provided for in the accounts, payable:

	2011 \$'000	2010 \$'000
Not later than 1 year	3,403	4,527
Later than 1 year and not later than 5 years	8,034	11,339
Later than 5 years	331	982
	11,768	16,848

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:

	2011 \$'000	2010 \$'000
Not later than 1 year	1,515	1,421
Later than 1 year and not later than 5 years	3,591	3,777
Later than 5 years	2,783	2,890
	7,889	8,088

These commitments represent mobile telephone tower rental income on South East Water's vacant land.

23 DEFINED BENEFIT SUPERANNUATION ASSET/LIABILITY

(a) Superannuation Plan

The Company participates in a number of superannuation funds which provide benefits either on a defined benefit or cash accumulation basis, for employees on retirement, resignation, or disablement, or to their dependants on death. Employee contributions to the fund are legally enforceable and are based on an agreed percentage of total salaries and wages as recommended by the funds' actuaries.

(b) Reconciliations

	2011 \$'000	2010 \$'000
Reconciliation of the defined benefit obligation		
Present value of defined benefit obligation at the beginning of the year	55,640	54,632
Current service cost	1,047	1,284
Interest cost	2,499	2,522
Contribution by fund participants	705	598
Actuarial (gains)/losses	5,874	(1,144)
Benefits paid	(5,888)	(1,872)
Taxes and premiums paid	(316)	(380)
Present value of defined benefit obligation at the end of the year	59,561	55,640
Reconciliation of fair value fund assets		
Financial year ending 30 June		
Fair value of fund assets at the beginning of year	56,228	51,326
Expected returns on fund assets	3,812	3,489
Actuarial gains/(losses)	1,587	1,207
Employer contributions	1,432	1,860
Contributions by fund participants	705	598
Benefits paid	(5,888)	(1,872)
Taxes and premiums paid	(316)	(380)
Fair value of fund assets at end of the year	57,560	56,228
Reconciliation of the assets and liabilities recognised in the Balance Sheet		
As at 30 June		
Defined benefit obligation	59,561	55,640
Fair value of fund assets	(57,560)	(56,228)
Deficit/(surplus)	2,001	(588)
Net superannuation liability/(asset)	2,001	(588)
Income/Expense recognised in Statement of Comprehensive Income		
Financial year ending 30 June		
Service cost	1,047	1,284
Interest cost	2,499	2,522
Expected return on assets	(3,812)	(3,489)
Actuarial (gains)/losses	4,287	(2,351)
Superannuation expense/(income)	4,021	(2,034)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

23 DEFINED BENEFIT SUPERANNUATION ASSET/LIABILITY (CONT.)

The income/expense is recognised in the Statement of Comprehensive Income and in Note 3 and 4 in the following line items:

	2011 \$'000	2010 \$'000
Employee benefits costs	1,432	1,860
Actuarial (gains)/losses on defined benefit fund	2,589	(3,894)
	4,021	(2,034)

Fund assets

The percentage invested in each asset class at the Balance Sheet date:

As at 30 June		
Australian equity	35%	37%
International equity	27%	25%
Fixed income	12%	13%
Property	10%	10%
Alternatives/Other	10%	9%
Cash	6%	6%
	100%	100%

Fair value of fund assets

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

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

Expected rate of return on fund assets

The expected return on assets assumption is determined by weighting the expected long term return for each asset class by the target allocation of assets to each class and allowing for the correlations of the investment returns between asset classes. The returns used for each class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return. The expected return on assets assumption for pension assets has not been reduced for investment tax.

	2011 \$'000	2010 \$'000
Financial year ending 30 June		
Actual return on fund assets	5,399	4,696
Principal actuarial assumptions at Balance Sheet date		
Discount rate (active members)	4.4% p.a	4.7% p.a
Discount rate (pensioners)	4.8% p.a	5.1% p.a
Expected rate of return on plan assets (active members)	7.0% p.a	7.0% p.a
Expected rate of return on plan assets (pensioners)	7.5% p.a	7.5% p.a
Expected salary increase rate	4.0% p.a	4.0% p.a
Expected pension increase rate	3.0% p.a	3.0% p.a

The expected rate of return on Plan Assets includes a reduction to allow for administrative expenses of the plan.

Historic information

Financial year ending 30 June	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Present value of defined benefit obligation	59,561	55,640	54,632	45,820	43,571
Fair value of fund assets	57,560	56,228	51,326	57,932	62,053
(Surplus)/deficit in plan	2,001	(588)	3,306	(12,112)	(18,482)
Experience adjustments (gains)/losses – fund assets	(1,587)	(1,207)	10,543	6,606	(4,880)
Experience adjustments (gains)/losses – fund liabilities	4,105	(2,104)	3,746	933	(2,816)

Expected employer contributions

Expected employer contributions for 2011-12 is \$1,370,000.

24 RELATED PARTY DISCLOSURES

Parent Entity

The Company's parent entity is the State Government of Victoria. The Department of Treasury and Finance is the shareholder representative.

Other Related Parties

Other related parties relate to other wholly owned State Government entities with whom the Company has financial dealings.

Transactions with Related Parties

(a) Water and Sewerage Services

Water and sewerage services were provided to related parties for properties within the Company'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.

Financial transactions, based on a materiality threshold of greater than \$1,000,000 with each related party, during the reporting periods are as follows:

Department of Treasury and Finance	2011 \$'000	2010 \$'000
The Company pays income tax and dividends to the Department. Financial accommodation levies and ESC licence fees are also paid.		
Dividend and income tax paid	42,458	63,707
Financial accommodation levies and ESC commission licence fees	6,492	4,726
The following amounts remain payable at balance date:		
Income Tax, Financial Accommodation and ESC licence fees payable	10,116	7,360

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

24 RELATED PARTY DISCLOSURES (CONT.)

Department of Sustainability and Environment

The Company bills and collects Parks charges on behalf of the Department. In addition, the Company is required to make and receive various payments to the Department which are included in the definition of profit before income tax.

	2011 \$'000	2010 \$'000
Environmental Contribution and Joint Water Communication and Marketing Program	17,323	18,740
Parks Victoria rates remitted	46,873	45,403
Fee for collecting Parks Victoria rates	1,931	1,834
Water Smart Gardens, Homes Rebate Scheme and Water Tank Conservation Concession	697	1,124
Grants funding	324	1,075
The following amounts remain payable/receivable at balance date:		
Parks Victoria rates yet to be remitted	8	
Fees receivable for collection of Parks Victoria rates, Water Smart Gardens and Water Tank Conservation Scheme	90	135

Melbourne Water Corporation

The Company transacts solely with the Melbourne Water Corporation for purchase of bulk potable water and sewage treatment. The Company, under a normal commercial agency agreement, bills and collects drainage rates on behalf of Melbourne Water, while income is received for providing this service.

	2011 \$'000	2010 \$'000
Bulk potable water purchase and bulk sewage treatment	250,532	206,042
Drainage rates remitted	73,671	68,384
Water entitlement relating to the Food Bowl Irrigation Modernisation Project	26,667	41,667
MW share of information statement income	261	272
Fee for collecting drainage rates including recovery of council valuation fees	3,494	3,427
The following amounts remain payable/receivable at balance date:		
Bulk water and sewerage charges and share of information statements outstanding	4,238	1,443
Drainage charges yet to be remitted	804	543
Fees receivable for drainage collection	59	86

Treasury Corporation of Victoria

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

	2011 \$'000	2010 \$'000
Net borrowings during the year	90,296	125,850
Interest expense	45,457	37,286
Advisory services	31	27
Interest revenue	7	13
The following amounts remain payable at balance date:		
Aggregate amount of borrowings payable	810,150	719,854
Interest expense	13,349	11,119

State Revenue Office

The Company paid the State Revenue Office the following under normal commercial arrangement:

	2011 \$'000	2010 \$'000
Land/Payroll Tax	2,558	4,020
Not for profit rebate scheme reimbursement	762	759
The following amounts remain payable/receivable at balance date:		
Land/Payroll Tax payable	771	975
Not for profit rebate scheme receivable	212	191

Department of Human Services

The Company provides a number of services to the community which includes the administration of the pension rebate scheme and Utility Relief Grant Scheme.

	2011 \$'000	2010 \$'000
Safe Drinking Water administration levy	222	216
Pension rebate/Utility Relief Grant Concession	33,674	29,951
Pension rebate project reimbursement	-	53
The following amounts remain payable/receivable at balance date:		
Pension rebate concession outstanding	677	1,731

No provision for doubtful debts have 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, 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. There were no other guarantees given to or received from any related parties.

Ownership Interests in Related Parties

The Company has no ownership interests in any related parties.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

25 RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 \$'000	2010 \$'000
Net profit after income tax	66,677	66,259
Depreciation	61,658	37,412
Write-off of non-current assets	1,017	814
Net (profit)/loss on sale of assets	653	22
Amortisation	3,657	3,840
Asset write downs	504	-
Value of works taken over from developers	(21,057)	(23,335)
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(15,237)	2,703
(Increase)/decrease in inventories	28	(417)
Decrease in prepayments	185	438
(Increase)/decrease in defined benefit super surplus	588	(588)
Increase/(decrease) in income tax payable	2,310	(2,883)
Increase/(decrease) in deferred tax liability	660	5,993
Increase/(decrease) in defined benefit superannuation liability	2,001	(3,306)
Increase/(decrease) in deposits and advances	(1,432)	(81)
Increase in provisions	4,226	1,199
Increase/(decrease) in trade creditors	5,445	(4,574)
Increase in accrued interest payable	2,621	3,111
Net cash flows from operating activities	114,504	86,607

26 ECONOMIC DEPENDENCE

The normal trading activities of the Company 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 Company's borrowings are sourced solely from the Treasury Corporation of Victoria.

DIRECTORS' DECLARATION

The Directors declare they have been given the declaration made by the Managing Director and the Chief Financial Officer of the Company pursuant to Section 295A of the *Corporations Act 2001* and declare that the financial statements and notes of the Company:

(a) comply with the *Corporations Regulations 2001* and Australian Accounting Standards

(b) give a true and fair view of the Company's financial position as at 30 June 2011 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.

At the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors.



Douglas Shirrefs
Chairman



Kevin Hutchings
Managing Director

Melbourne
29 August 2011

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Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors, South East Water Limited

The Financial Report

The accompanying financial report for the year ended 30 June 2011 of South East Water Limited which comprises the statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration has been audited.

The Board of Directors' Responsibility for the Financial Report

The Board of Directors of South East Water Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations and the financial reporting requirements of the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Corporations Act 2001* and *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 judgment, 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 entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Directors 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.

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 and the *Corporations Act 2001*. I confirm that I have given to the Directors of the company a written independence declaration, a copy of which is included in the Directors' Report.

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Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

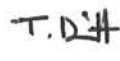
In my opinion, the financial report of South East Water Limited is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards, including Australian Accounting Interpretations and the *Corporations Regulations 2001*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of South East Water Limited for the year ended 30 June 2011 included both in South East Water Limited's annual report and on the website. The Directors of South East Water Limited are responsible for the integrity of South East Water Limited's website. I have not been engaged to report on the integrity of South East Water Limited's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
29 August 2011

For 
D D R Pearson
Auditor-General

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

I, Douglas Shirrefs, certify that South East Water Limited has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Board verifies this assurance and that the risk profile of South East Water has been critically reviewed within the last 12 months.



.....
Douglas Shirrefs
Chairman
South East Water Limited
29 August 2011

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